

# Full year results announcement

International Consolidated Airlines Group (IAG) today (February 25, 2022) presented its unaudited Group consolidated results for the year to December 31, 2021.

- Passenger capacity in quarter 4 was 58% of 2019 capacity, up from 43% in quarter 3 and for the full year was 36% of 2019 capacity.
- The easing of government-imposed travel restrictions as the year progressed resulted in improving travel demand, in particular following the opening of the US border to foreign travellers on November 8.
- The impact of Omicron, which became apparent on November 25, had a negative short-term impact on the operating result, passenger bookings and cancellations.
- Significantly improved operating cash flow of €1.0bn in the second half of 2021, driven by positive EBITDA in quarter 4, strong forward bookings and favourable working capital.
- Capex in 2021 was €0.7 billion, significantly lower than €1.3 billion previously guided and €1.7 billion expected at the start of the year, due to the delay of Airbus and Boeing aircraft.
- Cash of €7,943 million at December 31, 2021, up €2,026 million on December 31, 2020. Committed and undrawn general and aircraft facilities were €4,043 million, bringing total liquidity to €11,986 million, compared to €8,059 million at December 31, 2020.
- Proceeds from borrowings of €4.8 billion in 2021, including: £2.0 billion UK Export Finance (UKEF) guaranteed 5-year loan for British Airways; €1.2 billion unsecured bond issuance by IAG; €825 million convertible bond issuance by IAG; \$785 million sustainability-linked EETC for British Airways, of which \$150 million was drawn in 2021; €75 million loan from the Ireland Strategic Investment Fund (ISIF) by Aer Lingus and other aircraft financing.
- In addition, the Group agreed new general facilities, which have not been drawn during 2021, including a \$1.755 billion 3-year revolving credit facility available to Aer Lingus, British Airways and Iberia and a £1.0 billion UKEF guaranteed credit facility for British Airways.
- Current passenger capacity plans for 2022 are for around 65% of 2019 capacity in quarter 1 and for around 85% of 2019 capacity for the full year. Omicron has affected bookings in January and February 2022 but has had a minimal impact on bookings for Easter and summer 2022.
- Capex in 2022 is expected to be €3.9 billion, reflecting the need to re-build capacity towards pre-pandemic levels, the delay of aircraft deliveries from 2021 and certain pre-delivery payments deferred from previous years. 25 new aircraft are expected to be in delivered in 2022.

## IAG results for the period:

- Statutory operating loss for the fourth quarter €278 million (2020 restated<sup>1</sup>: operating loss €1,476 million), and operating loss before exceptional items €305 million (2020 restated<sup>1</sup>: operating loss before exceptional items €1,170 million).
- Statutory operating loss for the year to December 31, 2021 €2,765 million (2020 restated<sup>1</sup>: operating loss €7,451 million), and operating loss before exceptional items €2,970 million (2020 restated<sup>1</sup>: operating loss before exceptional items €4,390 million).
- Loss after tax and exceptional items for the year to December 31, 2021 €2,933 million (2020 restated<sup>1</sup>: loss after tax €6,935 million) and loss after tax before exceptional items €3,038 million (2020 restated<sup>1</sup>: loss €4,337 million).

## Performance summary:

Statutory results (€ million)	Year to December 31		
	2021	2020 restated <sup>1</sup>	Higher / (lower)
Passenger revenue	5,835	5,512	5.9 %
Total revenue	8,455	7,806	8.3 %
Operating loss	(2,765)	(7,451)	(62.9)%
Loss after tax	(2,933)	(6,935)	(57.7)%
Basic loss per share (€ cents) <sup>2</sup>	(59.1)	(196.6)	(69.9)%
Cash and interest-bearing deposits	7,943	5,917	34.2 %
Borrowings	19,610	15,679	25.1 %

Alternative performance measures (€ million)	Year to December 31		
	2021	2020 restated <sup>1</sup>	Higher / (lower)
Passenger revenue before exceptional items	5,830	5,574	4.6 %
Total revenue before exceptional items	8,450	7,868	7.4 %
Operating loss before exceptional items	(2,970)	(4,390)	(32.3)%
Loss after tax before exceptional items	(3,038)	(4,337)	(30.0)%
Adjusted loss per share (€ cents) <sup>2</sup>	(61.2)	(122.9)	(50.2)%
Net debt	11,667	9,762	19.5 %
Available seat kilometres (ASK million)	121,965	113,195	7.7 %
Passenger revenue per ASK (€ cents)	4.78	4.92	(2.9)%
Non-fuel costs per ASK (€ cents)	7.78	9.03	(13.8)%

For definitions refer to the Alternative performance measures section.

Cash comprises cash, cash equivalents and interest-bearing deposits.

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes, which increased the loss after tax for the year to December 31, 2020 by €12 million.

2 The loss per share information for the year to December 31, 2020, has been restated to reflect the impact of note 1 above.

### **Luis Gallego, IAG's Chief Executive Officer, said:**

"We are confident that a strong recovery is underway. Our teams across the Group are taking every opportunity to develop our business while capitalising on the surge in bookings when travel restrictions are lifted. Our people's extraordinary work and dedication has been key to weather this crisis. We are also monitoring recent geopolitical events closely to manage any potential impact.

"All our airlines continued to show improvements in the fourth quarter, optimising their performance and further improving their operating results. Our diversified business model enabled us to make the most of the recovery as individual markets were affected at different times and in different ways.

"Iberia made €82 million operating profit in the quarter as it seized opportunities to strengthen its position on routes to Latin America and the Spanish domestic market.

"IAG Loyalty continued to be profitable and cash generative, as it has been throughout the pandemic, which shows the benefits of our unique platform.

"Premium leisure has performed strongly at both British Airways and Iberia while business travel has started to recover especially on the transatlantic routes.

"Prior to Omicron, longhaul traffic had seen the highest booking activity in October and November at over 80 per cent of 2019 levels. This was driven by the re-opening of the North Atlantic corridor and the strength of longhaul leisure markets and travellers visiting families and friends.

"Demand slowed down for very near-term trips following the emergence of Omicron in late November. However, bookings have remained strong for Easter and summer 2022 having picked up in the New Year. We expect a robust summer with IAG returning to around 85% of its 2019 capacity for the full year.

"As we ramp up operations our customers remain at the heart of everything we do. This means investment in passenger experience and operational resilience to provide the best service.

"We know that after the worst crisis in aviation's history we must do things differently. Our model enables us to capture revenue and cost synergies while maximising efficiencies which means we are set up to return to profitability in 2022.

"We're pleased that our work tackling climate change continues to be recognised as industry-leading. For the second year running, IAG was the only European airline group to receive a Leadership grade (A-) from the Carbon Disclosure Project (CDP). This puts us in the top six per cent among nearly 12,000 global companies. We also received the highest score of any airline from the Transition Pathway Initiative (TPI) which assesses companies' readiness to transition to a low-carbon economy."

### **Trading outlook**

A significant quarterly operating loss is expected for quarter 1, 2022 due to normal seasonality, the impact of Omicron on near-term bookings and the impact on operating costs of re-building capacity. IAG expects its operating result to be profitable from quarter two, leading both operating profit and net cash flows from operating activities to be significantly positive for the year. This assumes no further setbacks related to COVID-19 and government-imposed travel restrictions or material impact from recent geopolitical developments.

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*Steve Gunning, Chief Financial Officer*

### **Forward-looking statements:**

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

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

Actual results may differ from those expressed or implied in the forward-looking statements in this report as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this report are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group's risk management process is set out in the Risk management and principal risk factors section in the Annual Report and Accounts 2020. All forward-looking statements made on or after the date of this report and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.

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## CONSOLIDATED INCOME STATEMENT

€ million	Year to December 31			Three months to December 31		
	2021	2020 <sup>1</sup>	Higher/ (lower)	2021	2020 <sup>1</sup>	Higher/ (lower)
Passenger revenue	<b>5,835</b>	5,512	5.9 %	<b>2,695</b>	684	nm
Cargo revenue	<b>1,673</b>	1,306	28.1 %	<b>499</b>	389	28.3 %
Other revenue	<b>947</b>	988	(4.1)%	<b>340</b>	228	49.1 %
<b>Total revenue</b>	<b>8,455</b>	7,806	8.3 %	<b>3,534</b>	1,301	nm
Employee costs	<b>3,013</b>	3,585	(16.0)%	<b>914</b>	698	30.9 %
Fuel, oil costs and emissions charges	<b>1,781</b>	3,735	(52.3)%	<b>732</b>	453	61.6 %
Handling, catering and other operating costs	<b>1,308</b>	1,340	(2.4)%	<b>520</b>	260	nm
Landing fees and en-route charges	<b>923</b>	918	0.5 %	<b>325</b>	181	79.6 %
Engineering and other aircraft costs	<b>1,085</b>	1,456	(25.5)%	<b>383</b>	321	19.3 %
Property, IT and other costs	<b>758</b>	782	(3.1)%	<b>218</b>	185	17.8 %
Selling costs	<b>434</b>	405	7.2 %	<b>154</b>	65	nm
Depreciation, amortisation and impairment	<b>1,932</b>	2,955	(34.6)%	<b>548</b>	620	(11.6)%
Currency differences	<b>(14)</b>	81	nm	<b>18</b>	(6)	nm
Total expenditure on operations	<b>11,220</b>	15,257	(26.5)%	<b>3,812</b>	2,777	37.3 %
<b>Operating loss</b>	<b>(2,765)</b>	(7,451)	(62.9)%	<b>(278)</b>	(1,476)	(81.2)%
Finance costs	<b>(830)</b>	(670)	23.9 %	<b>(218)</b>	(167)	30.5 %
Finance income	<b>13</b>	41	(68.3)%	<b>8</b>	14	(42.9)%
Net change in fair value of convertible bond	<b>89</b>	-	-	<b>85</b>	-	-
Net financing (charge)/credit relating to pensions	<b>(2)</b>	12	nm	<b>(4)</b>	1	nm
Net currency retranslation (charges)/credits	<b>(82)</b>	245	nm	<b>(19)</b>	62	nm
Other non-operating credits/(charges)	<b>70</b>	(4)	nm	<b>(31)</b>	(47)	(34.0)%
Total net non-operating costs	<b>(742)</b>	(376)	97.3 %	<b>(179)</b>	(137)	30.7 %
<b>Loss before tax</b>	<b>(3,507)</b>	(7,827)	(55.2)%	<b>(457)</b>	(1,613)	(71.7)%
Tax	<b>574</b>	892	(35.7)%	<b>146</b>	254	(42.5)%
<b>Loss after tax</b>	<b>(2,933)</b>	(6,935)	(57.7)%	<b>(311)</b>	(1,359)	(77.1)%

<sup>1</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax for the year to December 31, 2020 by €12 million and for the three months to December 31, 2020 by €3 million.

## ALTERNATIVE PERFORMANCE MEASURES

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

€ million	Year to December 31			Three months to December 31		
	Before exceptional items			Before exceptional items		
	2021	2020 <sup>1</sup>	Higher/ (lower) <sup>2</sup>	2021	2020 <sup>1</sup>	Higher/ (lower) <sup>2</sup>
Passenger revenue	<b>5,830</b>	5,574	4.6 %	<b>2,695</b>	686	nm
Cargo revenue	<b>1,673</b>	1,306	28.1 %	<b>499</b>	389	28.3 %
Other revenue	<b>947</b>	988	(4.1)%	<b>340</b>	228	49.1 %
<b>Total revenue before exceptional items</b>	<b>8,450</b>	7,868	7.4 %	<b>3,534</b>	1,303	nm
Employee costs	<b>3,031</b>	3,272	(7.4)%	<b>932</b>	654	42.5 %
Fuel, oil costs and emissions charges	<b>1,935</b>	2,041	(5.2)%	<b>733</b>	358	nm
Handling, catering and other operating costs	<b>1,308</b>	1,340	(2.4)%	<b>520</b>	260	nm
Landing fees and en-route charges	<b>923</b>	918	0.5 %	<b>325</b>	181	79.6 %
Engineering and other aircraft costs	<b>1,092</b>	1,348	(19.0)%	<b>383</b>	296	29.4 %
Property, IT and other costs	<b>758</b>	754	0.5 %	<b>218</b>	185	17.8 %
Selling costs	<b>434</b>	405	7.2 %	<b>154</b>	65	nm
Depreciation, amortisation and impairment	<b>1,953</b>	2,099	(7.0)%	<b>556</b>	480	15.8 %
Currency differences	<b>(14)</b>	81	nm	<b>18</b>	(6)	nm
Total expenditure on operations before exceptional items	<b>11,420</b>	12,258	(6.8)%	<b>3,839</b>	2,473	55.2 %
<b>Operating loss before exceptional items</b>	<b>(2,970)</b>	(4,390)	(32.3)%	<b>(305)</b>	(1,170)	(73.9)%
Finance costs	<b>(830)</b>	(670)	23.9 %	<b>(218)</b>	(167)	30.5 %
Finance income	<b>13</b>	41	(68.3)%	<b>8</b>	14	(42.9)%
Net change in fair value of convertible bond	<b>89</b>	-	-	<b>85</b>	-	-
Net financing (charge)/credit relating to pensions	<b>(2)</b>	12	nm	<b>(4)</b>	1	nm
Net currency retranslation (charges)/credits	<b>(82)</b>	245	nm	<b>(19)</b>	62	nm
Other non-operating credits/(charges)	<b>145</b>	(4)	nm	<b>44</b>	(47)	nm
Total net non-operating costs	<b>(667)</b>	(376)	77.4 %	<b>(104)</b>	(137)	(24.1)%
<b>Loss before tax before exceptional items</b>	<b>(3,637)</b>	(4,766)	(23.7)%	<b>(409)</b>	(1,307)	(68.7)%
Tax	<b>599</b>	429	39.6 %	<b>146</b>	155	(5.8)%
<b>Loss after tax before exceptional items</b>	<b>(3,038)</b>	(4,337)	(30.0)%	<b>(263)</b>	(1,152)	(77.2)%

Operating figures	2021 <sup>2</sup>	2020 <sup>1,2</sup>	Higher/ (lower)	2021 <sup>2</sup>	2020 <sup>1,2</sup>	Higher/ (lower)
Available seat kilometres (ASK million)	<b>121,965</b>	113,195	7.7 %	<b>47,842</b>	21,801	nm
Revenue passenger kilometres (RPK million)	<b>78,689</b>	72,262	8.9 %	<b>34,225</b>	9,817	nm
Seat factor (per cent)	<b>64.5</b>	63.8	0.7 pts	<b>71.5</b>	45.0	26.5 pts
Passenger numbers (thousands)	<b>38,864</b>	31,275	24.3 %	<b>15,309</b>	4,298	nm
Cargo tonne kilometres (CTK million)	<b>3,970</b>	3,399	16.8 %	<b>1,129</b>	928	21.7 %
Sold cargo tonnes (thousands)	<b>539</b>	444	21.4 %	<b>157</b>	118	33.1 %
Sectors	<b>307,519</b>	267,748	14.9 %	<b>114,686</b>	48,195	nm
Block hours (hours)	<b>892,455</b>	820,983	8.7 %	<b>328,739</b>	160,230	nm
Average manpower equivalent <sup>3</sup>	<b>50,222</b>	60,612	(17.1)%	<b>49,114</b>	53,553	(8.3)%
Aircraft in service	<b>531</b>	533	(0.4)%	<b>n/a</b>	n/a	-
Passenger revenue per RPK (€ cents)	<b>7.41</b>	7.71	(3.9)%	<b>7.87</b>	6.99	12.7 %
Passenger revenue per ASK (€ cents)	<b>4.78</b>	4.92	(2.9)%	<b>5.63</b>	3.15	79.0 %
Cargo revenue per CTK (€ cents)	<b>42.14</b>	38.42	9.7 %	<b>44.20</b>	41.92	5.4 %
Fuel cost per ASK (€ cents)	<b>1.59</b>	1.80	(12.0)%	<b>1.53</b>	1.64	(6.7)%
Non-fuel costs per ASK (€ cents)	<b>7.78</b>	9.03	(13.8)%	<b>6.49</b>	9.70	(33.1)%
Total cost per ASK (€ cents)	<b>9.36</b>	10.83	(13.5)%	<b>8.02</b>	11.34	(29.3)%

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax before exceptional items for the year to December 31, 2020 by €12 million and for the three months to December 31, 2020 by €3 million.

2 Financial ratios are before exceptional items. Refer to Alternative performance measures section for detail.

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

## FINANCIAL REVIEW

### Structure of Financial Review

Due to the continued impact of COVID-19 and governments' travel restrictions, many of the usual variance analysis and measures are significantly less meaningful than in previous years and in some cases, measures used previously no longer provide relevant insight into understanding the performance of the Group. As a consequence, and in keeping with the Financial Review of 2020, in this review there is no detail on industry growth rates and GDP by market; in 2021 the main drivers of capacity and revenue were COVID-19 and the related governmental travel bans and restrictions, rather than broader economic factors. This review, therefore, is structured to provide detail about the impact of COVID-19 on the Group, including the measures the Group has taken to mitigate the financial impact of the pandemic. Where variances exceed 100 per cent they have been substituted with 'nm' for 'not meaningful' and the absolute values are shown.

#### Capacity

##### IAG capacity

In 2021, IAG capacity, measured in available seat kilometres (ASKs), was lower by 63.9 per cent versus 2019, with the impact of the COVID-19 pandemic felt across all regions. However, Group capacity was up 7.7 per cent versus 2020, as global travel restrictions began to ease as vaccine programmes progressed. Capacity was increasingly restored during the year, in line with the easing of travel restrictions, although with some impact of the Omicron variant of COVID-19 felt in December.

##### Proportion of 2019 passenger capacity operated by quarter

	Q1	Q2	Q3	Q4
Aer Lingus	15.2%	10.9%	27.1%	44.3%
British Airways	14.8%	14.1%	31.7%	52.7%
Iberia	37.5%	43.5%	62.7%	75.3%
LEVEL	10.0%	4.3%	15.5%	10.8%
Vueling	14.7%	32.2%	76.6%	79.4%
<b>Group</b>	<b>19.6%</b>	<b>21.9%</b>	<b>43.4%</b>	<b>58.3%</b>

Across the year, the travel restrictions for Ireland and the UK were greater than for Spain and consequently Iberia and Vueling were able to increase capacity earlier than the other Group airlines, with both reaching over 75 per cent of 2019 capacity in the final quarter of the year.

In the first three months of 2021, IAG capacity, measured in available seat kilometres (ASKs), was restricted to 19.6 per cent of that in the first quarter of 2019, with reductions across all regions. Capacity was significantly affected by the travel restrictions put in place, including new national lockdowns in the UK and Ireland in response to the third wave of infections at the start of the year. Passenger capacity for quarter 2 was up marginally at 21.9 per cent of 2019, with capacity increased where limited easing of travel restrictions allowed. Quarter 3 saw the highest passenger numbers and load factors since the start of the pandemic, but capacity was still severely constrained at 43.4 per cent of 2019. Capacity continued to increase in quarter 4, up to 58.3 per cent of 2019. The emergence of the Omicron variant impacted demand, mainly in December, as governments introduced stricter travel requirements and border restrictions in response.

The IAG passenger load factor was down 20.1 points from 2019 to 64.5 per cent, also impacted by travel restrictions, which changed frequently, together with low demand and a higher than normal level of passengers not checking in for flights that were still operating ('no-shows'). The passenger load factor for 2021 was up marginally on the 63.8 per cent seen in 2020. Some flights were operated mainly for cargo purposes, with low passenger load factors, but still cash-positive for the Group. The reduction in capacity across the industry continues to benefit cargo operations with favourable cargo yields and record cargo revenues.

##### IAG regional capacity

Year to December 31, 2021

	ASKs higher/ (lower) v2019	ASKs higher/ (lower) v2020	Passenger load factor	Higher/ (lower) v2019	Higher/ (lower) v2020
Domestic	(26.5)%	46.3%	74.9	(12.3) pts	3.9 pts
Europe	(64.7)%	19.3%	69.1	(14.5) pts	4.5 pts
North America	(71.3)%	(6.8)%	49.4	(34.7) pts	(3.8) pts
Latin America and Caribbean	(52.3)%	33.7%	69.8	(16.6) pts	(2.9) pts
Africa, Middle East and South Asia	(66.8)%	(14.0)%	67.4	(15.6) pts	0.2 pts
Asia Pacific	(87.9)%	(58.7)%	39.4	(46.4) pts	(21.9) pts
<b>Total network</b>	<b>(63.9)%</b>	<b>7.7%</b>	<b>64.5</b>	<b>(20.1) pts</b>	<b>0.7 pts</b>

##### Domestic and Europe

Together, IAG's Domestic and European markets continue to represent the Group's largest region. However, capacity across both was, and continues to be, significantly impacted by travel restrictions and quarantine requirements.

Capacity in IAG's Domestic markets recovered to a greater extent than other regions, with capacity lower by only 26.5 per cent versus 2019 and 46.3 per cent higher than in 2020. British Airways' capacity reflected demand from UK holidaymakers avoiding overseas destinations, which were subject to quarantine restrictions and expensive testing requirements. Vueling operations focused on connecting the Spanish peninsula with both the Canary and Balearic Islands and Iberia maintained similar Domestic routes for connectivity. Aer Lingus maintained its route between London and Belfast and benefitted from UK citizens opting for domestic holidays. Passenger load factor for the region was the highest for the Group at 74.9 per cent, down only 12.3 points versus 2019.

The Group's capacity in Europe was 64.7 per cent lower than 2019, however it recovered 19.3 per cent above 2020 as vaccination rates increased and travel restrictions eased. Aer Lingus, Vueling and Iberia benefitted from the introduction of the EU Digital Covid Certificate in the summer, allowing EU travellers to avoid self-isolation on travelling to other member states, with passenger load factors in the second half of the year significantly higher as a result. British Airways had a good performance throughout the summer on the routes operated to destinations included on the UK Government's 'Travel Corridor' Green and Amber list countries, once self-isolation requirements for double-vaccinated passengers were removed.

## North America

IAG's North American capacity was severely limited by the United States government's COVID-19 restrictions, which for a large portion of the year only allowed residents and nationals to enter the country. These restrictions were only lifted for EU and UK citizens on November 8, 2021. Prior to the entry requirements being relaxed, flights were operated primarily for cargo purposes. British Airways and Aer Lingus operated regular flights to New York, Boston, Washington and Chicago. Iberia operated flights to Miami and New York and LEVEL resumed operations to San Francisco and New York. Passenger load factor for the region was down 34.7 points versus 2019 to 49.4 per cent, reflecting the US government's strict border restrictions.

## Latin America and Caribbean (LACAR)

IAG's capacity in LACAR was still down significantly on 2019, but increased 33.7 per cent on 2020, as routes re-opened and benefitted from significant visiting friends and relatives (VFR) and leisure demand. British Airways operated regular flights to Caribbean destinations, benefitting from leisure travel demand during holiday periods. Routes to Sao Paulo and Buenos Aires only resumed in December. Iberia benefitted from significant VFR travel during 2021 and load factors reached over 80 per cent from September onwards. Aer Lingus launched operations from Manchester in October 2021, with flights to Barbados starting in October. Passenger load factor for the region was down 16.6 points on 2019 at 69.8 per cent.

## Africa, Middle East and South Asia (AMESA)

British Airways operated to multiple destinations including Dubai, India, South Africa and Pakistan. Capacity and demand were impacted by the emergence of new COVID-19 variants, including the Delta variant, which resulted in additional travel restrictions on certain destinations. Iberia operated regularly to Dakar and restarted operations to Israel and Morocco when travel restrictions were eased. Vueling also re-opened routes as restrictions eased, restarting routes to Morocco and Tunisia whilst continuing regular operations to Senegal and Algeria. Passenger load factor for the region was down 15.6 points versus 2019 at 67.4 per cent.

## Asia Pacific

The Asia Pacific region was the most capacity-constrained region in 2021, as strict travel restrictions in the region continued to severely impact demand. British Airways operated routes to Hong Kong, Singapore and Tokyo regularly, mainly for cargo purposes. Iberia operated charter flights to China and Tokyo. Passenger load factor for the region was the lowest for the Group, down 46.4 points versus 2019 at 39.4 per cent.

## Basis of Preparation

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

There are a number of significant factors related to the status and impact of COVID-19 worldwide that are outside of the control of the Group. These include the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the speed at which vaccines are deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments in respect of the freedom of movement and travel. Due to the uncertainty that these factors create, the Directors are not able to provide certainty that there could not be more severe downside scenarios than those that have been considered in the modelling, including the sensitivities the Group has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that such a scenario were to occur, the Group may need to secure sufficient additional funding over and above that which is contractually committed as at February 24, 2022.

The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020 and 2021 and secured an additional €5.5 billion of non-aircraft related debt, in addition to a fully subscribed equity raise of €2.7 billion in 2020. The Group has negotiated and executed €2.8 billion of committed general facilities during 2021; these facilities were undrawn as at February 24, 2022 and would be available over the going concern period. However, the Directors cannot provide certainty that the Group will be able to secure additional funding, if required, in the event that a more severe downside scenario than those they have considered were to occur and accordingly this represents a material uncertainty that could cast doubts upon the Group's ability to continue as a going concern. Refer to note 2 of the consolidated financial statements for further information.

## Summary

The COVID-19 pandemic continued to have a significant impact on the Group's results, although there were meaningful signs of recovery in the second half of the year, as travel restrictions were eased and the US lifted its severe restrictions (imposed in March 2020). Passenger capacity and passenger revenue were 7.7 per cent and 5.9 per cent higher than 2020 respectively, with cargo revenue 28.1 per cent higher. Passenger capacity rose from 19.6 per cent of 2019 in first quarter of 2021 to 58.3 per cent in the final quarter of the year. The Group continued to take action to mitigate the impact of COVID-19 by reducing costs and benefitted from the full-year impact of restructuring programmes implemented in the second half of 2020.

The net result was an operating loss for the year of €2,765 million, versus an operating loss of €7,451 million in 2020. The loss after tax for the year was €2,933 million, versus a loss of €6,935 million in 2020.

## Loss for the year

Statutory results € million	2021	2020 <sup>1</sup>	Higher/ (lower) vly
Operating loss	<b>(2,765)</b>	(7,451)	4,686
Loss before tax	<b>(3,507)</b>	(7,827)	4,320
Loss after tax	<b>(2,933)</b>	(6,935)	4,002

<sup>1</sup> The 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

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, the Group recorded a number of exceptional items arising as a direct result of COVID-19. During the course

of 2021, the Group continued to record the fair value movements on derivatives de-designated from hedge accounting in 2020 as exceptional. In addition, new exceptional items arose in 2021, including the reversal of the impairment of certain aircraft stood back up in 2021, following the Vueling successful slot allocation at Paris Orly, together with adjustments to previously recorded restructuring provisions.

A summary of the exceptional items relating to 2020 and 2021 is given below, with more detail in the Alternative Performance Measures section, including a breakdown of the exceptional items by operating company.

### Summary of exceptional items

Income statement line	Exceptional item description	Credit/(charge) to the Income statement € million	
		2021	2020
Passenger revenue	Discontinuation of hedge accounting for foreign currency derivatives for revenue	5	(62)
Employee costs	Restructuring costs	18	(313)
Fuel, oil and emissions costs	Discontinuation of hedge accounting for fuel and associated foreign exchange derivatives	154	(1,694)
Engineering and other aircraft costs	Inventory write-down and charge in relation to contractual lease provisions	7	(108)
Property, IT and other costs	Legal costs associated with employee restructuring programmes	-	(6)
Property, IT and other costs	Settlement provision in relation to the theft of customer data at British Airways in 2018	-	(22)
Depreciation, amortisation and impairment	Impairment of fleet and associated assets	21	(856)
Non-operating costs	Payment to Globalia related to termination of Air Europa acquisition	(75)	-
Tax	Tax on exceptional items	(25)	463

In 2020 all items were associated with the impact of COVID-19, except the settlement provision in relation to the theft of customer data at British Airways in 2018.

In 2021 all the exceptional items, apart from the termination payment to Globalia, relate to adjustments made to the COVID-19 related exceptional charges in 2020, reflecting movements in fuel prices and foreign exchange rates, changes to fleet plans and adjustments to provisions. See the Alternative Performance Measures section for further information.

Excluding the impact of the exceptional items shown above, the operating loss for 2021 was €2,970 million, €1,420 million lower than 2020, reflecting the recovery in capacity, particularly in the second half of 2021, when travel restrictions were eased, notably for travel to the US from November 8, 2021. The loss after tax and before exceptional items was €3,038 million, €1,299 million lower than 2020.

Alternative Performance Measures (before exceptional items), € million	2021	2020 <sup>1</sup>	Higher/ (lower) vly
Operating loss	(2,970)	(4,390)	1,420
Loss before tax	(3,637)	(4,766)	1,129
Loss after tax	(3,038)	(4,337)	1,299

<sup>1</sup> 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

### Revenue

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Passenger revenue <sup>1</sup>	5,835	323	5.9%
Cargo revenue	1,673	367	28.1%
Other revenue	947	(41)	(4.1)%
<b>Total revenue</b>	<b>8,455</b>	<b>649</b>	<b>8.3%</b>

<sup>1</sup> Includes an exceptional credit of €5 million (2020: exceptional charge of €62 million related to discontinued hedge accounting of revenue foreign currency derivatives). Further information is given in the Alternative Performance Measures section.

### Passenger revenue

Passenger revenue increased by 5.9 per cent on 2020, driven by an increase in the second half of the year, in which 80 per cent of passenger revenue was generated, as travel restrictions reduced and passenger capacity increased. Passenger unit revenue, measured as passenger revenue before exceptional items per available seat kilometre (PRASK), was down 2.9 per cent versus 2020 (in which the main impact of COVID-19 was only seen from March). PRASK rose significantly in the second half of 2021, with an increase in the passenger load factor. Passenger revenue for the year was 74.1 per cent lower than in 2019, with PRASK down 28.1 per cent versus 2019.

### Cargo revenue

2021 was a record year for cargo revenue, for the second consecutive year, as additional flights were operated in the absence of passenger capacity and available aircraft were used for additional cargo-only flying. During the year 3,788 additional cargo-driven flights were operated. The overall impact of the cargo operation, including the additional cargo-driven flights, was an increase in Cargo revenue of €367 million, or 28.1 per cent higher versus 2020. Cargo revenue for the year was 49.8 per cent higher than in 2019.

### Other revenue

The largest Other revenue streams for the Group in normal times are Iberia's Maintenance, Repair and Overhaul (MRO) and Handling businesses, together with BA Holidays. Revenue from these activities was also significantly reduced by the continued impact of COVID-19.

In the case of MRO and Handling, these revenues were affected by lower demand following reduced flight schedules and significant fleet reductions across the airline industry and hence lower maintenance requirements, although the reductions were less than the reduction in the level of passenger capacity. The BA Holidays business is closely linked to the passenger business and was therefore impacted by the significantly reduced passenger operation, although there was an increase in the second half of the year as operations increased. Overall, for the year, Other revenue was down €41 million, or 4.1 per cent, versus 2020 and was 50.7 per cent lower than in 2019.

### Operating costs

Due to the continued impact of COVID-19 on the Group's flying programme, with significantly reduced revenues versus 2019, the Group continued to take action to offset the financial impact by reducing costs, together with measures to increase the variability and flexibility in its cost base. The Group benefitted from the full-year impact of restructuring and other cost-saving programmes implemented during 2020.

Total expenditure on operations fell from €15,257 million in 2020 to €11,220 million in 2021. Excluding the impact of exceptional items, Total expenditure on operations fell by €838 million, or 6.8 per cent versus 2020, despite a 7.7 per cent rise in passenger capacity.

### Employee costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Employee costs <sup>1,2</sup>	<b>3,013</b>	(572)	(16.0)%

1 Includes an exceptional credit of €18 million related to the release of restructuring provisions (2020: exceptional charge of €313 million related to the restructuring programmes in British Airways, Aer Lingus, Iberia and LEVEL, undertaken to resize the Group as a consequence of COVID-19.) Further information is given in the Alternative Performance Measures section.

2 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the consolidated statements for further information.

Employee costs fell by €572 million versus 2020. In 2020 the Group recorded a €313 million exceptional charge relating to Group-wide restructuring programmes, which resulted in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce as at June 2020) and 500 at Aer Lingus (or approximately 10 per cent of the workforce at June 2020). Excluding the impact of exceptional credits in 2021 and exceptional charges in 2020, Employee costs reduced €241 million, or 7.4 per cent, versus 2020, despite the 7.7 per cent increase in passenger capacity.

National governments continued to provide wage or job support mechanisms in each of IAG's main home markets and the operating companies used these facilities to reduce employee numbers and costs, although the UK's support ended in September 2021. The direct impact of these mechanisms was to reduce employee costs by approximately €555 million.

### Fuel, oil and emissions costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Fuel, oil costs and emissions charges <sup>1</sup>	<b>1,781</b>	(1,954)	(52.3)%

1 Includes an exceptional credit of €154 million (2020: exceptional charge of €1,694 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 down €1,954 million, or 52.3 per cent versus 2020; excluding the exceptional net overhedging credit in 2021 and overhedging charge in 2020, Fuel, oil and emissions charges were down €106 million, or 5.2 per cent versus 2020 and down €4,086 million or 67.9 per cent on 2019.

### Commodity prices

Commodity fuel prices rose steadily over the course of 2021, having seen a dramatic fall in March 2020 as COVID-19 spread worldwide and a partial recovery by December 2020. Prices at the end of 2021 were 60 per cent higher than at the start of the year.

### Jet fuel price trend (\$/mt)

#### Fuel hedging

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

#### Exceptional items

In 2020, due to the rapid fall in the commodity fuel price, the Group experienced losses on its fuel hedging derivatives. These hedging losses would have normally been offset against the reduced cost of physical fuel purchased. However, the impact of COVID-19 led to a significant reduction in the requirement to purchase jet fuel, due to the significantly reduced flying programme. As a consequence, the Group had derivative contracts for which there was no corresponding purchase of jet fuel, leading to discontinuance of hedge accounting for these derivatives, with a mark-to-market loss of €1,781 million recognised as an exceptional charge in the Income statement. There was also a related mark-to-market gain recognised in the Income statement related to foreign exchange hedging of €87 million, bringing the net exceptional charge to €1,694 million for the year. These values were calculated based on the fuel curve and foreign exchange rates as at December 31, 2020 and the anticipated capacity to be operated for 2021 and 2022. During 2021, there was limited further de-designation necessary, as capacity operated was broadly consistent with the volume of fuel hedged. However, due to the increase in the commodity fuel price, the losses on the remaining contracts were lower than anticipated and the Group recognised an exceptional credit of €154 million.

#### 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 full-year impact of the retirement of 15 Airbus A340-600 and 32 Boeing 747-400 aircraft in quarter 2 of 2020.



## Supplier costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Handling, catering and other operating costs	<b>1,308</b>	(32)	(2.4)%
Landing fees and en-route charges	<b>923</b>	5	0.5%
Engineering and other aircraft costs <sup>1</sup>	<b>1,085</b>	(371)	(25.5)%
Property, IT and other costs <sup>2</sup>	<b>758</b>	(24)	(3.1)%
Selling costs	<b>434</b>	29	7.2%
Currency differences	<b>(14)</b>	(95)	nm

1 Includes an exceptional credit of €7 million (2020: exceptional charge of €108 million) related to an inventory write-down and a charge relating to contractual lease provisions, with a related credit in 2021 due to adjusted fleet plans. Further information is given in the Alternative Performance Measures section.

2 For 2020 includes a settlement provision in relation to the theft of customer data at British Airways in 2018 of €22 million and an exceptional charge of €6 million related to legal costs of the Group-wide restructuring programme undertaken in the year. Further information is given in the Alternative Performance Measures section.

Handling, catering and other operating costs were down €32 million on 2020, or 2.4 per cent, despite the higher volume of flying in 2021, as the Group continued to focus on reducing its cost-base and benefitted from the full-year impact of savings made in 2020 and ground handling contract negotiations in 2021.

Landing fees and en-route charges were up €5 million on 2020, or 0.5 per cent, reflecting the impact of increased flying.

Engineering and other aircraft costs reduced primarily due to the reduction in fleet since quarter 2, 2020 and the exceptional charges in 2020. Savings were negotiated for various maintenance contracts, including a new joint venture in Barcelona. Excluding the exceptional credit in 2021 and exceptional charge in 2020, Engineering and other aircraft costs were lower than 2020 by €256 million, or 19.0 per cent.

Property, IT and other costs were down €24 million, or 3.1 per cent, on 2020, which included exceptional charges for a settlement provision in relation to the theft of customer data at British Airways in 2018 and for legal costs relating to restructuring programmes undertaken in 2020. Excluding these exceptional charges in 2020, Property, IT and other costs were up €4 million or 0.5 per cent versus 2020.

Selling costs increased by €29 million or 7.2 per cent versus 2020, reflecting increased booking activity for future travel, particularly in the second half of the year as travel restrictions eased. Cost increases were contained by negotiated savings for third party selling systems and commissions.

Overall, Supplier costs (excluding fuel costs) were €488 million, or 9.8 per cent, lower than 2020. Excluding exceptional charges and credits, Supplier costs (excluding fuel costs) were €4,626 million, or 50.7 per cent, lower than in 2019.

## Ownership costs

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

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Ownership costs <sup>1</sup>	<b>1,932</b>	(1,023)	(34.6)%

1 Includes an exceptional credit of €21 million related to the partial reversal of an impairment of fleet assets and other assets in 2020. (2020: exceptional charge of €856 million related to the impairment of fleet assets and other assets.) Further information is given in the Alternative Performance Measures section.

The reduction in ownership costs is mainly driven by the exceptional impairment charge made as a result of the fleet reductions brought about as a result of COVID-19 during 2020, when 82 aircraft were retired early, which led to an impairment charge of €856 million. For aircraft that were stood down temporarily as a result of COVID-19, depreciation costs continued to be charged. During 2021, Vueling was the successful bidder in a competition for additional take-off and landing slots at Paris Orly airport, which led to the requirement to return to service four Airbus A320 aircraft that were previously assumed surplus to requirements. The return of these four aircraft led to a €14 million reversal of the exceptional impairment charge recorded in 2020. There was also a €7 million reversal of an exceptional engine impairment charge recorded in 2020. Excluding the exceptional credit in 2021 and exceptional charge in 2020, Ownership costs were down €146 million, or 7.0 per cent.

## Aircraft fleet

In 2021, the in-service fleet reduced by two aircraft, with 11 aircraft delivered and 13 aircraft removed from service for disposal or lease return.

## Number of fleet

Number of fleet in-service	2021	2020	Higher/ (lower) vly
Shorthaul	<b>363</b>	367	(1.1)%
Longhaul	<b>168</b>	166	1.2%
	<b>531</b>	533	(0.4)%

Of the 531 "in-service" fleet at the end of the year, 55 were temporarily grounded. In addition to the in-service fleet, there were a further 29 aircraft held by the Group pending disposal or lease return.

## 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 2021 the Group operating loss before exceptional items was reduced by €98 million due to favourable exchange rate impacts.

## Exchange impact before exceptional items

€ million Favourable/(adverse)	2021		Total exchange impact
	Translation impact	Transaction 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

€ million Favourable/(adverse)	2020		Total exchange impact
	Translation impact	Transaction impact	
Total exchange impact on revenue	84	33	117
Total exchange impact on operating expenditures	(31)	(91)	(122)
Total exchange impact on operating profit	53	(58)	(5)

The exchange rates for the Group were as follows:

	2021	2020	Higher/ (lower) vly
Translation - Balance sheet £ to €	1.18	1.10	7.3%
Translation - Profit & Loss (weighted average) £ to €	1.15	1.13	1.8%
Transaction (weighted average) £ to €	1.15	1.13	1.8%
€ to \$	1.20	1.13	6.2%
£ to \$	1.38	1.27	8.7%

## Total net non-operating costs

Total net non-operating costs for the year were €742 million, versus €376 million in 2020. The main driver of the increase was the net currency retranslation charge of €82 million compared with a €245 million credit in 2020. Finance costs were up €160 million (23.9 per cent), related to interest on new debt and arrangement costs, including the IAG unsecured and convertible bonds issued in 2021. Non-operating costs also include a €89 million non-cash credit relating to movements in the fair value of the €825 million IAG convertible bond issued in the year.

The Group incurred an exceptional non-operating charge of €75 million in December 2021, relating to a settlement agreement reached 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.

## Tax

The tax credit on the loss for the year was €574 million (2020: €892 million), and the effective tax rate was 16 per cent (2020: 11 per cent). The substantial majority of the Group's activities are taxed where the main operations are based, in the UK, Spain and Ireland, with corporation tax rates during 2021 of 19 per cent, 25 per cent and 12.5 per cent respectively, which result in an expected effective tax rate of 20 per cent. The difference between the actual effective tax rate of 16 per cent and the expected effective tax rate of 20 per cent is primarily due to certain current and prior period losses in Iberia and Vueling not being recognised and the effect of the rate change in the UK.

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

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

## Operating profit and loss performance of operating companies

	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
	2021	Higher/ (lower)	Higher/ (lower)	2021	Higher/ (lower)	Higher/ (lower)	2021	Higher/ (lower)	Higher/ (lower)	2021	Higher/ (lower)	Higher/ (lower)
Post-exceptional items <sup>1</sup>												
Passenger revenue	2,321	(519)	(18)%	307	(72)	(19)%	1,724	564	49%	1,011	442	78%
Cargo revenue	1,097	207	23%	65	(23)	(26)%	394	154	64%	-	-	-
Other revenue	281	64	29%	4	4	nm	666	(193)	(22)%	5	-	-
Total revenue	3,699	(248)	(6)%	376	(91)	(20)%	2,784	525	23%	1,016	442	77%
Fuel, oil costs and emissions charges	830	(1,166)	(58)%	89	(197)	(69)%	519	(197)	(27)%	198	(116)	(37)%
Employee costs	1,471	(467)	(24)%	180	(37)	(17)%	723	(75)	(9)%	200	4	2%
Supplier costs	2,188	(252)	(10)%	305	(65)	(18)%	1,412	(132)	(9)%	624	30	5%
Ownership costs <sup>2</sup>	979	(496)	(34)%	140	(17)	(11)%	350	(262)	(43)%	227	(118)	(34)%
Operating loss	(1,769)	2,133	(55)%	(338)	225	(40)%	(220)	1,191	(84)%	(233)	642	(73)%
Operating margin	(47.8)%	51.1 pts		(90.0)%	30.4 pts		(7.9)%	54.6 pts		(23.0)%	nm	
Alternative Performance Measures <sup>3</sup>												
Passenger revenue	2,316	(578)	(20)%	308	(74)	(19)%	1,724	564	49%	1,011	442	78%
Cargo revenue	1,097	207	23%	65	(23)	(26)%	394	154	64%	-	-	-
Other revenue	281	64	29%	4	4	nm	666	(193)	(22)%	5	-	-
Total revenue before exceptional items	3,694	(307)	(8)%	377	(93)	(20)%	2,784	525	23%	1,016	442	77%
Fuel, oil costs and emissions charges	939	(220)	(19)%	99	(43)	(30)%	528	156	42%	207	47	30%
Employee costs	1,482	(235)	(14)%	180	(13)	(7)%	728	(56)	(7)%	200	4	2%
Supplier costs	2,188	(210)	(9)%	305	(58)	(16)%	1,412	(80)	(5)%	631	67	12%
Ownership costs <sup>2</sup>	985	(91)	(8)%	140	7	5%	350	(20)	(5)%	240	(37)	(13)%
Operating loss before exceptional items	(1,900)	449	(19)%	(347)	14	(4)%	(234)	525	(69)%	(262)	361	(58)%
Operating margin before exceptional items	(51.4)%	7.3 pts		(92.1)%	(15.3) pts		(8.4)%	25.2 pts		(25.8)%	82.7 pts	

1 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

2 Ownership costs reflects Depreciation, amortisation and impairment.

3 Further detail is provided in the Alternative performance measures section.

### Review by operating company

The results for all operating companies continued to be impacted by COVID-19 in 2021, with the divergence in the relative operating results of each of the airlines reflecting the travel restrictions imposed in their markets. Aer Lingus operated the lowest passenger capacity relative to 2019, with ASKs at 24.4 per cent of 2019, British Airways operated at 28.3 per cent, Vueling at 53.0 per cent and Iberia at 55.4 per cent.

### Operating (loss)/profit before exceptional items

	2021	2020	2019
British Airways (£ million) <sup>1</sup>	(1,900)	(2,349)	1,890
Aer Lingus (€ million)	(347)	(361)	276
Iberia (€ million)	(234)	(759)	497
Vueling (€ million)	(262)	(623)	240

1 2020 and 2019 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

Employee costs fell versus 2020, due to the use of wage support or similar schemes in all the operating companies' home countries, in which the substantial portion of employees are based. Support applied across the year in Ireland and Spain, although reduced as the year progressed in Spain, with the operation increasing. In the UK the furlough arrangements ended in September of 2021. Restructuring programmes were implemented in 2020, including at British Airways and Aer Lingus, with Iberia also making reductions in management numbers and reductions outside of Spain. The full-year impact of these 2020 restructuring programmes was seen in 2021, as most of the affected employees had left by the end of 2020.

The operating companies all operate similar hedging programmes, under a Group policy, which resulted in overhedging of jet fuel purchases and related currency transactions in 2020. Excluding the impact of overhedging, fuel costs fell in line with the capacity reductions, with an additional benefit from the efficiency of new-generation aircraft versus the aircraft they replace, together with a reduced effective price net of hedging.

Supplier costs continued to benefit from initiatives in all the operating companies to reduce expenditure in light of the impact of the pandemic, including the full-year impact of actions taken during 2020.

Ownership costs were impacted by the reduction in the Group's fleet of aircraft in 2020, leading to the impairment of aircraft and related assets in each operating company, with 2021 seeing a full-year benefit of the reduced fleet in depreciation costs.

Operating margins are much less meaningful than in previous years, given the significant impact of COVID-19, but are included for completeness; the margins reflect the size of operation each operating company was able to fulfil in 2021.

### Capital expenditure

In November 2019, at its Capital Markets Day, the Group announced its anticipated capital expenditure for the period 2020-2022 was €14.2 billion. In response to COVID-19, in 2020 the Group agreed to defer 68 aircraft scheduled for delivery over the period 2020-2022 and to re-schedule certain pre-delivery payments to aircraft manufacturers. The result of these changes was a significant reduction in expected capital expenditure over the period 2020-2022, with capital expenditure over that period expected to be below €7 billion. In February 2021 the Group expected capital expenditure in 2021 to be €1.7 billion.

During 2021, four Airbus A350 aircraft and three Boeing 787 aircraft were not delivered as anticipated and are now expected in 2022. As a response to the continued impact of COVID-19 and related travel restrictions, the Group continued to take actions to preserve liquidity by

reducing certain project-related expenditure, whilst continuing to invest in key projects, including cyber-related investments. As a result, capital expenditure for 2021 reduced to €0.7 billion.

The Group did not enter into any new agreements to acquire additional aircraft in 2021, either from aircraft manufacturers or lessors.

In 2021 the Group took delivery of 11 aircraft, with six for British Airways, one for Iberia and four for Aer Lingus. Of these deliveries, five were aircraft acquired directly from manufacturers and six were leased from aircraft lessors. The liquidity impact of the aircraft deliveries in the year was cash-positive, as the value of financing raised exceeded the final delivery payments made to the aircraft manufacturers, due to pre-delivery payments for those aircraft made in previous years.

Aircraft deliveries	2021	2020
Airbus A320 family	8	15
Airbus A330	1	2
Airbus A350	-	7
Boeing 777-300	-	4
Boeing 787-10	-	2
Embraer E190	2	4
Total	11	34

### Capital commitments

Capital expenditure authorised and contracted for at December 31, 2021 amounted to €10,911 million (2020: €10,545 million). Most of this commitment is denominated in US dollars and includes commitments until 2027 for 110 aircraft including 56 aircraft from the Airbus A320 family, 10 Boeing 787s, 18 Boeing 777s and 26 Airbus A350s.

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, 2021.

Aircraft future deliveries at December 31	2021	2020
Airbus A320 family	56	64
Airbus A330	-	1
Airbus A350	26	26
Boeing 777-9	18	18
Boeing 787-10	10	10
Embraer E190	-	2
Total	110	121

### Working capital and other initiatives

In 2020, as a response to COVID-19, the Group negotiated deferrals to supplier payments and lease payments, rolled over fuel derivatives, monetised EU Emissions Trading Scheme credits and foreign currency derivatives. These initiatives reduced cash outflow in 2020 by approximately €625 million, with deferrals to future years accounting for approximately €375 million, with the majority due in 2021. In quarter 3 of 2020 a multi-year renewal was signed with American Express, including an upfront payment of approximately €830 million (£754 million), with a significant amount being for the pre-purchase of Avios for future years. Despite the partial unwinding of these initiatives in 2021, the working capital cash inflow for 2021 was €473 million higher than in 2020 at €1,634 million, principally driven by a significant increase in bookings for future travel in the second half of the year and an increase in trade payables as the flying programme increased.

Deferred revenue on ticket sales, which includes loyalty points (Avios), rose €1,422 million to €6,552 million at December 31, 2021; €6,161 million is included in current liabilities and €391 million within non-current liabilities, associated with the renewal of the IAG Loyalty contract with American Express. The value of loyalty points (Avios) issued and yet to be recognised in revenue was up €95 million versus 2020 at €2,820 million, reflecting the net impact of a partial unwind of the American Express pre-payment in 2020 and the balance of Avios issued versus redeemed in 2021. Sales in advance of carriage, related to passenger ticket sales, were up €1,327 million versus 2020 at €3,732 million. At constant currency, Sales in advance of carriage were at the same level as December 2019. The cash impact of cancelled flights continued to be partially mitigated by customers accepting vouchers for future travel in lieu of a cash refund, with the outstanding value of vouchers as at December 31, 2021 at approximately the same level as December 2020 and representing one third of Sales in advance of carriage.

Trade receivables rose by €178 million, related to the significantly increased bookings for future travel versus those taken in the final months of 2020.

Trade and other payables rose by €902 million, related mainly to the significantly increased flying schedule and related costs in the final quarter of 2021, in which the Group operated 58.3 per cent of 2019 passenger capacity, versus only 26.6 per cent operated in quarter 4 of 2020.

British Airways deferred monthly UK pension deficit contributions that would otherwise have been due in quarter 4, 2020 to the value of €125 million, together with contributions of €390 million relating to the first three quarters of 2021, with the resultant amounts deferred due for payment in the 12 months ending March 2024. British Airways granted security over certain property assets to the Trustee of NAPS in respect of these deferred payments. British Airways has also agreed that it will not make dividend payments to IAG before the end of 2023 and that from 2024 dividends will be matched by a contribution to NAPS of 50 per cent of the dividend paid until the deferred contributions have been paid. In October 2021, the funding level of NAPS for the purposes of an overfunding protection mechanism, agreed in 2019, meant that British Airways made no contributions from October to December 2021. Should the funding level fall, contributions will resume at an accelerated rate to recover the contributions not made during the period the overfunding trigger applied. The triennial valuation of the scheme, based on conditions as at March 31, 2021, is expected to be completed in 2022 and will measure the latest funding position of the scheme, which may lead to a new schedule of deficit contributions.

### Funding and debt

IAG's long-term objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S&P and

Moody's assigned IAG with a long-term investment-grade credit rating with a stable outlook; these ratings remained unchanged up until the outbreak of COVID-19. The Group's current ratings (as at February 24, 2022) are: S&P: BB (3-notch decline), Moody's: Ba2 (2-notch decline), based on the impact of COVID-19 on the Group and the airline industry, together with the expected timing of the recovery of global air traffic.

### Debt and capital

The Group monitors leverage using net debt to EBITDA, in addition to closely following measures used by the credit ratings agencies, including those based on gross debt.

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

In 2021, due to the significant impact of COVID-19, EBITDA was negative, rendering the net debt to EBITDA ratio not meaningful; the calculation for 2021 results in net debt to EBITDA of minus 11.5 times.

### Net debt

€ million	2021	2020	Higher / (lower)
Debt	<b>15,679</b>	14,254	1,425
Cash and cash equivalents and interest-bearing deposits	<b>(5,917)</b>	(6,683)	(766)
Net debt at January 1	<b>9,762</b>	7,571	2,191
(Increase)/decrease in cash net of exchange	<b>(2,026)</b>	766	(2,792)
Net cash outflow from repayments of borrowings and lease liabilities	<b>(2,265)</b>	(2,514)	249
Net cash inflow from new borrowings	<b>4,817</b>	3,567	1,250
Non-cash impact from new leases	<b>518</b>	1,179	(661)
Increase in net debt from financing	<b>3,070</b>	2,232	838
Exchange and other non-cash movements	<b>861</b>	(807)	1,668
Net debt at December 31	<b>11,667</b>	9,762	1,905

Gross debt increased by €3,931 million, principally driven by non-aircraft debt raised by: British Airways (£2.0 billion), Aer Lingus (€75 million) and by IAG €1.2 billion of unsecured bonds and an €825 million IAG convertible bond. British Airways repaid £300 million of debt raised under the UK's CCF mechanism in 2020. 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 2021 the euro weakened against the US dollar and the pound sterling and as a consequence €820 million of the increase gross debt was due to adverse foreign exchange translation. Cash increased by €2,026 million, leading to net debt €1,905 million higher at €11,667 million.

### Cash

#### Cash and interest-bearing deposits

The cash balances at December 31, 2021 in IAG and other Group companies include the impact of additional non-aircraft related debt raised in the year and the translation of British Airways' and IAG Loyalty's cash balances, which are mainly held in pound sterling. The pound sterling ended the year 6.9 per cent stronger against the euro than at the start of 2021.

€ million	2021	2020	Higher / (lower)
British Airways	<b>1,986</b>	1,389	597
Iberia	<b>761</b>	822	(61)
Vueling	<b>441</b>	590	(149)
Aer Lingus	<b>228</b>	266	(38)
IAG and other Group companies	<b>4,527</b>	2,850	1,677
Cash and deposits	<b>7,943</b>	5,917	2,026

### Debt

The Group has been able to continue to obtain efficient funding secured against aircraft deliveries. Of the 11 aircraft delivered in 2021, four for British Airways were financed using asset financing lease arrangements, including three financed through a new sustainability-linked Enhanced Equipment Trust Certificate (EETC) financing agreed in July 2021. As at December 31, 2021 the remaining undrawn balance of this facility was \$635 million. One Iberia aircraft delivered in 2021 and two delivered in late 2020 were financed through sale and leaseback transactions. An additional six aircraft were introduced through leasing arrangements direct from lessors. The Group also raised additional financing against aircraft delivered in previous years and spare engines

In 2021, the Group drew non-aircraft debt facilities agreed in 2020, namely a £2.0 billion Export Development Guarantee (EDG) term loan for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028.

The debt actions above resulted in total 'Proceeds from borrowings' for the year of €4,817 million. Repayments of borrowings during the year included the repayment of British Airways' commercial paper issuance from the UK's Coronavirus Corporate Finance Facility (CCFF), which raised £300 million (€329 million) in March 2020.

### Equity

No equity was raised during the year. In quarter 4, 2020, the Group successfully completed a capital increase, with gross proceeds of €2.7 billion.

### Liquidity facilities

During the year, the Group signed a committed secured Revolving Credit Facility (RCF) with a syndicate of banks for \$1.755 billion, available for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of whom has a separate borrower limit within the overall facility. Any drawings under the facility would be

secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. No drawings against this facility were made in 2021 and the facility remained undrawn at February 24, 2022. Simultaneous with entering into this new RCF, British Airways cancelled its US dollar revolving credit facility that was due to expire in June 2021 and which had \$786 million undrawn and available at December 31, 2020.

On November 1, 2021, the Group agreed and executed a €1.0 billion committed credit facility for British Airways, partially guaranteed by UK Export Finance, which was not drawn in 2021 and remained undrawn at February 24, 2022.

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

The Group also holds €1,126 million of committed and undrawn aircraft financing facilities, including the \$635 million remaining undrawn from British Airways' 2021 sustainability-linked EETC financing and backstop financing arrangements, which can be used against certain future aircraft deliveries.

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

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 in 2021; in 2020 a proposal to pay a final dividend in respect of 2019, announced with the 2019 financial results in February of 2020, was withdrawn in April 2020.

## Liquidity and cashflow

Total liquidity, measured as cash and interest-bearing deposits of €7,943 million and committed and undrawn general and aircraft facilities of €4,043 million, was €11,986 million at December 31, 2021. This represented an increase of €1,730 million versus pro forma liquidity of €10,256 million at the end of 2020, which included a £2.0 billion UK EF facility agreed in December 2020 and drawn as debt in March 2021.

## Cash flow

€ million	2021	2020 <sup>1,2</sup>	Movement
Operating loss	<b>(2,765)</b>	(7,451)	4,686
Depreciation, amortisation and impairment	<b>1,932</b>	2,955	(1,023)
Movement in working capital	<b>1,634</b>	1,161	473
Payment related to restructuring	<b>(161)</b>	(383)	222
Pension contributions net of service costs	<b>(15)</b>	(288)	273
Provisions and other non-cash movements	<b>305</b>	486	(181)
(Realised)/unrealised net loss on discontinuance of fuel and foreign exchange hedge accounting	<b>(497)</b>	569	(1,066)
Interest paid	<b>(640)</b>	(548)	(92)
Interest received	<b>3</b>	22	(19)
Tax received	<b>63</b>	45	18
Net cash outflows from operating activities	<b>(141)</b>	(3,432)	3,291
Acquisition of PPE and intangible assets	<b>(744)</b>	(1,939)	1,195
Sale of PPE, intangible assets and investments	<b>544</b>	1,133	(589)
Decrease in current interest-bearing deposits	<b>91</b>	2,366	(2,275)
Other investing movements	<b>(72)</b>	2	(74)
Net cash flows from investing activities	<b>(181)</b>	1,562	(1,743)
Proceeds from borrowings	<b>4,817</b>	3,567	1,250
Repayments of borrowings	<b>(784)</b>	(978)	194
Repayment of lease liabilities	<b>(1,481)</b>	(1,536)	55
Dividend paid	<b>-</b>	(53)	53
Proceeds from rights issue	<b>-</b>	2,674	(2,674)
Settlement of derivative financial instruments	<b>(268)</b>	136	(404)
Acquisition of Treasury shares and other financing movements	<b>(49)</b>	-	(49)
Net cash flows from financing activities	<b>2,235</b>	3,810	(1,575)
Net increase in cash and cash equivalents	<b>1,913</b>	1,940	(27)
Net foreign exchange differences	<b>205</b>	(228)	433
Cash and cash equivalents at January 1	<b>5,774</b>	4,062	1,712
Cash and cash equivalents at year end	<b>7,892</b>	5,774	2,118
Interest-bearing deposits maturing after more than three months	<b>51</b>	143	(92)
Cash, cash equivalents and interest-bearing deposits	<b>7,943</b>	5,917	2,026

1 The 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

2 The 2020 results include a reclassification to conform with the current period of presentation regarding settlement of derivative financial instruments. See note 2 to the financial statements for further information.

Many of the significant cashflow items are already explained above, including in the sections on operating costs, non-operating costs, capital expenditure, working capital and other initiatives and funding.

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

Pension payments in 2020 included nine months of contributions to the main British Airways pension fund, NAPS. Deferrals of deficit contributions were agreed with the NAPS Trustee from October 2020 to September 2021 and from October 2021 to December 2021 no deficit contributions were required, as the scheme had reached pre-agreed trigger levels for an overfunding protection mechanism to apply; this mechanism was agreed in 2019. Deficit contributions could resume should the funding level fall, or if the ongoing triennial valuation of the scheme, based on the funding position at March 31, 2021 and updated assumptions, determines there is a deficit.

Of the exceptional charges for discontinuance of hedge accounting in respect of passenger revenue of €62 million and fuel, oil and emissions costs of €1,694 million in 2020, €1,187 million had been paid, leaving €569 million to be paid in future years, with the majority due in 2021. As the fuel price rose in 2021 the required payments were lower than when measured at the end of 2020.

Sale of property, plant and equipment and intangibles, in addition to the aircraft sale and leaseback transactions discussed under 'Funding' above, includes the disposal of aircraft financed on sale and leaseback transactions, spare engines and other disposals.

Other investing movements includes the €75 million payment to Globalia, due to the settlement agreement to terminate the agreements under which Iberia had agreed to acquire the issued share capital of Air Europa.

Repayments of borrowings and lease liabilities includes the principal element of ongoing lease payments. Based on the share price at December 31, 2021, the remaining €500 million IAG convertible bond issued in 2015 will be due for repayment in November 2022.

The €53 million of cash outflow for dividends in 2020 relates to the Spanish withholding tax in respect of the 2019 interim dividend. No dividends were declared in respect of either 2020 or 2021.

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 outflow in 2021 is partly due to gains that would otherwise have been received in 2021 being accelerated into 2020, as part of the initiatives to preserve liquidity after the spread of COVID-19 in 2020.

## STRATEGIC FRAMEWORK

IAG's vision is to be the leading international airline group.

Our role in the world is to connect people, businesses and countries. We do this and 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.

We retain the distinct cultures and brands of our individual airlines. We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose.

IAG's strategic priorities are:

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

These strategic priorities are achieved through:

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

The Group's strategy is underpinned by its target to be the leading airline group on sustainability and its commitment to reaching its goal of net zero CO2 emissions for the Group and its supply chain by 2050, as well as to 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. The Board continues to meet frequently and review updates, including risk related, from management.

In 2021, the risk management framework has remained responsive to the needs of the business and stakeholders by: continuing to develop the Group's assessment of the interdependencies of risks; further building on scenario planning to quantify risk impact under different assumptions; and considering the risks within the Group's risk landscape that have increased either as a result of the external factors or as a result of decisions made by the business in response to the pace of the transformation agenda. Potential emerging risks and longer-term threats have been evaluated to identify new trends and risks that have increased in speed of potential impact. This includes starting to quantify the implications of environmental risks and considerations for the business plan. Where further action has been required, the Board has assessed potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address any significant risks.

The principal risks and uncertainties affecting the Group, detailed on pages 78 to 88 of the 2020 Annual Report and Accounts, remain relevant, at the date of this report. The ongoing impacts of the COVID-19 pandemic (considered as an "Event causing significant network disruption" risk) continue to negatively impact the external risk environment for the Group and change the risk profile of a number of the Group's other principal risks. The Group continues to carefully review its principal risks, implement necessary mitigations to adapt to the risk landscape and assess how the severity or likelihood of occurrence of certain risks has changed. During 2021, this has been particularly relevant in respect of, competitive and market risk, talent and skills retention risk, acceleration of the digital landscape and customer trends and sentiment to travel. One new principal risk of 'Transformation and change' has been identified as part of this exercise. It reflects the significance of the Group's transformation agenda (in terms of scale and importance) and pace required to deliver the plan.

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

- Competitive landscape. The scale of governmental support and aviation specific state-aid measures during 2020 and 2021 and the potential impact to the competitive landscape is under continuous assessment.
- Critical third parties in the supply chain. Restrictions at hubs and airports have required capacity adjustments, including fleet adjustments and new operating procedures as markets and regions re-open. Key suppliers exiting the market due to financial stress or other issues and significant cost inflation may impact the Group's operations. Operational bottlenecks such as immigration resource at airports and the potential for Air Traffic Control (ATC) disruption in the summer remain outside of the Group's control, although management continues to liaise with the relevant providers to identify potential solutions.
- Cyber attack and data security. The Group has maintained its planned investment in cyber security controls. The heightened threat of ransomware attacks on critical infrastructure and services persists and the Group continues to focus its efforts on further mitigating cyber risks through a Group-wide cyber programme.
- Economic, political and regulatory environment. National governments' imposition of varying and complex testing and vaccine status requirements, in addition to travel restrictions in certain markets, continues to impact Group operations and dampen demand, as customers choose not to fly given the uncertainty and increased cost. Government responses and restrictions are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. The global economic impact of the COVID-19 pandemic, especially with the focus on potential future variants driving further uncertainty, is expected to be significant and the Group retains its flexibility to adapt as required.
- Financial risk and debt funding. Financial markets have been volatile since the beginning of the COVID-19 pandemic, although the Group has been able to secure new funding and facilities as needed. The Group has an established process to monitor financial and counterparty risk on an ongoing basis. The Group implemented a revised fuel hedging policy in 2021, providing greater flexibility over fuel hedging.
- 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 nature and pace of transformational change required by the Group's airlines may result in disruption to operations as the legacy environment is addressed. The Group is currently engaged in a number of initiatives to modernise its IT systems, whilst also delivering an ongoing efficiency programme and upgrading its digital capability, and customer propositions.



- People, culture and employee relations. The Group is focussed on staff wellbeing morale and motivation, particularly as our people return to their offices and the Group businesses adapt and implement hybrid working models. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. The Group's airlines will need to respond to the demand environment and ensure that wider recruitment challenges across sectors of the economy do not result in manpower shortages impacting operational capabilities. The Group recognises the critical role that our employees will play in the recovery and delivery of transformation plans.
- Sustainable aviation. Increasing global concern about climate change and the impact of carbon in aviation is a key area of focus for the Group. New taxes and an increasing price of carbon offsets could impact demand for air travel. The airline industry is also subject to increased regulatory requirements, driving increases in costs and operational complexity. Environmental considerations are integrated into the business strategy and the Group uses its influence to drive progress across the industry.
- Transformation and change. The Group recognises the need to transform to effectively compete in the post pandemic environment. 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 change. 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 appraised of regulatory, competitor and governmental responses on an ongoing basis.

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.**

Full year Unaudited Consolidated Financial Statements

January 1, 2021 – December 31, 2021

## CONSOLIDATED INCOME STATEMENT

€ million	Note	Year to December 31	
		2021	2020 <sup>1</sup>
Passenger revenue		<b>5,835</b>	5,512
Cargo revenue		<b>1,673</b>	1,306
Other revenue		<b>947</b>	988
<b>Total revenue</b>	5	<b>8,455</b>	7,806
Employee costs	8	<b>3,013</b>	3,585
Fuel, oil costs and emissions charges		<b>1,781</b>	3,735
Handling, catering and other operating costs		<b>1,308</b>	1,340
Landing fees and en-route charges		<b>923</b>	918
Engineering and other aircraft costs		<b>1,085</b>	1,456
Property, IT and other costs		<b>758</b>	782
Selling costs		<b>434</b>	405
Depreciation, amortisation and impairment	6	<b>1,932</b>	2,955
Currency differences		<b>(14)</b>	81
Total expenditure on operations		<b>11,220</b>	15,257
<b>Operating loss</b>		<b>(2,765)</b>	(7,451)
Finance costs	9	<b>(830)</b>	(670)
Finance income	9	<b>13</b>	41
Net change in fair value of convertible bond		<b>89</b>	-
Net financing (charge)/credit relating to pensions	9	<b>(2)</b>	12
Net currency retranslation (charges)/credits		<b>(82)</b>	245
Other non-operating credits/(charges)	9	<b>70</b>	(4)
Total net non-operating costs		<b>(742)</b>	(376)
<b>Loss before tax</b>		<b>(3,507)</b>	(7,827)
Tax	10	<b>574</b>	892
<b>Loss after tax for the year</b>		<b>(2,933)</b>	(6,935)
<b>Attributable to:</b>			
Equity holders of the parent		<b>(2,933)</b>	(6,935)
Non-controlling interest		<b>-</b>	-
		<b>(2,933)</b>	(6,935)
<b>Basic loss per share (€ cents)</b>	11	<b>(59.1)</b>	(196.6)
<b>Diluted loss per share (€ cents)</b>	11	<b>(59.1)</b>	(196.6)

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31	
		2021	2020 <sup>1</sup>
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity		<b>794</b>	(2,171)
Reclassified and reported in net profit		<b>(81)</b>	1,871
Fair value movements on cost of hedging		<b>10</b>	(16)
Cost of hedging reclassified and reported in net profit		<b>(12)</b>	(19)
Currency translation differences	31	<b>(12)</b>	(213)
<i>Items that will not be reclassified to net profit</i>			
Fair value movements on other equity investments		-	(53)
Fair value movements on cash flow hedges		<b>54</b>	(45)
Fair value movements on cost of hedging		-	26
Fair value movements on liabilities attributable to credit risk changes		<b>(15)</b>	-
Remeasurements of post-employment benefit obligations		<b>1,400</b>	(587)
Remeasurements of long-term employee-related provisions		<b>25</b>	(9)
Total other comprehensive loss for the year, net of tax		<b>2,163</b>	(1,216)
Loss after tax for the year		<b>(2,933)</b>	(6,935)
<b>Total comprehensive loss for the year</b>		<b>(770)</b>	(8,151)
Total comprehensive loss is attributable to:			
Equity holders of the parent		<b>(770)</b>	(8,151)
Non-controlling interest	31	-	-
		<b>(770)</b>	(8,151)

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

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

## CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2021	December 31, 2020 <sup>1</sup>	December 31, 2019 <sup>1</sup>
<b>Non-current assets</b>				
Property, plant and equipment	13	17,161	17,531	19,168
Intangible assets	17	3,239	3,208	3,442
Investments accounted for using the equity method	18	40	29	31
Other equity investments	19	31	29	82
Employee benefit assets	32	1,775	334	531
Derivative financial instruments	28	77	42	268
Deferred tax assets	10	1,282	1,075	546
Other non-current assets	20	250	228	273
		<b>23,855</b>	22,476	24,341
<b>Current assets</b>				
Non-current assets held for sale	16	20	-	-
Inventories		334	351	565
Trade receivables	20	735	557	2,255
Other current assets	20	960	792	1,314
Current tax receivable	10	16	101	186
Derivative financial instruments	28	543	122	324
Current interest-bearing deposits	21	51	143	2,621
Cash and cash equivalents	21	7,892	5,774	4,062
		<b>10,551</b>	7,840	11,327
<b>Total assets</b>		<b>34,406</b>	30,316	35,668
<b>Shareholders' equity</b>				
Issued share capital	29	497	497	996
Share premium	29	7,770	7,770	5,327
Treasury shares		(24)	(40)	(60)
Other reserves		(7,403)	(6,623)	851
<b>Total shareholders' equity</b>		<b>840</b>	1,604	7,114
Non-controlling interest	31	6	6	6
<b>Total equity</b>		<b>846</b>	1,610	7,120
<b>Non-current liabilities</b>				
Borrowings	25	17,084	13,464	12,411
Employee benefit obligations	32	285	477	326
Deferred tax liability	10	-	40	290
Provisions	26	2,267	2,286	2,416
Deferred revenue on ticket sales	23	391	473	-
Derivative financial instruments	28	47	310	286
Other long-term liabilities	24	208	140	71
		<b>20,282</b>	17,190	15,800
<b>Current liabilities</b>				
Borrowings	25	2,526	2,215	1,843
Trade and other payables	22	3,712	2,810	4,344
Deferred revenue on ticket sales	23	6,161	4,657	5,486
Derivative financial instruments	28	126	1,160	252
Current tax payable	10	21	48	192
Provisions	26	732	626	631
		<b>13,278</b>	11,516	12,748
<b>Total liabilities</b>		<b>33,560</b>	28,706	28,548
<b>Total equity and liabilities</b>		<b>34,406</b>	30,316	35,668

<sup>1</sup> The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

## CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31	
		2021	2020 <sup>1,2</sup>
<b>Cash flows from operating activities</b>			
Operating loss		<b>(2,765)</b>	(7,451)
Depreciation, amortisation and impairment	6	<b>1,932</b>	2,955
Movement in working capital		<b>1,634</b>	1,161
<i>(Increase)/decrease in trade receivables, inventories and other current assets</i>		<i>(351)</i>	2,281
<i>Increase/(decrease) in trade and other payables and deferred revenue on ticket sales</i>		<i>1,985</i>	<i>(1,120)</i>
Payments related to restructuring	26	<b>(161)</b>	(383)
Employer contributions to pension schemes		<b>(41)</b>	(318)
Pension scheme service costs	32	<b>26</b>	30
Provision and other non-cash movements		<b>305</b>	486
Settlement of derivatives where hedge accounting has been discontinued		<b>(497)</b>	569
Interest paid		<b>(640)</b>	(548)
Interest received		<b>3</b>	22
Tax received		<b>63</b>	45
<b>Net cash flows from operating activities</b>		<b>(141)</b>	(3,432)
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		<b>(744)</b>	(1,939)
Sale of property, plant and equipment and intangible assets and investments		<b>544</b>	1,133
Decrease in other current interest-bearing deposits		<b>91</b>	2,366
Other investing movements <sup>3</sup>		<b>(72)</b>	2
<b>Net cash flows from investing activities</b>		<b>(181)</b>	1,562
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>4,817</b>	3,567
Repayment of borrowings		<b>(784)</b>	(978)
Repayment of lease liabilities		<b>(1,481)</b>	(1,536)
Dividend paid	12	<b>-</b>	(53)
Acquisition of treasury shares		<b>(24)</b>	-
Settlement of derivative financial instruments		<b>(268)</b>	136
Proceeds from rights issue		<b>-</b>	2,674
Other financing movements		<b>(25)</b>	-
<b>Net cash flows from financing activities</b>		<b>2,235</b>	3,810
Net increase in cash and cash equivalents		<b>1,913</b>	1,940
Net foreign exchange differences		<b>205</b>	(228)
Cash and cash equivalents at 1 January		<b>5,774</b>	4,062
<b>Cash and cash equivalents at year end</b>	21	<b>7,892</b>	5,774
<b>Interest-bearing deposits maturing after more than three months</b>	21	<b>51</b>	143
<b>Cash, cash equivalents and interest-bearing deposits</b>	21	<b>7,943</b>	5,917

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

2 The 2020 results include a reclassification to conform with the current year presentation regarding settlement of derivative financial instruments. Further information is given in note 2.

3 Other investing movements include the Air Europa settlement payment. Refer to note 3i for further information.

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

<sup>1</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2020

€ 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, 2020 (reported) <sup>1</sup>	996	5,327	(60)	(2,579)	3,139	6,823	6	6,829
Change in accounting policy <sup>1</sup>	-	-	-	-	291	291	-	291
January 1, 2020 (restated)	996	5,327	(60)	(2,579)	3,430	7,114	6	7,120
Loss for the year	-	-	-	-	(6,935)	(6,935)	-	(6,935)
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	50	-	50	-	50
Fuel and oil costs	-	-	-	356	-	356	-	356
Currency differences	-	-	-	18	-	18	-	18
Finance costs	-	-	-	12	-	12	-	12
Discontinuance of hedge accounting	-	-	-	1,435	-	1,435	-	1,435
Net change in fair value of cash flow hedges	-	-	-	(2,216)	-	(2,216)	-	(2,216)
Net change in fair value of equity investments	-	-	-	(53)	-	(53)	-	(53)
Net change in fair value of cost of hedging	-	-	-	10	-	10	-	10
Cost of hedging reclassified and reported in net profit	-	-	-	(19)	-	(19)	-	(19)
Currency translation differences <sup>1</sup>	-	-	-	(213)	-	(213)	-	(213)
Remeasurements of post-employment benefit obligations <sup>1</sup>	-	-	-	-	(587)	(587)	-	(587)
Remeasurements of long-term employee-related provisions	-	-	-	-	(9)	(9)	-	(9)
Total comprehensive income for the year	-	-	-	(620)	(7,531)	(8,151)	-	(8,151)
Capex hedging reclassified and reported in property, plant and equipment	-	-	-	(18)	-	(18)	-	(18)
Cost of share-based payments	-	-	-	-	(10)	(10)	-	(10)
Vesting of share-based payment schemes	-	-	20	-	(22)	(2)	-	(2)
Share capital reduction	(797)	-	-	797	-	-	-	-
Rights issue	298	2,443	-	-	(70)	2,671	-	2,671
December 31, 2020 restated <sup>1</sup>	497	7,770	(40)	(2,420)	(4,203)	1,604	6	1,610

<sup>1</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.



## NOTES TO THE ACCOUNTS

For the year to December 31, 2021

### 1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on December 17, 2009. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. A list of the subsidiaries of the Group is included in the Group investments section.

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

### 2 Significant accounting policies

#### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements herein are not the Group's statutory accounts and are unaudited. The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and other equity investments that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

The Group's financial statements for the year to December 31, 2021 were authorised for issue, and approved by the Board of Directors on February 24, 2022.

#### Presentation of results

The prior period Cash flow statement includes a reclassification to conform with the current period of presentation regarding the settlement of foreign currency derivative financial instruments not designated in a hedge relationship, but entered into to mitigate foreign exchange movements on long-term financial liabilities in currencies other than the functional currencies of the operating companies holding the liabilities. Accordingly, the Group has reclassified the results for the year ended December 31, 2020 to recognise €136 million of derivative settlement cash inflows as Settlement of derivative financial instruments within cash flows from financing activities with a corresponding increase in cash outflows within cash flows from operating activities.

#### Change in accounting policy

During 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with British Airways' Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) defined benefit schemes, while remaining in compliance with IAS 19. The change in policy has been adopted to better reflect the underlying management and operation of these schemes. This change in accounting policy has been applied retrospectively to the consolidated financial statements.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. These administration costs were recognised as a service cost in the year in which such costs arose and recorded within Other comprehensive income. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing credit relating to pensions in the Income statement, as well as increased the Remeasurements of post-employment benefit obligations and Currency translation differences in the Statement of other comprehensive income for the year ended December 31, 2020.

Further details of the accounting policy change are given in note 36.

#### Going concern

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's results and cash flows. At December 31, 2021, the Group had total liquidity of €11,986 million (December 31, 2020: total liquidity of €8,054 million), comprising cash and interest-bearing deposits of €7,943 million, €2,917 million of committed and undrawn general facilities and a further €1,126 million of committed and undrawn aircraft specific facilities.

The increase in liquidity during the year to December 31, 2021 was attributable to, amongst other actions, accessing €2.3 billion (£2.0 billion) of the UK Export Finance (UKEF) Credit Facility, the issuance of fixed rate bonds of €1.2 billion, the issuance of a convertible bond of €0.8 billion, securing a multi-entity three-year Revolving Credit Facility (RCF) of €1.5 billion (\$1.8 billion), securing a €0.7 billion aircraft specific facility achieved as part of an Enhanced Equipment Trust Certificate (EETC) financing structure and securing an additional UKEF Credit Facility of €1.2 billion (£1.0 billion). These actions raised an additional €7.6 billion of liquidity. Of facilities in place at December 31, 2021, €0.7 billion matures by the end of the going concern period. A loan from the Ireland Strategic Investment Fund (ISIF) of €150 million has limited financial covenants, but otherwise the Group's facilities do not have financial covenants. There are a number of non-financial covenants to protect the position of the lenders, including restrictions on the upstreaming of cash to the Company or lending to other Group companies.

Despite the uncertainty of the COVID-19 pandemic, the Group has continued to successfully secure financing arrangements for all aircraft delivered in 2021.

In its assessment of going concern over the period to June 30, 2023 (the 'going concern period'), the Group has modelled three scenarios referred to below as the Base Case, the Downside Case and the Downside Lockdown Case. The Group's three-year business plan, prepared and approved by the Board in December 2021, was subsequently refreshed with the latest available internal and external information in February 2022. This refreshed business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact of and recovery from the COVID-19 pandemic on the Group's businesses across the going concern period. The key inputs and assumptions underlying the Base Case include:

- As part of the recovery, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel restrictions, including testing and quarantine requirements, between countries are assumed to continue to be scaled back and removed;
- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 34 per cent in quarter 1 2022 (compared to the equivalent period in 2019) to pre-pandemic levels by the end of the going concern period with the average over the going concern period being 11 per cent down versus 2019;
- Passenger unit revenue per ASK, although forecast to continue to recover, is assumed to still remain below levels of 2019 by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's assumption is that traffic related to domestic and leisure will recover faster than longhaul and business;
- The Group has assumed that the committed and undrawn general facilities of €2.9 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €2.7 billion being available to the Group at the end of the going concern period;
- The Group has assumed that of the committed and undrawn aircraft specific facilities of €1.1 billion, €0.9 billion would be available to be drawn over the going concern period if required, but is not expected to be drawn;
- Of the capital commitments detailed in note 15, €4.3 billion is due to be paid over the going concern period of which the Group has committed aircraft financing of €0.6 billion, under the EETC financing structure, and the Group has further forecast securing 80 per cent, or €2.7 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 below the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date;
- The Group has assumed that the €0.5 billion convertible bond that matures in November 2022 will be refinanced.

The Downside Case applies stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of existing travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case also models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case are delayed by a quarter under the Downside Case and would reach those of the Base Case at the end of the Going Concern period. In the Downside Case, over the going concern period capacity would be 17 per cent down on 2019. The Downside Case assumes that there would be no drawing on either of the RCF and the UKEF credit facility. The Directors consider the Downside Case to be a severe but plausible scenario.

In addition, the Group has sensitised the Downside Case to incorporate the occurrence of a two-month lockdown, and associated travel restrictions, during the second quarter of 2022, a scenario referred to as the Downside Lockdown Case. The Downside Lockdown Case is representative of the emergence of more virulent strains of COVID-19 and/or strains for which the efficacy of existing vaccines is reduced. The Downside Lockdown Case assumes that there would be full drawing on both the RCF and the UKEF credit facility. Subsequent to this lockdown, capacity is assumed to recover gradually over the going concern period and to only recover to the Base Case by the end of 2023. In this scenario, over the going concern period capacity would be 35 per cent down on 2019. Consistent with the Downside Case, the Directors consider the Downside Lockdown Case to be an alternative severe but plausible scenario.

Under all three scenarios modelled, the Group's limited financial covenants are forecast to be met.

The Group has modelled the impact of further deteriorations in capacity operated and yield, but also considered further mitigating actions, such as reducing operating and capital expenditure. 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, Downside Case, Downside Lockdown 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 the year to December 31, 2021.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the speed at which vaccines are deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Directors, therefore, are not able to provide certainty that there could not be a more severe downside scenario than those they have considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario were to occur, the Group may need to secure sufficient additional funding. Sources of additional funding are expected to include securing additional long-term financial facilities. However, the Group's ability to obtain this additional funding in the event of a more severe downside scenario represents a material uncertainty at February 24, 2022 that could cast significant doubt upon the Group's ability to continue as a going concern and therefore, to continue to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements for the year to December 31, 2021 do not include the adjustments that would result if the Group was unable to continue as a going concern.

## Consolidation

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

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

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

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

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

All 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 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 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.

## Segmental reporting

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

## Foreign currency translation

### a Functional and presentation currency

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

### b Transactions and balances

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

### c Group companies

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

## Property, plant and equipment

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

#### **a Capitalisation of interest on progress payments**

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

#### **b Fleet**

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

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

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

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

#### **c Other property, plant and equipment**

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

#### **d Leases**

The Group leases various aircraft, properties, 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 of time in exchange for consideration. The Group has elected not to apply such consideration where the contract relates to an intangible asset, 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 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.

The 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.

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.

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability 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. Where a sale has not occurred, the asset is retained on the balance sheet within Property, plant and equipment and an asset financed liability recognised equal to the financing proceeds. The principal criteria 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.

#### **Cash flow presentation**

Lease payments are presented as follows in the Consolidated cash flow statement: the proceeds received from sale and leaseback transactions are presented within cash flows from investing 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.

#### **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, 2021.

#### **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 United Kingdom and the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the United Kingdom 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, such that it has a surplus of allowances when compared to the amount required to discharge its obligations to the relevant authorities, these amounts are recognised at cost and recorded within Other intangible assets. Emissions allowances recorded within Other intangible assets are not revalued or amortised but are tested for impairment whenever

indicators exist that the carrying value may not be recoverable. Where an operating company has a deficit of allowances compared to the amount required to discharge its obligations to the relevant authorities, the Group recognises a provision for the outstanding amount, measured at the market price of such an allowance at 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 Other equity investments**

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

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

##### **b Interest-bearing deposits**

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

### c Derivative 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 revenues (denominated in US dollars, euros, Japanese yen and Chinese yuan), certain non-derivative repayment instalments on foreign currency-denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Revaluations arising from movements in foreign exchange rates are recorded within Other comprehensive income in the cash flow hedge reserve. Accumulated gains or losses within the cash flow hedge reserve are reclassified to Passenger revenue 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.

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.

The Group 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 the Group, 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)/credits.

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 revenue or 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;

- 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), 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. These gains or losses are recorded in the Income statement as the non-financial asset affects the Income statement (which for aircraft is through Depreciation over the expected life of the aircraft); 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 are given in note 28d.

#### **e 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.

#### **f 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 at 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.

#### **g Impairment of financial assets**

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

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.

#### **h 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 has 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 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.

### **Cash and cash equivalents**

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

### **Share-based payments**

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

### **Provisions**

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated 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 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, which occurs upon the provision of the service; and
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service.

#### **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 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 using 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:

#### **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 both the provision of 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 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 a defined 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 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, but 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; individual 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. While certain exceptional items may cover more than a single reporting period, such as significant restructuring events, they are non-recurring in nature.

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, 2021 the Group recognised €1,775 million in respect of employee benefit assets (2020 restated: €334 million) and €285 million in respect of employee benefit obligations (2020 restated: €477 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, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in 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 APS and 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 February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority (UKSA). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. Following consultation during 2020, on November 25, 2020 the UK Chancellor of the Exchequer and the UKSA confirmed that from February 2030 onwards CPIH will replace RPI with no compensation to holders of index-linked gilts.

Following the Chancellor of the Exchequer's announcement in September 2019 and through to December 31, 2021, market-implied breakeven RPI inflation forward rates for periods after 2030 have reduced in the investment market. Therefore, in assessing RPI and CPI from investment market data, allowance has been made for partial alignment between RPI and CPI from 2030 onwards.

## **b Revenue recognition**

At December 31, 2021 the Group recognised €6,552 million (2020: €5,130 million) in respect of deferred revenue on ticket sales of which €2,820 million (2020: €2,725 million) related to customer loyalty programmes.

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.

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 the points is based on the value of the Avios for which the points can be redeemed and is reduced to take account of the proportion of Avios that are not expected to be redeemed by customers.

The Group estimates the number of Avios not expected to be redeemed using modelling and historical experience. 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 €100 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

## **c Income taxes**

At December 31, 2021 the Group recognised €1,282 million in respect of deferred tax assets (2020: €1,075 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 income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management 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, 2021, the Group had unrecognised deferred tax assets of €2,458 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 €2,068 million.

## **d Impairment of non-financial assets**

At December 31, 2021 the Group recognised €2,439 million (2020: €2,390 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 note 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, 2021, the Group recognised €1,832 million in respect of maintenance, restoration and handback provisions (2020: €1,588 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, the effect of which is not considered to be material. The Group considers that there is no reasonably possible change to a single assumption that would have a material impact on the provisions, however a combination of changes in multiple assumptions may.

## 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.

### New standards, amendments and interpretations

The following amendments and interpretations apply for the first time in 2021, but do not have a material impact on the consolidated financial statements of the Group:

- COVID-19 related rent concessions beyond June 30, 2021 – Amendments to IFRS 16 Leases; and
- Interest rate benchmark reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 effective for periods beginning on or after January 1, 2021.

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 of 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:

- 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;
- Annual improvements to IFRS standards 2018-2020 – effective for periods beginning on or after January 1, 2022;
- Classification of liabilities as current or non-current – amendments to IAS 1 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.

## 3 Impact of COVID-19 on financial reporting

### Significant transactions and accounting estimates, assumptions and judgements in the determination of the impact of COVID-19

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2023. Accordingly, the Group has applied estimation and judgement in the evaluation of the impact of COVID-19 regarding the recognition and measurement of assets and liabilities within the Consolidated financial statements.

### Accounting estimates, assumptions and judgements – cash flow forecast estimation

The Group has applied estimation and judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved business plans. The details regarding the inputs and assumptions used in the determination of these cash flow forecasts are given in the going concern basis of preparation.

The following critical accounting estimates, assumptions and judgements utilise these cash flow forecasts consistently, which are in some instances significantly different from judgements applied in periods prior to the COVID-19 pandemic:

#### **a Discontinuance of hedge accounting**

In determining whether hedge accounting is required to be discontinued or to remain in a hedge relationship, judgement is required as to whether a forecast transaction that was previously highly probable continues to be expected to occur or is no longer expected to occur. The Group applied the capacity output from the cash flow forecasts as part of the approved business plans in order to determine the forecast level of revenue generation and fuel consumption over the periods in which hedge accounting has been applied.

In the year to December 31, 2021, the Group recognised a credit of €159 million (2020: expense of €1,756 million) arising 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 a credit of €162 million (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

Further information is given in the Alternative performance measures section.

#### **b Long-term fleet plans and associated impairment**

The Group derives long-term fleet plans from the cash flow forecasts arising from the approved business plans. In deriving the long-term fleet plans, the Group applies judgement with respect to consideration of the period of temporary and permanent grounding of fleet assets, the deferral of the delivery of certain aircraft and the assumptions around specific provisions relating to leased fleet assets.

During the year to December 31, 2021, the Group recognised impairment reversals of €21 million, represented by 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 following the successful slot allocation at Paris Orly and the resultant increased capacity. 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 impairment reversal, €9 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.

In the year to December 31, 2020 the Group recognised an impairment charge of €856 million, represented by an impairment of fleet assets of €837 million and an impairment of other assets of €19 million. The fleet impairment related to 82 aircraft, their associated engines and rotatable inventories that were stood down permanently and 2 further aircraft which were impaired down to their recoverable value at December 31, 2020, which includes 32 Boeing 747 aircraft, 23 Airbus A320 aircraft, 15 Airbus A340 aircraft, 4 Airbus A330-200 aircraft, 2 Airbus A318 aircraft, 1 Airbus A321 aircraft, 1 Airbus A319 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €676 million was recorded within Property, plant and equipment relating to owned aircraft and €161 million was recorded within Right of use assets relating to leased aircraft.

Further information is given in the Alternative performance measures section, note 13 and note 14.

#### **c Impairment testing of the Group's cash generating units**

Due to the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group has adopted a weighted average multi-scenario discounted cash flow model derived from the cash flow forecasts from the approved business plans. The Group exercises judgement in determining the weighting between these scenarios in the value-in-use model.

Having undertaken this impairment testing, in the year to December 31, 2021, the Group has not recognised any impairment charge (2020: €nil). While no impairment charge is arising, the headroom in the impairment test of the British Airways, Iberia and Aer Lingus cash generating units are particularly sensitive to changes in key assumptions. Further information is given in note 17.

#### **d Recoverability of deferred tax assets**

In determining the recoverable amounts of the Group's deferred tax assets, the Group applied the future cash flow projections from the approved business plans. Given the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group exercises judgement in the determination of cash flows during this recovery and subsequent periods.

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.

#### **Accounting estimates, assumptions and judgements - other transactions**

In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following accounting estimates, assumptions and judgements that impact the consolidated financial statements:

#### **e Revenue recognition**

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. Due to the significant level of flight cancellations arising from COVID-19 there remains insufficient historical data by which to reliably estimate the amount of these vouchers that will not be used prior to expiry and accordingly, the Group is unable to estimate with a sufficiently high degree of probability that there will not be a significant reversal of revenue in the future. As such, consistent with the approach taken at December 31, 2020, the Group does not recognise revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

Revenue associated with the issuance of Avios under customer loyalty programmes is determined using estimation techniques, with the transaction price based on the value for which the Avios can be redeemed and is reduced taking into consideration breakage. The Group estimates breakage using modelling and historical experience. 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 considers that the trends experienced since the start of the COVID-19 pandemic are not reflective of the long-term expected patterns of redemption, which the Group considers will return to pre-COVID-19 levels in the future. Accordingly, consistent with the approach taken at December 31, 2020, the Group has maintained breakage at the pre-COVID-19 levels.

### **Significant transactions as a result of COVID-19**

The Group has recorded the following additional significant transactions as a result of management actions in response to COVID-19:

#### **f Loans and borrowings**

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing arrangements during 2021, which have been fully drawn unless otherwise stated, including:

- 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. On November 1, 2021, British Airways entered into a further 5-year Export Development Guarantee Facility credit facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. At December 31, 2021 no amounts had been drawn under the facility;
- 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. The amount available under the facility is \$1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021;
- On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1.2 billion; €500 million fixed rate 2.75 per cent due in 2025, and €700 million fixed rate 3.75 per cent due in 2029;
- On December 23, 2020, Aer Lingus entered into a financing arrangement with the Ireland Strategic Investment Fund for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million. The facility is repayable in 2023;
- On May 18, 2021, the Group issued an €825 million senior unsecured convertible bond due 2028 and bearing a fixed rate of 1.125 per cent; and
- In April 2021, British Airways fully repaid the Coronavirus Corporate Finance Facility of €350 million (£300 million), which was entered into in April 2020.

Further information is given in note 25.

#### **g Government assistance**

Given the significant reduction in operations that have occurred during the COVID-19 pandemic, the Group has availed itself of the various employee support mechanisms in the jurisdictions in which it operates. This has led to an amount of €424 million being received directly from governments (classified as government grants) and savings of €135 million (classified as government assistance) where employees have been paid directly by their respective governments. Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 34.

#### **h Defined benefit pension scheme contributions**

On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between October 1, 2020 and January 31, 2021. The deferral of such contributions amounted to €165 million. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions through to September 30, 2021. The deferral of such contributions amounted to €330 million. Further information is given in note 32 on the deferral of contributions.

#### **i Renegotiation of Air Europa acquisition and subsequent termination**

On November 4, 2019, the Group entered into an agreement to acquire the entire share capital of Air Europa for €1 billion, subject to receipt of the approval by the European Commission. As a result of the impact COVID-19 has had on both the Group and Air Europa during 2020, on January 19, 2021, the Group announced the execution of an amended agreement to acquire the entire share capital of Air Europa, which resulted in the reduction of the purchase price to €500 million and deferred this payment until the sixth anniversary of the date of completion of the acquisition conditional on the satisfactory negotiation between Iberia and *Sociedad Estatal de Participaciones Industriales* or 'SEPI' (the Spanish state holding company that has a direct participation in Air Europa) regarding the non-financial terms associated with the financial support provided by SEPI to Air Europa.

On December 16, 2021, the Group announced that Iberia and Globalia had terminated the agreement regarding the acquisition of the share capital of Air Europa, with the Group paying €75 million. This payment is recorded in Other non-operating charges in the Income statement and was settled prior to December 31, 2021 and recorded within Other investing movements within the Statement of cash flows.

Further information is given in the Alternative performance measures section.



## 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 to ten per cent by 2030 and to fifty 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 Sustainable Aviation Fuel production facilities;
- Investment and improvements in air traffic management;
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and
- Effective market-based policy measures in addition to the EU and UK ETS and 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, their associated engines and rotatable 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 delivery of 110 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 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 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 of the three-year business plan 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 at the reporting date and have been excluded from these adjustments. These adjustments incorporate the increased utilisation of sustainable aviation fuel as well as price assumptions relating to sustainable aviation fuels and the price of carbon (both ETS and CORSIA), which are derived from externally sourced prices. Where the Group considers such costs will be recovered through increased passenger ticket fares, then a corresponding adjustment is made to increase passenger revenue.

As detailed in note 17, the Group applies a long-term growth rate to this adjusted three-year business plan, 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 impact arising from climate change. This demand impact is derived with reference to external market data.

Further, 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, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation/regulation regarding carbon pricing and/or alternative schemes not currently enacted, such as the implementation of kerosene taxes.

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 Trustees 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 impacts on both revenue and costs to the Group.

## **5 Segment information**

### **a Business segments**

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

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

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

The platform functions of the business primarily support the airline operations. These activities are not considered to be reportable operating segments as they either earn revenues incidental to the activities of the Group and resource allocation decisions are made based on the passenger business or are not reviewed regularly by the IAG MC and are included within Other Group companies.

For the year to December 31, 2021

€ million	2021					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	2,607	1,707	1,011	302	208	<b>5,835</b>
Cargo revenue	1,268	333	-	65	7	<b>1,673</b>
Other revenue	314	443	5	4	181	<b>947</b>
<b>External revenue</b>	<b>4,189</b>	<b>2,483</b>	<b>1,016</b>	<b>371</b>	<b>396</b>	<b>8,455</b>
Inter-segment revenue	129	301	-	5	370	<b>805</b>
<b>Segment revenue</b>	<b>4,318</b>	<b>2,784</b>	<b>1,016</b>	<b>376</b>	<b>766</b>	<b>9,260</b>
Depreciation and amortisation charge	(1,104)	(350)	(240)	(140)	(81)	<b>(1,915)</b>
Impairment (charge)/reversal	(30)	-	13	-	-	<b>(17)</b>
<b>Operating (loss)/profit</b>	<b>(2,041)</b>	<b>(220)</b>	<b>(233)</b>	<b>(338)</b>	<b>67</b>	<b>(2,765)</b>
Exceptional items <sup>2</sup>	151	14	29	9	2	<b>205</b>
<b>Operating (loss)/profit before exceptional items</b>	<b>(2,192)</b>	<b>(234)</b>	<b>(262)</b>	<b>(347)</b>	<b>65</b>	<b>(2,970)</b>
Net non-operating costs <sup>4</sup>						<b>(742)</b>
<b>Loss before tax</b>						<b>(3,507)</b>
Total assets <sup>3</sup>	20,891	6,919	2,671	1,820	2,105	<b>34,406</b>
Total liabilities	(18,795)	(7,062)	(3,364)	(1,806)	(2,533)	<b>(33,560)</b>

1 Includes eliminations on total assets of €16,023 million and total liabilities of €5,833 million.

2 For details on exceptional items refer to the Alternative performance measures section.

3 Included within total assets associated with Other Group companies is €4,527 million of Cash and cash equivalents.

4 Includes €75 million of exceptional items relating to the Air Europa termination settlement payment. Refer to note 3i for further information.

For the year to December 31, 2020

€ million	2020 <sup>1</sup>					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	3,242	1,148	577	376	169	5,512
Cargo revenue	994	224	-	88	-	1,306
Other revenue	232	605	5	-	146	988
<b>External revenue</b>	<b>4,468</b>	<b>1,977</b>	<b>582</b>	<b>464</b>	<b>315</b>	<b>7,806</b>
Inter-segment revenue	90	282	(8)	3	343	710
<b>Segment revenue</b>	<b>4,558</b>	<b>2,259</b>	<b>574</b>	<b>467</b>	<b>658</b>	<b>8,516</b>
Depreciation and amortisation charge	(1,214)	(370)	(277)	(133)	(84)	(2,078)
Impairment charge	(445)	(242)	(68)	(24)	(98)	(877)
<b>Operating loss</b>	<b>(4,403)</b>	<b>(1,411)</b>	<b>(875)</b>	<b>(563)</b>	<b>(199)</b>	<b>(7,451)</b>
Exceptional items <sup>2</sup>	(1,778)	(652)	(252)	(202)	(177)	(3,061)
<b>Operating loss before exceptional items</b>	<b>(2,625)</b>	<b>(759)</b>	<b>(623)</b>	<b>(361)</b>	<b>(22)</b>	<b>(4,390)</b>
Net non-operating costs						(376)
<b>Loss before tax</b>						<b>(7,827)</b>
Total assets <sup>3</sup>	17,759	7,009	2,850	1,814	884	30,316
Total liabilities <sup>3</sup>	(15,737)	(7,014)	(3,299)	(1,495)	(1,161)	(28,706)

1 Segment information for 2020 has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.

Further information is given in note 2 and 36.

2 For details on exceptional items refer to the Alternative performance measures section.

3 Includes eliminations on total assets of €14,998 million and total liabilities of €5,100 million.

## b Geographical analysis

### Revenue by area of original sale

€ million	Year to December 31	
	2021	2020
UK	2,435	2,390
Spain	2,189	1,845
USA	931	933
Rest of world	2,900	2,638
	<b>8,455</b>	<b>7,806</b>

### Assets by area

December 31, 2021

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

December 31, 2020

€ million	Property, plant and equipment	Intangible assets
	UK	11,313
Spain	4,850	1,353
USA	122	15
Rest of world	1,246	589
	<b>17,531</b>	<b>3,208</b>

## 6 Expenses by nature

### Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2021	2020
Depreciation charge on right of use assets	1,058	1,153
Depreciation charge on owned assets	638	720
Impairment (reversal)/charge on owned property, plant and equipment	(4)	681
Amortisation and impairment of intangible assets	178	196
Impairment charge on right of use assets	20	161
Depreciation charge on other leasehold assets	42	44
	<b>1,932</b>	<b>2,955</b>

Cost of inventories:

€ million	2021	2020
Cost of inventories recognised as an expense, principally fuel	1,038	1,405
Impairment charge on inventories <sup>1</sup>	-	71
	<b>1,038</b>	<b>1,476</b>

<sup>1</sup> For details regarding the impairment charge on inventories refer to note 3b.

## 7 Auditor's remuneration

The fees for the year ended December 31, 2021, 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 S.L. (2020: Ernst & Young S.L.), and by companies belonging to KPMG's network (2020: Ernst & Young's network), were as follows:

€'000	2021	2020
Fees payable for the audit of the Group and individual accounts	<b>4,860</b>	4,180
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	<b>532</b>	696
Other services pursuant to legislation	<b>431</b>	532
Other services relating to taxation	-	30
Other audit and assurance services	<b>569</b>	350
Services relating to working capital review	<b>776</b>	1,036
Services relating to corporate finance transactions	-	370
All other services	-	55
	<b>7,168</b>	7,249

The fees payable to the Group's auditor for the audit of the Group's pension scheme during the year totalled €182 thousand.

## 8 Employee costs and numbers

€ million	2021	2020
Wages and salaries	<b>2,135</b>	2,236
Social security costs	<b>307</b>	385
Costs related to pension scheme benefits <sup>1</sup>	<b>232</b>	272
Share-based payment charge/(credit)	<b>23</b>	(8)
Other employee costs <sup>2</sup>	<b>316</b>	700
Total employee costs	<b>3,013</b>	3,585

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

<sup>2</sup> Other employee costs include allowances and accommodation for crew.

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

	2021			2020		
	Average number of employees <sup>1</sup>	December 31, 2021		Average number of employees	December 31, 2020	
		Number of employees	Percentage of women		Number of employees	Percentage of women
In the air:						
Cabin crew	<b>9,304</b>	<b>17,865</b>	<b>70%</b>	7,689	17,946	71%
Pilots	<b>3,879</b>	<b>7,607</b>	<b>6%</b>	4,787	7,794	6%
On the ground:						
Airports	<b>6,728</b>	<b>12,842</b>	<b>37%</b>	8,841	14,339	39%
Corporate	<b>8,612</b>	<b>10,709</b>	<b>52%</b>	7,954	11,246	48%
Maintenance	<b>6,345</b>	<b>7,448</b>	<b>8%</b>	5,153	6,410	7%
Senior executives	<b>167</b>	<b>187</b>	<b>34%</b>	196	193	30%
	<b>35,035</b>	<b>56,658</b>	<b>42%</b>	34,620	57,928	

<sup>1</sup> The average number of employees excludes those employees 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 56,618.

The number of employees is based on actual headcount. The average manpower equivalent for 2021 was 50,222 (2020: 60,612), 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)/credits

### a Finance costs

€ million	2021	2020
Interest expense on:		
Bank borrowings	(133)	(45)
Asset financed liabilities	(65)	(41)
Lease liabilities	(408)	(442)
Provisions unwinding of discount	(12)	(14)
Other borrowings	(153)	(103)
Capitalised interest on progress payments	3	8
Other finance costs	(62)	(33)
	<b>(830)</b>	<b>(670)</b>

### b Finance income

€ million	2021	2020
Interest on other interest-bearing deposits	5	21
Other finance income	8	20
	<b>13</b>	<b>41</b>

### c Net financing (charge)/credit relating to pensions

€ million	2021	2020 <sup>1</sup>
Net financing (charge)/credit relating to pensions	(2)	12

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

### d Other non-operating charges

€ million	2021	2020
Gains on sale of property, plant and equipment and investments <sup>2</sup>	59	38
Credit related to equity investments (note 19)	-	1
Share of profits in investments accounted for using the equity method (note 18)	2	1
Realised gains/(losses) on derivatives not qualifying for hedge accounting	37	(13)
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	47	(31)
Air Europa termination settlement payment <sup>1</sup>	(75)	-
	<b>70</b>	<b>(4)</b>

<sup>1</sup> Refer to note 31 for further information in relation to the Air Europa termination settlement expense.

<sup>2</sup> Includes a gain of €24 million arising from the disposal of Compañía Auxiliar al Cargo Expres, 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	2021				2020 <sup>1</sup>			
	Income statement	Other comprehensive income	Recognised directly in equity	Total	Income statement	Other comprehensive income	Recognised directly in equity	Total
<b>Current tax</b>								
Movement in respect of prior years	10	-	(1)	<b>9</b>	6	-	-	6
Movement in respect of current year	(9)	5	-	<b>(4)</b>	273	(17)	-	256
<b>Total current tax</b>	<b>1</b>	<b>5</b>	<b>(1)</b>	<b>5</b>	<b>279</b>	<b>(17)</b>	<b>-</b>	<b>262</b>
<b>Deferred tax</b>								
Movement in respect of prior years	(23)	-	-	<b>(23)</b>	(8)	-	-	(8)
Movement in respect of current year	518	(420)	-	<b>98</b>	695	124	(2)	817
Rate change / rate differences	78	61	-	<b>139</b>	(74)	44	-	(30)
<b>Total deferred tax</b>	<b>573</b>	<b>(359)</b>	<b>-</b>	<b>214</b>	<b>613</b>	<b>168</b>	<b>(2)</b>	<b>779</b>
<b>Total tax</b>	<b>574</b>	<b>(354)</b>	<b>(1)</b>	<b>219</b>	<b>892</b>	<b>151</b>	<b>(2)</b>	<b>1,041</b>

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

The current tax credit in Other comprehensive income relates to the fair value movements on the convertible bond of €5 million (2020: €nil) and cash flow hedges of €nil (2020: €17 million).

Tax recognised directly in equity relates to share-based payment schemes of €1 million (2020: €2 million).

Within tax in Other comprehensive income is a tax charge of €123 million (2020: tax credit of €92 million) that may be reclassified to the Income statement and a tax charge of €231 million (2020: tax credit of €59 million) that will not.

### b Current tax (liability)/asset

€ million	2021	2020
Balance at January 1	<b>53</b>	(6)
Income statement	<b>1</b>	279
Other comprehensive income	<b>5</b>	(17)
Recognised directly in equity	<b>(1)</b>	-
Cash	<b>(63)</b>	(45)
Offset against other taxes <sup>1</sup>	-	(152)
Exchange movements and other	-	(6)
<b>Balance at December 31</b>	<b>(5)</b>	53
Current tax asset	<b>16</b>	101
Current tax liability	<b>(21)</b>	(48)
<b>Balance at December 31</b>	<b>(5)</b>	53

<sup>1</sup> During 2020 the Group elected, in the UK, to carry back losses and apply them to the 2019 taxable profits. This led to a €152 million corporate tax overpayment in relation to 2019, which HMRC offset against deferred liabilities arising in relation to other taxes. No such offset arose in 2021.

### c Deferred tax asset/(liability)

€ million	Fixed assets	Right of use assets	Lease liabilities	Employee leaving indemnities and others	Employee benefit plans <sup>1</sup>	Fair value gains/losses <sup>2</sup>	Share-based payment schemes	Tax loss carried forward and tax credits	Other temporary differences	Total
Balance at January 1, 2021	(589)	(248)	21	194	298	195	10	1,090	64	<b>1,035</b>
Income statement <sup>1</sup>	106	67	(3)	9	(11)	(14)	1	408	10	<b>573</b>
Other comprehensive income <sup>1,3</sup>	-	-	-	(9)	(237)	(133)	-	20	-	<b>(359)</b>
Recognised directly in equity	-	-	-	-	-	-	-	-	-	<b>-</b>
Exchange movements and other	6	(39)	1	2	12	9	-	55	(13)	<b>33</b>
<b>Balance at December 31, 2021</b>	<b>(477)</b>	<b>(220)</b>	<b>19</b>	<b>196</b>	<b>62</b>	<b>57</b>	<b>11</b>	<b>1,573</b>	<b>61</b>	<b>1,282</b>
Balance at January 1, 2020	(732)	(195)	24	312	323	70	19	401	34	256
Income statement	116	(76)	(2)	(120)	8	-	(6)	643	50	613
Other comprehensive income <sup>2</sup>	-	-	-	3	(9)	118	-	56	-	168
Recognised directly in equity	-	-	-	-	-	-	(2)	-	-	(2)
Exchange movements and other	27	23	(1)	(1)	(24)	7	(1)	(10)	(20)	-
Balance at December 31, 2020	(589)	(248)	21	194	298	195	10	1,090	64	1,035

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

2 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 2021 was €142 million (refer to note 28d).

3 Movements in Other comprehensive income relating to post-employment benefit obligations increase the Group's tax losses by €20 million (tax value) at December 31, 2021 and have therefore been disclosed as tax loss carried forward and tax credits in the above table.

€ million	2021	2020
Deferred tax asset	<b>1,282</b>	1,075
Deferred tax liability	-	(40)
<b>Balance at December 31</b>	<b>1,282</b>	1,035

The deferred tax assets mainly arise in Spain and the UK and are expected to reverse 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 tax credit on the loss for the year to December 31, 2021 (2020: loss) is lower (2020: lower) than the notional tax credit (2020: credit). The differences are explained below:

€ million	2021	2020 <sup>2</sup>
Accounting loss before tax	<b>(3,507)</b>	(7,827)
Weighted average tax credit of the Group <sup>1</sup>	<b>683</b>	1,619
Unrecognised losses and deductible temporary differences arising in the year	<b>(193)</b>	(342)
Disposal and write down of investments	<b>8</b>	(83)
Effect of tax rate changes	<b>78</b>	(74)
Prior year tax assets recognised/(derecognised)	<b>44</b>	(176)
Effect of lower tax rate in the Canary Islands	<b>(23)</b>	(40)
Movement in respect of prior years	<b>(13)</b>	(2)
Non-deductible expenses	<b>(15)</b>	(21)
Other items	<b>5</b>	11
<b>Tax credit in the Income statement</b>	<b>574</b>	892

1 The expected tax credit is calculated by aggregating the expected tax credits/(charges) arising in each company in the Group and changes each year as tax rates and profit mix change. The corporate tax rates for the Group's main countries of operation are Spain 25% (2020: 25%), the UK 19% (2020: 19%) and Ireland 12.5% (2020: 12.5%).

2 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.



## 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	2021	2020
Payroll-related taxes	310	400
UK Air Passenger Duty	204	307
	514	707

## f Factors that may affect future tax charges

### Unrecognised deductible temporary differences and losses

€ million	2021	2020
<i>Income tax losses</i>		
Spanish corporate income tax losses	1,993	848
Openskies SASU trading losses	390	450
UK trading losses	72	39
Other tax losses	3	-
	2,458	1,337
<i>Other losses and temporary differences</i>		
Spanish deductible temporary differences	648	1,287
UK capital losses	361	350
Irish capital losses	17	25
	1,026	1,662

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 €617 million (2020: €547 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 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 €78 million is recorded in the Income statement and a credit of €61 million 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. The new framework is expected to be enacted in 2022, and effective from 2023. The implications for the Group will be determined when the relevant legislation is available.

## g Tax-related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at December 31, 2021 amounted to €106 million (December 31, 2020: €166 million). No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liabilities is the following:

### Merger gain

Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The maximum exposure in this case is €95 million (December 31, 2020: €92 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to December 31, 2021.

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 the second half of 2022 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.

## 11 Earnings per share

€ million	2021	2020 <sup>1</sup>
Losses attributable to equity holders of the parent for basic losses	<b>(2,933)</b>	(6,935)
Diluted losses attributable to equity holders of the parent and diluted losses per share	<b>(2,933)</b>	(6,935)

	2021 Number '000	2020 Number '000 <sup>1</sup>
Weighted average number of ordinary shares in issue <sup>2</sup>	<b>4,963,945</b>	3,528,052
Weighted average number for diluted loss per share	<b>4,963,945</b>	3,528,052

€ cents	2021	2020 <sup>1</sup>
Basic loss per share	<b>(59.1)</b>	(196.6)
Diluted loss per share	<b>(59.1)</b>	(196.6)

1 Earnings per share information has been restated for the comparative period presented for the effects of the change in accounting policy in respect to pension administration costs (note 2).

2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 29).

The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes is antidilutive for the year to December 31, 2021, and therefore has not been included in the diluted loss per share calculation.

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

## 12 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2021 (2020: €nil). The dividend paid in the year to December 31, 2020 of €53 million relates to the withholding tax on the 2019 interim dividend, which was proposed in October 2019.

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 an agreement to defer £450 million of contributions that no dividends will be paid to IAG before 2024 and that any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

### 13 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at January 1, 2020	29,382	3,162	1,605	34,149
Additions	2,854	84	32	2,970
Modification of leases	21	16	(1)	36
Disposals	(3,878)	(95)	(50)	(4,023)
Reclassifications	(4)	8	(4)	-
Exchange movements	(1,439)	(193)	(81)	(1,713)
Balance at December 31, 2020	26,936	2,982	1,501	31,419
Additions	709	38	37	<b>784</b>
Modification of leases	236	(2)	(26)	<b>208</b>
Disposals	(3,035)	(74)	(135)	<b>(3,244)</b>
Reclassifications	(4)	-	(1)	<b>(5)</b>
Transfers to Non-current assets held for sale (note 16)	(111)	-	-	<b>(111)</b>
Exchange movements	1,265	181	74	<b>1,520</b>
<b>December 31, 2021</b>	<b>25,996</b>	<b>3,125</b>	<b>1,450</b>	<b>30,571</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2020	12,707	1,249	1,025	14,981
Depreciation charge for the year <sup>1</sup>	1,659	165	93	1,917
Impairment charge for the year <sup>1</sup>	820	-	22	842
Disposals	(2,886)	(52)	(44)	(2,982)
Exchange movements	(729)	(80)	(61)	(870)
Balance at December 31, 2020	11,571	1,282	1,035	13,888
Depreciation charge for the year	1,500	154	84	<b>1,738</b>
Impairment (reversal)/charge for the year <sup>1</sup>	(3)	19	-	<b>16</b>
Disposals	(2,699)	(63)	(105)	<b>(2,867)</b>
Modification of leases	-	-	(14)	<b>(14)</b>
Transfers to Non-current assets held for sale (note 16)	(91)	-	-	<b>(91)</b>
Exchange movements	602	81	57	<b>740</b>
<b>December 31, 2021</b>	<b>10,880</b>	<b>1,473</b>	<b>1,057</b>	<b>13,410</b>
1 For details regarding the impairment reversal on fleet assets refer to note 3 and the Alternative performance measures section. For details regarding the operating segment in which the impairment charges arose, refer to note 5. In 2021, certain of the impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed. In addition, certain fleet assets in 2020 were impaired down to their fair value, which was determined based on independent appraisals of their market value.				
<b>Net book values</b>				
<b>December 31, 2021</b>	<b>15,116</b>	<b>1,652</b>	<b>393</b>	<b>17,161</b>
December 31, 2020	15,365	1,700	466	17,531
<b>Analysis at December 31, 2021</b>				
Owned	5,736	916	330	<b>6,982</b>
Right of use assets (note 14)	8,626	640	37	<b>9,303</b>
Progress payments	748	96	26	<b>870</b>
Assets not in current use	6	-	-	<b>6</b>
<b>Property, plant and equipment</b>	<b>15,116</b>	<b>1,652</b>	<b>393</b>	<b>17,161</b>
<b>Analysis at December 31, 2020</b>				
Owned	5,457	920	382	6,759
Right of use assets (note 14)	9,124	695	56	9,875
Progress payments	710	85	28	823
Assets not in current use	74	-	-	74
Property, plant and equipment	15,365	1,700	466	17,531

The net book value of property comprises:

€ million	2021	2020
Freehold	495	485
Right of use assets (note 14)	640	695
Long leasehold improvements >50 years	311	297
Short leasehold improvements <50 years	206	223
<b>Property</b>	<b>1,652</b>	<b>1,700</b>

At December 31, 2021, bank and other loans of the Group are secured on owned fleet assets with a net book value of €3,081 million (2020: €2,794 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
<b>Cost</b>				
Balance at January 1, 2020	13,854	882	123	14,859
Additions	1,194	58	1	1,253
Modifications of leases	21	16	(1)	36
Disposals	(77)	(6)	(22)	(105)
Reclassifications <sup>1</sup>	(389)	-	3	(386)
Exchange movements	(595)	(57)	(5)	(657)
<b>December 31, 2020</b>	<b>14,008</b>	<b>893</b>	<b>99</b>	<b>15,000</b>
Additions	240	15	-	255
Modification of leases	236	(2)	(26)	208
Disposals	(72)	(12)	(1)	(85)
Reclassifications <sup>1</sup>	(759)	-	-	(759)
Exchange movements	565	55	2	622
<b>December 31, 2021</b>	<b>14,218</b>	<b>949</b>	<b>74</b>	<b>15,241</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2020	4,108	108	55	4,271
Depreciation charge for the year	1,035	103	15	1,153
Impairment charge for the year <sup>2</sup>	161	-	-	161
Disposals	(53)	(5)	(22)	(80)
Reclassifications <sup>1</sup>	(166)	-	(3)	(169)
Exchange movements	(201)	(8)	(2)	(211)
<b>December 31, 2020</b>	<b>4,884</b>	<b>198</b>	<b>43</b>	<b>5,125</b>
Depreciation charge for the year	963	87	8	1,058
Impairment charge for the year <sup>2</sup>	4	16	-	20
Disposals	(71)	(4)	(1)	(76)
Modification of leases	-	-	(14)	(14)
Reclassifications <sup>1</sup>	(394)	-	-	(394)
Exchange movements	206	12	1	219
<b>December 31, 2021</b>	<b>5,592</b>	<b>309</b>	<b>37</b>	<b>5,938</b>
<b>Net book value</b>				
<b>December 31, 2021</b>	<b>8,626</b>	<b>640</b>	<b>37</b>	<b>9,303</b>
December 31, 2020	9,124	695	56	9,875

1 Amounts with a net book value of €365 million (2020: €217 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 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	2021	2020
January 1	10,024	11,046
Additions	310	1,179
Modifications of leases	208	20
Repayments	(1,855)	(1,919)
Interest expense	400	442
Disposals	(8)	-
Exchange movements	558	(744)
<b>December 31</b>	<b>9,637</b>	<b>10,024</b>
<b>Current</b>	<b>1,521</b>	<b>1,560</b>
<b>Non-current</b>	<b>8,116</b>	<b>8,464</b>

#### b Amounts recognised in the Consolidated income statement

€ million	2021	2020
<i>Amounts not included in the measurement of lease liabilities</i>		
Variable lease payments	1	1
Expenses relating to short-term leases	26	42
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-
<i>Amounts expensed as a result of the recognition of ROU assets and lease liabilities</i>		
Interest expense on lease liabilities	400	442
Gain arising from sale and leaseback transactions	(6)	(10)
Depreciation charge for the year	1,058	1,153
Impairment charge for the year	20	161

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 2021 has been a credit of €8 million (2020: credit of €2 million) reflecting the changes to lease payments that arose from such concessions.

#### c Amounts recognised in the Consolidated cash flow statement

The Group had total cash outflows for leases of €1,912 million in 2021 (2020: €1,997 million).

The Group had total cash inflows associated with sale and leaseback transactions of €213 million in 2021 (2020: €898 million).

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2021, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed, of €nil (2020: €183 million).

#### 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) as at December 31, 2021, for which no amount has been recognised, for potential extension options of €795 million (2020: €998 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.

### Operating leases

Rental income from operating leases recognised by the Group in 2021 was €nil (2020: €nil). Rental income is recorded within Property, IT and other within the Income statement.

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

€ million	2021	2020
Within one year	4	-
One to two years	5	-
Two to five years	2	-
More than five years	-	-
<b>Total</b>	<b>11</b>	-

## 15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,911 million (December 31, 2020: €10,545 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €10,813 million for the acquisition of 22 Airbus A320s (from 2022 to 2025), 34 Airbus A321s (from 2022 to 2024), 26 Airbus A350s (from 2022 to 2025), 18 Boeing 777-9s (from 2025 to 2027) and 10 Boeing 787s (from 2022 to 2024). 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, 2021.

## 16 Non-current assets held for sale

The non-current assets held for sale of €20 million represent three Airbus A321-200 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 will exit the business within 12 months of December 31, 2021.

## 17 Intangible assets and impairment review

### a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights <sup>1</sup>	Software	Other	Total
<b>Cost</b>							
Balance at January 1, 2020	598	451	253	1,616	1,376	282	4,576
Additions	-	-	-	-	141	51	192
Disposals	-	-	-	-	(18)	(121)	(139)
Reclassifications	-	-	-	-	43	(46)	(3)
Exchange movements	(5)	-	-	(61)	(68)	(5)	(139)
Balance at December 31, 2020	593	451	253	1,555	1,474	161	4,487
Additions	-	-	-	-	149	34	<b>183</b>
Disposals	-	-	-	(6)	(19)	(49)	<b>(74)</b>
Exchange movements	3	-	-	56	70	3	<b>132</b>
<b>December 31, 2021</b>	<b>596</b>	<b>451</b>	<b>253</b>	<b>1,605</b>	<b>1,674</b>	<b>149</b>	<b>4,728</b>
<b>Amortisation and impairment</b>							
Balance at January 1, 2020	249	-	-	115	710	60	1,134
Amortisation charge for the year	-	-	-	6	151	4	161
Impairment charge for the year	-	-	-	15	20	-	35
Disposals	-	-	-	-	(7)	-	(7)
Exchange movements	-	-	-	(4)	(38)	(2)	(44)
Balance at December 31, 2020	249	-	-	132	836	62	1,279
Amortisation charge for the year	-	-	-	6	167	5	<b>178</b>
Disposals	-	-	-	-	(13)	-	<b>(13)</b>
Exchange movements	-	-	-	4	42	(1)	<b>45</b>
<b>December 31, 2021</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>1,032</b>	<b>66</b>	<b>1,489</b>
<b>Net book values</b>							
<b>December 31, 2021</b>	<b>347</b>	<b>451</b>	<b>253</b>	<b>1,463</b>	<b>642</b>	<b>83</b>	<b>3,239</b>
December 31, 2020	344	451	253	1,423	638	99	3,208

<sup>1</sup> The net book value includes non-UK and non-EU based landing rights of €75 million (2020: €81 million) that have a definite life. The remaining average life of these landing rights is 14 years.

## b Impairment review

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

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

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
<b>2020</b>					
<b>Iberia</b>					
January 1 and December 31, 2020	-	423	306	-	729
<b>British Airways</b>					
January 1, 2020	49	816	-	-	865
Exchange movements	(5)	(53)	-	-	(58)
December 31, 2020	44	763	-	-	807
<b>Vueling</b>					
January 1 and December 31, 2020	28	94	35	-	157
<b>Aer Lingus</b>					
January 1 and December 31, 2020	272	62	110	-	444
<b>IAG Loyalty</b>					
January 1 and December 31, 2020	-	-	-	253	253
<b>Other CGUs</b>					
January 1, 2020	-	12	-	-	12
Impairment charge for the year	-	(12)	-	-	(12)
January 1 and December 31, 2020	-	-	-	-	-
December 31, 2020	344	1,342	451	253	2,390



## Basis for calculating recoverable amount

The recoverable amounts of 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, 20 per cent to the downside case and 10 per cent to the downside lockdown 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 terminal 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 agreements.

## Key assumptions

The value-in-use calculations for each CGU reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity from 2022 through to the end of 2024 and an increase in the pre-tax discount rates to incorporate increased equity market volatility. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

Per cent	2021				
	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin <sup>1</sup>	3-13	2-12	2-11	0-14	22-24
ASKs as a proportion of 2019 <sup>1,2</sup>	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

  

Per cent	2020				
	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin <sup>1</sup>	(20)-16	(12)-11	(22)-12	(14) -13	25-27
ASKs as a proportion of 2019 <sup>1,2</sup>	45-95	49-98	46-107	40-100	n/a
Long-term growth rate	2.1	2.0	1.8	1.9	2.0
Pre-tax discount rate	11.2	11.6	11.5	10.4	10.3

1 Operating margin and ASKs as a proportion of 2019 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
<b>2021</b>	<b>690</b>	<b>673</b>	<b>659</b>	<b>659</b>
2020	373	420	449	449

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 based on the forecast weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). 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 Business plan and reflect management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is derived from both market data and the Group's existing debt structure. 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 of level of fuel derivatives and their associated prices that the Group has in place.

## Summary of results

At December 31, 2021 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 per cent 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 lockdown case, and increasing the fuel price by 40 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 €3,402 million, €2,166 million, €2,271 million and €1,614 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes 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 of 4 per cent; (ii) if ASKs had been five per cent lower combined with a reduction of the long-term growth rate to 1.3 per cent; (iii) if operating margin had been two percentage points lower; and (iv) if the fuel price had been 11 per cent higher;
- *Iberia*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 15 per cent; and (ii) if the fuel price had been 21 per cent higher;
- *Vueling*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 32 per cent; and (ii) if the fuel price had been 39 per cent higher; and
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 23 per cent; and (ii) if the fuel price had been 31 per cent higher.

For the remainder of the reasonable possible changes in key assumptions applied to the British Airways, Iberia and Aer Lingus CGUs and for all the reasonable possible changes in key assumptions applied to the remaining CGUs, no impairment arises.

For impairment charges, and impairment reversals, recognised in relation to landing rights and fleet assets stood down permanently at December 31, 2021 and December 31, 2020, refer to note 3 and the Alternative performance measures section.

## 18 Investments

### a Investments in subsidiaries

The Group's subsidiaries at December 31, 2021 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, 2021 is €6 million (2020: €6 million).

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

### b Investments in associates and joint ventures

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

€ million	2021	2020
Total assets	115	73
Total liabilities	(85)	(50)
Revenue	64	22
Profit for the year	2	1

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

€ million	2021	2020
At beginning of year	29	31
Additions	9	-
Share of retained profits	2	1
Dividends received	(1)	(3)
Exchange movements	1	-
	40	29

At December 31, 2021 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, 2021 and December 31, 2020 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	2021	2020
Unlisted securities	31	29
	31	29

The credit relating to other equity investments was €nil (2020: €1 million).

## 20 Trade and other receivables

€ million	2021	2020
<b>Amounts falling due within one year</b>		
Trade receivables	850	682
Provision for expected credit loss	(115)	(125)
Net trade receivables	735	557
Prepayments and accrued income	764	596
Other non-trade receivables	196	196
	1,695	1,349
<b>Amounts falling due after one year</b>		
Prepayments and accrued income	248	226
Other non-trade receivables	2	2
	250	228

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

€ million	2021	2020
At beginning of year	125	113
Provided during the year	8	18
Released during the year	(11)	(2)
Receivables written off during the year	(10)	(1)
Exchange movements	3	(3)
	115	125

Trade receivables are generally non-interest-bearing and on 30 days terms (2020: 30 days).

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

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%
<b>Provision for expected credit loss</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>111</b>

December 31, 2020

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	345	114	88	11	124
Expected credit loss rate	0.9%	0.2%	1.1%	72.7%	91.1%
Provision for expected credit loss	3	-	1	8	113

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

€ million	2021	2020
Cash at bank and in hand	2,569	1,882
Short-term deposits maturing within three months	5,323	3,892
Cash and cash equivalents	7,892	5,774
Current interest-bearing deposits maturing after three months	51	143
Cash, cash equivalents and other interest-bearing deposits	7,943	5,917

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, 2021 the Group had no outstanding bank overdrafts (2020: 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, 2021 Aer Lingus held €35 million of restricted cash (2020: €38 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, 2021	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at December 31, 2021
Bank, other loans, asset financed liabilities and other financing liabilities	5,655	4,033	261	-	24	<b>9,973</b>
Lease liabilities	10,024	(1,481)	559	518	17	<b>9,637</b>
Cash and cash equivalents	(5,774)	(1,913)	(205)	-	-	<b>(7,892)</b>
Current interest-bearing deposits	(143)	91	1	-	-	<b>(51)</b>
	<b>9,762</b>	<b>730</b>	<b>616</b>	<b>518</b>	<b>41</b>	<b>11,667</b>

€ million	Balance at January 1, 2020	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at December 31, 2020
Bank, other loans and asset financed liabilities	3,208	2,589	(227)	-	85	5,655
Lease liabilities	11,046	(1,536)	(726)	1,179	61	10,024
Cash and cash equivalents	(4,062)	(1,940)	228	-	-	(5,774)
Current interest-bearing deposits	(2,621)	2,366	112	-	-	(143)
	7,571	1,479	(613)	1,179	146	9,762

## 22 Trade and other payables

€ million	2021	2020
Trade creditors <sup>1</sup>	<b>2,068</b>	1,609
Other creditors	<b>898</b>	679
Other taxation and social security	<b>176</b>	149
Accruals and deferred income	<b>570</b>	373
	<b>3,712</b>	2,810

<sup>1</sup> Trade creditors includes €89 million (2020: €55 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 rates between 1.5 per cent and 3.0 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, 2021 these liabilities met these criteria of Trade creditors and are excluded from the Net debt table in note 21a.

### Average payment days to suppliers - Spanish Group companies

Days	2021	2020
Average payment days for payment to suppliers	<b>34</b>	43
Ratio of transactions paid	<b>32</b>	36
Ratio of transactions outstanding for payment	<b>78</b>	135

€ million	2021	2020
Total payments made	<b>3,945</b>	3,694
Total payments outstanding	<b>147</b>	293

## 23 Deferred revenue on ticket sales

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

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2020	1,917	3,569	5,486
Changes in estimates	-	291	291
Revenue recognised in the Income statement <sup>1,2</sup>	(260)	(6,032)	(6,292)
Loyalty points issued to customers	361	8	369
Cash received from customers <sup>3,4</sup>	850	4,714	5,564
Exchange movements	(143)	(145)	(288)
Balance at December 31, 2020	2,725	2,405	5,130
Analysis:			
Current	2,252	2,405	4,657
Non-current	473	-	473
	2,725	2,405	5,130

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

2 Included within revenue recognised in the Income statement during 2021 is an amount of €780 million previously held as deferred revenue at January 1, 2021 (recognised during 2020 previously held as deferred revenue at January 1, 2020: €2,006 million).

3 Included within cash received from customers at December 31, 2021 is an amount of €nil (December 31, 2020: €830 million) received from American Express upon signing of the multi-year commercial partnership renewal with IAG Loyalty and which unwinds over the duration of the contract term as the associated performance obligations are fulfilled.

4 Cash received from customers is net of refunds.

The unsatisfied performance obligation under the Group's customer loyalty programmes that is classified as non-current was €391 million at December 31, 2021. Of this amount, €279 million is expected to be recognised as revenue in 1 to 5 years from the reporting date and €112 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. Avios do not have an expiry date and can be redeemed at any time in the future. Revenue may therefore be recognised at any time in the future.

Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period, however, with the significant disruption caused by the COVID-19 pandemic, the Group has extended the expiry period up to 24 months after the planned travel date, depending on the operating company. 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. Vouchers are presented within sales in advance of carriage.

## 24 Other long-term liabilities

€ million	2021	2020
Non-current trade creditors	121	49
Accruals and deferred income	87	91
	<b>208</b>	140

## 25 Long-term borrowings

### a Total borrowings

€ million	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Bank and other loans	761	6,724	7,485	90	2,950	3,040
Bank and other loans less than 12 months <sup>1</sup>	-	-	-	329	-	329
Asset financed liabilities	171	2,244	2,415	139	2,050	2,189
Other financing liabilities <sup>2</sup>	73	-	73	97	-	97
Lease liabilities	1,521	8,116	9,637	1,560	8,464	10,024
Interest-bearing borrowings	<b>2,526</b>	<b>17,084</b>	<b>19,610</b>	2,215	13,464	15,679

1 Bank and other loans less than 12 months represents borrowings with a term on inception of less than 12 months in duration.

2 Other financing liabilities include sale and repurchase agreements entered into during the course of 2020 and 2021 with regard to emission allowances and represents the amount the Group expects to repurchase during the course of 2021 and 2022, respectively.

Long-term borrowings of the Group amounting to €2,434 million (December 31, 2020: €2,412 million) are secured on owned fleet assets with a net book value of €2,938 million (December 31, 2020: €2,794 million). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

### b Bank and other loans

€ million	2021	2020
Floating rate GBP term loan guaranteed by UKEF <sup>1</sup>	2,358	-
Floating rate ICO guaranteed loans <sup>2</sup>	1,095	1,009
€825 million fixed rate 1.125 per cent convertible bond 2028 <sup>3</sup>	757	-
€700 million fixed rate 3.75 per cent unsecured bond 2029 <sup>4</sup>	710	-
€500 million fixed rate 2.75 per cent unsecured bond 2025 <sup>4</sup>	508	-
€500 million fixed rate 0.50 per cent bond 2023 <sup>5</sup>	499	498
€500 million fixed rate 1.50 per cent bond 2027 <sup>5</sup>	498	497
€500 million fixed rate 0.625 per cent convertible bond 2022 <sup>6</sup>	491	480
Floating rate euro mortgage loans secured on aircraft <sup>7</sup>	171	198
ISIF facility <sup>8</sup>	149	75
Fixed rate unsecured bonds <sup>9</sup>	138	137
Fixed rate unsecured US dollar mortgage loan <sup>10</sup>	85	97
Fixed rate Chinese yuan mortgage loans secured on aircraft <sup>11</sup>	11	25
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) <sup>12</sup>	15	24
CCFF pound sterling commercial paper <sup>13</sup>	-	329
	<b>7,485</b>	3,369
Less current instalments due on bank and other loans	<b>(761)</b>	(419)
	<b>6,724</b>	2,950

1. On February 22, 2021, British Airways entered into a 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 €1.2 million (£1.0 billion) unwritten 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, 2021. The annual rate of interest associated with the UKEF is consistent with the prevailing market rate of interest at the time of executing the term loan.

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 between 2023 and 2025. 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. 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, 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.

4. 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.
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. Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 40,306,653 options related to the bond were outstanding at December 31, 2021.
7. Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.04 and 1.01 per cent. The loans are repayable between 2024 and 2027.
8. 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. The facility is repayable in 2023.
9. Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.
10. 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.
11. Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.
12. Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2021 and 2028.
13. On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility (CCFF) implemented by the Government of the United Kingdom. Under the CCFF, British Airways issued commercial paper to the Government of the United Kingdom of €350 million (£300 million). This loan was repaid in April 2021.

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. The amount available under the facility is \$1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had \$786 million undrawn and available at December 31, 2020. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft in the respective operating companies.

#### **Details of the 2028 convertible bond**

The convertible bond provides bondholders with dividend protection and includes a total of 244,850,715 options at inception and at December 31, 2021 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, 2021 was €756 million, representing a decrease of €69 million since issuance. Of this decrease, the amount recorded in Other comprehensive income arising from credit risk of the convertible bonds was €20 million and a credit recorded within Finance costs in the Income statement attributable to changes in market conditions of €89 million.

#### **Transactions with unconsolidated entities**

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, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). 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, 2021, Asset financed liabilities include cumulative amounts of €1,489 million (2020: €1,312 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, 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	-	-	(268)	(268)
<b>Total changes from financing cash flows</b>	<b>4,033</b>	<b>(1,481)</b>	<b>(268)</b>	<b>2,284</b>
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
Effect of changes in foreign exchange rates	261	559	-	820
<b>Balance at December 31, 2021</b>	<b>9,973</b>	<b>9,637</b>	<b>(136)</b>	<b>19,474</b>

€ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Share capital / premium	Total
Balance at January 1, 2020	3,208	11,046	128	6,323	20,705
Proceeds from borrowings	3,567	-	-	-	3,567
Repayment of borrowings	(978)	-	-	-	(978)
Repayment of lease liabilities	-	(1,536)	-	-	(1,536)
Proceeds from rights issue	-	-	-	2,674	2,674
Settlement of derivative financial instruments	-	-	59	-	59
Total changes from financing cash flows	2,589	(1,536)	59	2,674	3,786
Interest paid	(117)	(421)	(15)	-	(553)
Interest expense	108	445	-	-	553
New leases and lease modifications	-	1,179	-	-	1,179
Fair value movements	-	-	273	-	273
Other non-cash movements	94	37	(16)	-	115
Effect of changes in foreign exchange rates	(227)	(726)	-	-	(953)
Total financial liability-related other changes	(142)	514	242	-	614
Total other related movements	-	-	-	(730)	(730)
Balance at December 31, 2020	5,655	10,024	429	8,267	24,375



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

Million	2021	2020
<b>Loans</b>		
Bank:		
US dollar	\$98	\$121
Euro	€1,430	€1,303
Pound sterling	£2,003	£299
Chinese yuan	CNY 78	CNY 201
	€3,883	€1,756
Fixed rate bonds:		
Euro	€3,602	€1,613
	€3,602	€1,613
<b>Asset financed liabilities</b>		
US dollar	\$2,192	\$2,080
Euro	€408	€448
Japanese yen	¥8,226	¥4,883
	€2,415	€2,189
<b>Other financing liabilities</b>		
Euro	€73	€97
	€73	€97
<b>Lease liabilities</b>		
US dollar	\$7,709	\$8,436
Euro	€1,547	€1,858
Japanese yen	¥75,450	¥74,734
Pound sterling	£569	£608
	€9,637	€10,024
<b>Total interest-bearing borrowings</b>	<b>€19,610</b>	<b>€15,679</b>

## 26 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee-related provisions	Legal claims and contractual disputes provisions	Other provisions	Total
Net book value January 1, 2021	1,588	432	714	84	94	<b>2,912</b>
Reclassifications	(2)	-	-	(7)	-	<b>(9)</b>
Provisions recorded during the year	267	30	66	85	63	<b>511</b>
Utilised during the year	(101)	(171)	(30)	(57)	(62)	<b>(421)</b>
Release of unused amounts	(41)	(22)	-	(18)	(16)	<b>(97)</b>
Unwinding of discount	10	-	2	-	-	<b>12</b>
Remeasurements	-	-	(34)	-	-	<b>(34)</b>
Exchange differences	111	5	2	3	4	<b>125</b>
<b>Net book value December 31, 2021</b>	<b>1,832</b>	<b>274</b>	<b>720</b>	<b>90</b>	<b>83</b>	<b>2,999</b>
Analysis:						
Current	431	142	59	69	31	<b>732</b>
Non-current	1,401	132	661	21	52	<b>2,267</b>
	<b>1,832</b>	<b>274</b>	<b>720</b>	<b>90</b>	<b>83</b>	<b>2,999</b>

### 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 ended December 31, 2020, which have subsequently been stood back up with a resultant impairment reversal during the year ended December 31, 2021.

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 2021, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.00 per cent. The payments related to this provision will continue over the next eight years.

At December 31, 2021, €270 million of this provision related to collective redundancy programmes (2020: €428 million).

### Employee leaving indemnities and other employee-related provisions

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

The Group recognises a provision relating to flight crew who, having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2021 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.91 per cent and 0.00 per cent (2020: iBoxx index of 0.37 per cent and 0.00 per cent) depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 2 per cent annual increase in the Consumer Price Index (CPI) in 2022 and 1.5 per cent in 2023. 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 €644 million at December 31, 2021 (2020: €654 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 its operations, including claims for additional holiday pay and for age discrimination;
- amounts related to ongoing contractual disputes arising from the Group's ongoing provisions; and
- amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

The final amount required to pay the remaining claims and fines is subject to uncertainty.

### Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO<sub>2</sub> emitted on flights within the United Kingdom and the EU in excess of the relevant United Kingdom and EU Emission Allowances granted.

## 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 impact 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 (previously three years) within the approved hedging profile.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity<sup>1</sup>:

2021			2020		
Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	-	834	30	189	525
(30)	-	(520)	(30)	(219)	(664)

<sup>1</sup> The sensitivity analysis on equity excludes the sensitivity amounts recognised in the result before tax.

During the year to December 31, 2021, following a substantial recovery in the global price of crude oil, the fair value of such net asset derivative instruments was €288 million at December 31, 2021, representing an increase of €1,066 million since January 1, 2021. Since the outbreak of COVID-19, a significant proportion of the associated hedge relationships are no longer expected to occur and subsequently fuel hedge accounting was discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 3, a further €72 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs in the year to December 31, 2021.

The gain arising from the derecognition of fuel hedges has been recorded as an exceptional item. Refer to Alternative performance measures section for further details.

### 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 currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge 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, with all other variables held constant on result before tax and equity<sup>1</sup>. The sensitivity analysis has been performed on interest-bearing liabilities, lease liabilities and derivatives (both designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies, with the disclosure for 2020 updated to align with the current methodology. The methodology has been updated to better reflect the foreign exchange exposures arising from the Group's operations.

	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
<b>2021</b>	<b>10</b>	<b>255</b>	<b>523</b>	<b>10</b>	<b>(10)</b>	<b>134</b>	<b>10</b>	<b>(17)</b>	<b>(41)</b>
	<b>(10)</b>	<b>(260)</b>	<b>(481)</b>	<b>(10)</b>	<b>10</b>	<b>(134)</b>	<b>(10)</b>	<b>17</b>	<b>41</b>
2020	10	234	283	10	9	(167)	10	(16)	(42)
	(10)	(273)	(345)	(10)	(9)	157	(10)	16	42

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

At December 31, 2021, the fair value of foreign currency net asset derivative instruments was €185 million, representing an increase of €652 million since January 1, 2021. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception. As per the fuel price risk above, a significant proportion of the derivatives designated in hedge relationships have no longer been expected to occur and subsequently hedge accounting has been discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 3, a further €5 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue. 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. Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars.

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and sterling interest rates, on result before tax and equity<sup>1</sup>:

	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
<b>2021</b>	<b>50</b>	-	-	<b>50</b>	<b>3</b>	<b>10</b>	<b>50</b>	<b>(2)</b>	-
	<b>(50)</b>	-	-	<b>(50)</b>	<b>(3)</b>	<b>(9)</b>	<b>(50)</b>	<b>2</b>	-
2020	50	-	-	50	9	(8)	50	-	-
	(50)	-	-	(50)	(9)	7	(50)	-	-

<sup>1</sup> 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, 2021 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography	
	2021	2020
United Kingdom	<b>44%</b>	53%
Spain	-	3%
Ireland	<b>18%</b>	7%
Rest of Eurozone	<b>34%</b>	16%
Rest of world	<b>4%</b>	21%

## 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, 2021 the Group had undrawn overdraft facilities of €53 million (2020: €52 million). The Group held undrawn uncommitted money market lines of €nil (2020: €nil).

The Group held undrawn general and committed aircraft financing facilities:

Million	2021	
	Currency	€ equivalent
<i>General facilities<sup>1</sup></i>		
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
Pound sterling facility expiring November 2025	£1,000	1,177
US dollar facility expiring March 2024	\$1,755	1,556
		<b>2,864</b>
<i>Committed aircraft facilities</i>		
US dollar facility expiring September 2022 <sup>2</sup>	\$635	563
US dollar facilities expiring March 2024 <sup>3</sup>	\$635	563
		<b>1,126</b>

Million	2020	
	Currency	€ equivalent
<i>General facilities<sup>1</sup></i>		
Euro facilities expiring between January and June 2021	€126	126
Euro facilities expiring between January and July 2022	€95	95
US dollar facility expiring June 2021	\$786	643
US dollar facility expiring May 2022	\$50	41
		<b>905</b>
<i>Committed aircraft facilities</i>		
US dollar facility expiring March 2021 <sup>2</sup>	\$428	351
US dollar facilities expiring July 2023 <sup>3</sup>	\$1,013	829
		<b>1,180</b>

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 facility maturing in 2022 is available for specific committed aircraft deliveries and further information is given in note 25b.

3 The aircraft facilities maturing in 2024 (2020: maturing in 2023) 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 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(122)	(116)	(230)	(678)	(1,714)	<b>(2,860)</b>
Lease liabilities	(920)	(854)	(1,814)	(3,839)	(5,524)	<b>(12,951)</b>
Fixed rate borrowings	(151)	(529)	(578)	(690)	(2,094)	<b>(4,042)</b>
Floating rate borrowings	(129)	(285)	(428)	(3,368)	(16)	<b>(4,226)</b>
Other financing liabilities	(73)	-	-	-	-	<b>(73)</b>
Trade and other payables	(3,712)	-	(208)	-	-	<b>(3,920)</b>
Derivative financial instruments (assets):						
Interest rate derivatives	-	1	2	3	-	<b>6</b>
Foreign exchange contracts	227	52	46	1	-	<b>326</b>
Fuel derivatives	157	129	48	-	-	<b>334</b>
Derivative financial instruments (liabilities):						
Interest rate derivatives	(12)	(10)	(7)	(3)	-	<b>(32)</b>
Foreign exchange contracts	(67)	(38)	(33)	(6)	-	<b>(144)</b>
Fuel derivatives	(14)	(13)	(18)	-	-	<b>(45)</b>
<b>December 31, 2021</b>	<b>(4,816)</b>	<b>(1,663)</b>	<b>(3,220)</b>	<b>(8,580)</b>	<b>(9,348)</b>	<b>(27,627)</b>

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2020
Interest-bearing loans and borrowings:						
Asset financing obligations	(101)	(97)	(193)	(571)	(1,673)	(2,635)
Lease liabilities	(901)	(919)	(1,500)	(4,122)	(5,962)	(13,404)
Fixed rate borrowings	(360)	(37)	(631)	(666)	(587)	(2,281)
Floating rate borrowings	(78)	(32)	(58)	(1,179)	(41)	(1,388)
Other financing liabilities	(97)	-	-	-	-	(97)
Trade and other payables	(2,810)	-	-	-	-	(2,810)
Derivative financial instruments (assets):						
Forward contracts	73	41	33	8	-	155
Fuel derivatives	6	2	1	-	-	9
Derivative financial instruments (liabilities):						
Interest rate swaps	(13)	(13)	(25)	(14)	(2)	(67)
Forward contracts	(370)	(91)	(115)	(56)	-	(632)
Fuel derivatives	(423)	(314)	(108)	(4)	-	(849)
At December 31, 2020	(5,074)	(1,460)	(2,596)	(6,604)	(8,265)	(23,999)

## 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, 2021

€ million	Gross value of financial instruments	Gross amounts set off in the balance sheet <sup>1</sup>	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet <sup>1</sup>	Net amount
<b>Financial assets</b>					
Derivative financial assets	628	(8)	620	(30)	<b>590</b>
<b>Financial liabilities</b>					
Derivative financial liabilities	181	(8)	173	30	<b>203</b>

<sup>1</sup> The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As December 31, 2021, the Group recognised €nil of collateral (2020: €66 million) offset in the balance sheet and €30 million (2020: €24 million) not offset in the balance sheet.

December 31, 2020

€ 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
<b>Financial assets</b>					
Derivative financial assets	165	(1)	164	(13)	151
<b>Financial liabilities</b>					
Derivative financial liabilities	1,537	(67)	1,470	(37)	1,433

## 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 ratio. For the year to December 31, 2021, the net debt to EBITDA was minus 11.5 times (2020: minus 4.3 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, 2021, 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 2021, 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, 2021 predominantly 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.

In addition, during 2021, the Group has enquired of the trustees of the Group's pension schemes to understand the status of their IBOR transitions, if any. The Group has satisfied itself that all material derivative financial and non-derivative financial instruments with an IBOR component have been transitioned to an alternative benchmark at December 31, 2021.

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. These derivative financial instruments 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.

For such derivative financial instruments the Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at December 31, 2021. As part of this evaluation, the Group has applied the hedging relief provided by the IFRS 9 amendments for IBOR reform Phase 1.

There remains uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship. Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participant's expectations of when the change in rates will occur, which may differ between the hedged item and the hedging instrument.

The table below provides an overview of the IBOR-related exposures as at December 31, 2021. 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 <sup>1</sup>	Derivative financial instruments - nominal amount
GBP LIBOR	-	-
USD LIBOR	600	782
Other LIBOR	-	-

<sup>1</sup> Non-derivative financial instruments include floating rate borrowings, asset financed liabilities and lease liabilities.

The principal outstanding IBOR-related exposures relate to those lease liabilities with a USD 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.

## 28 Financial instruments

### a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2021 and December 31, 2020 by nature and classification for measurement purposes is as follows:

December 31, 2021

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

€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	
<b>Non-current liabilities</b>					
Lease liabilities	8,116	-	-	-	<b>8,116</b>
Interest-bearing long-term borrowings	8,220	-	748	-	<b>8,968</b>
Derivative financial instruments	-	-	47	-	<b>47</b>
Other long-term liabilities	132	-	-	76	<b>208</b>
<b>Current liabilities</b>					
Lease liabilities	1,521	-	-	-	<b>1,521</b>
Current portion of long-term borrowings	996	-	9	-	<b>1,005</b>
Trade and other payables	3,506	-	-	206	<b>3,712</b>
Derivative financial instruments	-	-	126	-	<b>126</b>



December 31, 2020

€ million	Financial assets			Non-financial assets	Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement		
<b>Non-current assets</b>					
Other equity investments	-	29	-	-	29
Derivative financial instruments	-	-	42	-	42
Other non-current assets	119	10	-	99	228
<b>Current assets</b>					
Trade receivables	557	-	-	-	557
Other current assets	350	-	-	442	792
Derivative financial instruments	-	-	122	-	122
Other current interest-bearing deposits	143	-	-	-	143
Cash and cash equivalents	5,774	-	-	-	5,774

€ million	Financial liabilities			Non-financial liabilities	Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement		
<b>Non-current liabilities</b>					
Lease liabilities	8,464	-	-	-	8,464
Interest-bearing long-term borrowings	5,000	-	-	-	5,000
Derivative financial instruments	-	-	310	-	310
Other long-term liabilities	80	-	-	533	613
<b>Current liabilities</b>					
Lease liabilities	1,560	-	-	-	1,560
Current portion of long-term borrowings	655	-	-	-	655
Trade and other payables	2,572	-	-	238	2,810
Derivative financial instruments	-	-	1,160	-	1,160

#### 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.

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, 2021 are as follows:

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

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

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

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2020 are set out below:

€ million	Fair value				Total	Carrying value Total
	Level 1	Level 2	Level 3	Total		
<b>Financial assets</b>						
Other equity investments	-	-	29	29		29
Derivative financial assets:						
Interest rate swaps <sup>1</sup>	-	1	-	1		1
Foreign exchange contracts <sup>1</sup>	-	154	-	154		154
Fuel derivatives <sup>1</sup>	-	9	-	9		9
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings:						
Asset financed liabilities	-	2,417	-	2,417		2,189
Fixed rate borrowings	1,510	560	-	2,070		2,163
Floating rate borrowings	-	1,206	-	1,206		1,206
Other financing liabilities	-	97	-	97		97
Derivative financial liabilities:						
Interest rate derivatives <sup>2</sup>	-	63	-	63		63
Foreign exchange contracts <sup>2</sup>	-	620	-	620		620
Fuel derivatives <sup>2</sup>	-	787	-	787		787

1 Current portion of derivative financial assets is €122 million.

2 Current portion of derivative financial liabilities is €1,160 million.

There have been no transfers between levels of 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 IAG €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	2021	2020
Opening balance for the year	<b>29</b>	72
Additions	<b>2</b>	3
Losses recognised in other comprehensive income	-	(44)
Exchange movements	-	(2)
<b>Closing balance for the year</b>	<b>31</b>	29

## d Hedges

### Cash flow hedges

At December 31, 2021 the Group's principal risk management activities that were hedging future forecast transactions were:

- Foreign exchange contracts, hedging foreign currency exchange risk on revenue 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 recognised in equity and transferred to the Income statement within Fuel, oil costs and emissions charges to match against the related fuel cash outflow. 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 Income statement within Passenger revenue when the loan repayments are made (generally in instalments over the life of the loan).

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

(Gains)/losses in respect of cash flow hedges included within equity € million	2021	2020
Loan repayments to hedge future revenue	98	220
Foreign exchange contracts to hedge future revenue and expenditure <sup>1</sup>	25	168
Crude, gas oil and jet kerosene derivative contracts <sup>1</sup>	(276)	295
Derivatives used to hedge interest rates <sup>1</sup>	58	66
Instruments for which hedge accounting no longer applies <sup>1,2</sup>	247	276
	152	1,025
Related deferred tax credit	(24)	(168)
<b>Total amount included within equity</b>	<b>128</b>	<b>857</b>

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 transaction remains 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, 2021
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling <sup>3</sup>	1.31	1.15 to 1.45	2,606	1,030	42	-	<b>3,678</b>
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros <sup>3</sup>	1.18	1.08 to 1.32	1,632	735	26	-	<b>2,393</b>
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling <sup>3</sup>	1.23	1.08 to 1.42	396	334	543	166	<b>1,439</b>
Fuel commodity price contracts to hedge future US dollar fuel expenditure <sup>1</sup>	649	395 to 737	2,386	826	-	-	<b>3,212</b>
Interest rate contracts to hedge future interest expenditure <sup>2</sup>	1.40	(0.03) to 3.13	3,099	1,080	738	60	<b>4,977</b>

1 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.

2 The hedge range for interest rate contracts is expressed as a percentage.

3 Expenditure includes both operating and capital expenditure.

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	Total December 31, 2020
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling <sup>3</sup>	1.31	1.15 to 1.50	2,402	1,321	442	-	4,165
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros <sup>3</sup>	1.18	0.74 to 1.37	1,380	989	212	-	2,581
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling <sup>3</sup>	1.23	1.08 to 1.42	373	359	661	309	1,702
Fuel commodity price contracts to hedge future US dollar fuel expenditure <sup>1</sup>	702	363 to 941	2,350	1,081	65	-	3,496
Interest rate contracts to hedge future interest expenditure <sup>2</sup>	1.47	0.08 to 3.18	3,286	1,493	862	161	5,802

1 Notional amounts of fuel commodity price hedging instruments represent 9.3 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.

2 The hedge range for interest rate contracts is expressed as a percentage.

3 Expenditure includes both operating and capital expenditure.

For the year to December 31, 2021 (€ million)	Amounts recognised in the Income statement				Fair value movements recognised in Other comprehensive income <sup>2</sup>	Amounts reclassified to the Balance sheet
	Ineffectiveness <sup>1</sup>	Discontinuance of hedge accounting	Recycling to the Income Statement	Total recognised movements		
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.

For the year to December 31, 2020 (€ million)	Amounts recognised in the Income statement				Fair value movements recognised in Other comprehensive income <sup>2</sup>	Amounts reclassified to the Balance sheet
	Ineffectiveness <sup>1</sup>	Discontinuance of hedge accounting	Recycling to the Income Statement	Total recognised movements		
Foreign exchange contracts to hedge future revenue and expenditure	-	54	55	109	88	32
Crude, gas oil and jet kerosene derivative contracts	2	(1,757)	(461)	(2,216)	2,369	-
Derivatives used to hedge interest rates	-	-	(30)	(30)	59	(32)
Loan repayments to hedge future revenue	-	(22)	(19)	(41)	123	-
Instruments for which hedge accounting no longer applies	-	-	(63)	(63)	-	-
	2	(1,725)	(518)	(2,241)	2,639	-
Related deferred tax				370	(468)	-
Total movements recorded in the cash flow hedge reserve				(1,871)	2,171	-

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 balance sheet date and the maturity date of the derivative are set out below:

€ million	2021	2020
(Gains)/losses associated with the discontinuance of hedge accounting recognised in the Income statement	<b>(77)</b>	1,725
Fair value movements subsequently recorded in the Income statement	<b>(82)</b>	31
<b>Total effect of discontinuance of hedge accounting in the Income statement<sup>1</sup></b>	<b>(159)</b>	1,756

1 Refer to note 3 and the Alternative performance measures section.

The Group has no significant fair value hedges at December 31, 2021 and 2020.

## 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
January 1, 2020: Ordinary shares of €0.50 each	1,992,033	996	5,327
Share capital reduction	-	(797)	-
Rights issue	2,979,443	298	2,443
December 31, 2020: Ordinary shares of €0.10 each	4,971,476	497	7,770
<b>December 31, 2021: Ordinary shares of €0.10 each</b>	<b>4,971,476</b>	<b>497</b>	<b>7,770</b>

### a Share capital reduction

On September 8, 2020, the Company undertook a share capital reduction of €797 million, that reduced the nominal value of each ordinary share from €0.50 per share to €0.10 per share. A corresponding amount has been recognised within Capital reserves (note 31).

### b Rights issue

On October 2, 2020, the Company raised €2,741 million (and incurred related transaction costs of €70 million as detailed in note 31) through a rights issue of 2,979,443,376 new ordinary shares at a price of 92 € cents per share on the basis of 3 shares for every 2 existing shares.

### c Treasury shares

A total of 5.4 million shares (2020: 2.6 million) were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2021 the Group held 10.2 million shares (2020: 5.1 million) which represented 0.20 per cent (2020: 0.10 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.

In 2020, the outstanding PSP awards granted to participants other than Executive Directors from 2018 onwards were modified, and the resulting incremental fair value granted of £1.61 per award is recognised over the remaining vesting period.

#### 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 proposal under the new Executive Share Plan (RSP) 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 can be exercised. 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, 2021 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	Outstanding at December 31, 2021 '000s	Exercisable December 31, 2021 '000s
Performance Share Plan	32,800	-	5,768	2,326	24,706	1,748
Restricted Share Plan	-	16,260	62	-	16,198	-
Full Potential Incentive Plan	-	28,067	188	-	27,879	-
Incentive Award Deferral Plan	8,367	-	218	2,790	5,359	6
	<b>41,167</b>	<b>44,327</b>	<b>6,236</b>	<b>5,116</b>	<b>74,142</b>	<b>1,754</b>

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2021 was £1.78 (2020: £3.89).

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo valuation model last granted in 2020, taking into account the terms and conditions upon which the plans were granted, used the following assumptions:

	December 31, 2021	December 31, 2020
Expected share price volatility (per cent)	-	35
Expected comparator group volatility (per cent)	-	20
Expected comparator group correlation (per cent)	-	70
Expected life of options (years)	-	4.6
Weighted average share price at date of grant (£)	-	4.59
<b>Weighted average fair value (£)</b>	<b>-</b>	<b>1.84</b>

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

The Group recognised a share-based payment charge of €23 million for the year to December 31, 2021 (2020: credit of €8 million).

### 31 Other reserves and non-controlling interests

For the year to December 31, 2021

€ million	Other reserves						Total other reserves	Non-controlling interest
	Unrealised gains and losses <sup>1</sup>	Cost of hedging reserve <sup>2</sup>	Currency translation <sup>3</sup>	Equity portion of convertible bond <sup>4</sup>	Merger reserve <sup>5</sup>	Capital reserves <sup>6</sup>		
January 1, 2021 restated <sup>7</sup>	(867)	38	(53)	62	(2,467)	867	(2,420)	6
Other comprehensive loss 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 the 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	-
<b>December 31, 2021</b>	<b>(94)</b>	<b>24</b>	<b>(65)</b>	<b>62</b>	<b>(2,467)</b>	<b>867</b>	<b>(1,673)</b>	<b>6</b>

€ million	Other reserves						Total other reserves	Non-controlling interest
	Unrealised gains and losses <sup>1</sup>	Cost of hedging reserve <sup>2</sup>	Currency translation <sup>3</sup>	Equity portion of convertible bond <sup>4</sup>	Merger reserve <sup>5</sup>	Capital reserves <sup>6</sup>		
January 1, 2020	(464)	60	160	62	(2,467)	70	(2,579)	6
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	50	-	-	-	-	-	50	-
Fuel and oil costs	356	-	-	-	-	-	356	-
Currency differences	18	-	-	-	-	-	18	-
Finance costs	12	-	-	-	-	-	12	-
Discontinuance of hedge accounting	1,435	-	-	-	-	-	1,435	-
Net change in fair value of cash flow hedges	(2,216)	-	-	-	-	-	(2,216)	-
Net change in fair value of other equity investments	(53)	-	-	-	-	-	(53)	-
Net change in fair value of cost of hedging	-	10	-	-	-	-	10	-
Cost of hedging reclassified and reported in the net profit	-	(19)	-	-	-	-	(19)	-
Currency translation differences <sup>7</sup>	-	-	(213)	-	-	-	(213)	-
Hedges reclassified and reported in property, plant and equipment	(5)	(13)	-	-	-	-	(18)	-
Share capital reduction	-	-	-	-	-	797	797	-
December 31, 2020 restated <sup>7</sup>	(867)	38	(53)	62	(2,467)	867	(2,420)	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, 2021 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €9 million credit and €128 million charge, 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 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2021 and 2020, this related to the €500 million fixed rate 0.625 per cent convertible bond maturing 2022 (note 25).

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 (2020: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2020: 797 million) associated with a reduction in the nominal value of the Company's share capital (note 29).

7 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## 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, 2021 were €200 million (2020: €235 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 2004 and closed to future accrual since 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI).

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

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 payments 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 deficit.

At December 31, 2021, the triennial valuations as at March 31, 2021 were not finalised and accordingly the latest actuarial valuations of both APS and NAPS were performed as at March 31, 2018, which resulted in a surplus of €683 million for APS and a deficit of €2,736 million for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at December 31, 2021 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions.

#### **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 the British Airways other plans are fully funded, but there are also a number of unfunded plans, where 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 APS and NAPS. Total payments for the year to December 31, 2021 net of service costs made by the Group were €38 million (2020: €313 million) being the employer contributions of €41 million (2020: €318 million) less the current service cost of €3 million (2020: €5 million) (note 32b).

#### **Future funding arrangements**

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2018, using assumptions and methodologies agreed between the Group and Trustee of each scheme.

In total, the Group expects to pay €1 million in employer contributions to APS and NAPS in 2022.

#### **Deficit contributions and deferred deficit contributions**

At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million. In order to address the deficit in the scheme, the Group has also committed to deficit contribution payments through to the end of the first quarter of 2023 amounting to approximately €130 million per quarter. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are paid into an escrow account if the scheme funding position reaches 97 per cent, and 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, which includes additional contributions equivalent to those months where contributions had been suspended, or until such point as the scheme funding level reaches 97 per cent.

During the year ended and as at December 31, 2021, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At December 31, 2021, 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 be incorporated into future triennial actuarial valuations.

At December 31, 2021, had the over-funding protection mechanism not been applied, then the asset ceiling adjustment (as detailed in note 32c) would have been €289 million higher.

On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between September 1, 2020 and January 31, 2021. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions previously agreed in October 2019 on the March 31, 2018 valuation, through to August 31, 2021. Under this deferral agreement, the deferred payments will be incorporated into the future deficit payment plan and associated deficit contributions arising from the triennial valuation of the NAPS scheme as at March 31, 2021. The deferred deficit contribution payments do not include an over-funding protection mechanism.

At December 31, 2021, the Group is committed to the following undiscounted deficit payments, which are deductible for tax purposes at the statutory rate of tax:

€ million	NAPS	Other schemes
Within 12 months	-	4
1-2 years	397	-
2-5 years	175	-
Greater than 5 years	-	-
<b>Total expected deficit payments</b>	<b>572</b>	<b>4</b>

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

Under the contribution deferral agreement between British Airways and the Trustee of NAPS, in the period up to December 31, 2023, no dividend payment is permitted from British Airways to IAG. From 2024 onwards, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. Any such payments to NAPS will reduce the outstanding repayment balance and are capped at that level. The requirement to make such payments to NAPS ceases after deferred contributions have been repaid.

## b Employee benefit scheme amounts recognised in the financial statements

### i Amounts recognised on the Balance sheet

€ million	2021			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,869	25,055	446	34,370
Present value of scheme liabilities <sup>4</sup>	(8,333)	(22,583)	(706)	(31,622)
Net pension asset/(liability)	536	2,472	(260)	2,748
Effect of the asset ceiling <sup>1</sup>	(186)	(1,061)	-	(1,247)
Other employee benefit obligations	-	-	(11)	(11)
<b>December 31, 2021</b>	<b>350</b>	<b>1,411</b>	<b>(271)</b>	<b>1,490</b>
Represented by:				
Employee benefit asset				1,775
Employee benefit obligation				(285)
<b>Net employee benefit asset<sup>3,4</sup></b>				<b>1,490</b>

€ million	2020			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,537	22,240	408	31,185
Present value of scheme liabilities <sup>2,4</sup>	(8,064)	(21,778)	(714)	(30,556)
Net pension asset/(liability) <sup>2</sup>	473	462	(306)	629
Effect of the asset ceiling <sup>1,2</sup>	(151)	(610)	-	(761)
Other employee benefit obligations	-	-	(11)	(11)
December 31, 2020	322	(148)	(317)	(143)
Represented by:				
Employee benefit asset <sup>2</sup>				334
Employee benefit obligation <sup>2</sup>				(477)
<b>Net employee benefit obligation<sup>3,4</sup></b>				<b>(143)</b>

1 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.

2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

3 The net deferred tax asset recognised on the net employee benefit asset (2020: obligation) was €62 million at December 31, 2021 (2020: €322 million). The defined benefit obligation includes €25 million (2020: €24 million) arising from unfunded plans.

4 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, 2021, such assets were €391 million (2020: €436 million) with a corresponding amount recorded in the scheme liabilities.

### ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2021	2020
Defined benefit plans:		
Current service cost	3	5
Past service cost <sup>1</sup>	-	7
Administrative expenses <sup>2</sup>	29	25
	32	37
Defined contribution plans	200	235
<b>Pension costs recorded as employee costs</b>	<b>232</b>	<b>272</b>

1 Includes a past service credit of €nil (2020: €nil) relating to schemes other than APS and NAPS.

2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

€ million	2021	2020
Interest income on scheme assets	(432)	(599)
Interest expense on scheme liabilities <sup>1</sup>	425	573
Interest expense on asset ceiling	9	14
<b>Net financing charge/(credit) relating to pensions</b>	<b>2</b>	<b>(12)</b>

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

### iii Amounts recognised in the Statement of other comprehensive income

€ million	2021	2020
Return on plan assets excluding interest income <sup>1</sup>	<b>(2,495)</b>	(2,268)
Remeasurement of plan liabilities from changes in financial assumptions	<b>46</b>	3,633
Remeasurement of experience losses/(gains) <sup>1</sup>	<b>427</b>	(421)
Remeasurement of the APS and NAPS asset ceilings <sup>1</sup>	<b>419</b>	(308)
Exchange movements <sup>1</sup>	<b>(14)</b>	11
Pension remeasurements charged to Other comprehensive income	<b>(1,617)</b>	647
Deferred tax arising on pension remeasurements <sup>1</sup>	<b>217</b>	(60)
Pension remeasurements charged to Other comprehensive income, net of tax	<b>(1,400)</b>	587

<sup>1</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

### 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.

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2021, the benchmark for NAPS was 37 per cent (2020: 42 per cent) in return seeking assets and 63 per cent (2020: 58 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, 2021 was 1 per cent (2020: 1 per cent) in return seeking assets and 99 per cent (2020: 99 per cent) in liability matching investments.

#### 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	2021	2020
January 1	<b>31,185</b>	31,681
Interest income	<b>432</b>	599
Administrative expenses <sup>2</sup>	<b>(21)</b>	(25)
Return on plan assets excluding interest income <sup>2</sup>	<b>2,495</b>	2,268
Employer contributions <sup>1</sup>	<b>41</b>	313
Employee contributions	<b>13</b>	14
Benefits paid <sup>2</sup>	<b>(1,930)</b>	(1,528)
Exchange movements	<b>2,155</b>	(2,137)
December 31	<b>34,370</b>	31,185

<sup>1</sup> Includes employer contributions to APS of €1 million (2020: €2 million) and to NAPS of €nil (2020: €303 million) of which deficit-funding payments represented €nil for APS (2020: €nil) and €nil for NAPS (2020: €296 million).

<sup>2</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pensions schemes. Further information is given in note 2.

### iii Composition of scheme assets

Scheme assets held by the Group at December 31 comprise:

€ million	2021			Total	2020 <sup>1</sup>
	APS	NAPS	Other		
<i>Return seeking investments</i>					
Listed equities - UK	-	220	4	<b>224</b>	1,468
Listed equities - Rest of world	12	4,222	207	<b>4,441</b>	4,724
Private equities	39	1,604	-	<b>1,643</b>	1,062
Properties	4	2,475	2	<b>2,481</b>	1,798
Alternative investments	53	1,829	43	<b>1,925</b>	880
	<b>108</b>	<b>10,350</b>	<b>256</b>	<b>10,714</b>	9,932
<i>Liability matching investments</i>					
Government issued fixed bonds	733	9,824	124	<b>10,681</b>	6,985
Government issued index-linked bonds	1,311	7,190	10	<b>8,511</b>	6,524
Asset and longevity swaps	6,351	-	-	<b>6,351</b>	4,424
Insurance contract	-	-	27	<b>27</b>	1,660
	<b>8,395</b>	<b>17,014</b>	<b>161</b>	<b>25,570</b>	19,593
<i>Other</i>					
Cash and cash equivalents	292	837	10	<b>1,139</b>	949
Derivative financial instruments	84	(3,219)	-	<b>(3,135)</b>	(228)
Other investments	(10)	73	19	<b>82</b>	939
	<b>366</b>	<b>(2,309)</b>	<b>29</b>	<b>(1,914)</b>	1,660
<b>Total scheme assets</b>	<b>8,869</b>	<b>25,055</b>	<b>446</b>	<b>34,370</b>	31,185

1 The scheme assets at December 31, 2020 have been re-presented to conform with the 2021 presentation. There has been no change in the overall fair value of the scheme assets.

The fair values of the Group's scheme assets, which are not derived from quoted process 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.
- 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 and the reporting date.
- 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 (2020: 24 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, asset swaps and longevity swaps) held by the scheme. 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 (2020: 20 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. Along with existing contracts with Rothesay Life, 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).

#### 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	2021	2020
January 1 <sup>1</sup>	761	1,130
Interest expense	9	14
Remeasurements <sup>1</sup>	419	(307)
Exchange movements <sup>1</sup>	59	(76)
<b>December 31</b>	<b>1,248</b>	<b>761</b>

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

#### 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	2021	2020
January 1 <sup>1</sup>	30,556	30,335
Current service cost	3	5
Past service cost/(credit)	-	7
Interest expense <sup>1</sup>	425	573
Remeasurements – financial assumptions	46	3,633
Remeasurements of experience losses/(gains) <sup>1</sup>	427	(421)
Benefits paid <sup>1</sup>	(1,930)	(1,528)
Employee contributions	13	14
Exchange movements <sup>1</sup>	2,082	(2,062)
<b>December 31</b>	<b>31,622</b>	<b>30,556</b>

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

##### ii Scheme liability assumptions

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

Per cent per annum	2021			2020		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate <sup>1</sup>	1.80	1.90	0.3 – 6.5	1.20	1.40	0.5 – 2.4
Rate of increase in pensionable pay <sup>2</sup>	3.55	-	2.0 – 6.0	2.95	-	2.5
Rate of increase of pensions in payment <sup>3</sup>	3.55	2.85	2.0 – 3.0	2.95	2.25	1.1 – 3.5
RPI rate of inflation	3.55	3.3	1.8 – 2.5	2.95	2.80	2.5 – 2.7
CPI rate of inflation	2.95	2.85	1.8 – 2.5	2.25	2.25	1.1 – 3.0

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

2 Rate of increase in pensionable pay is assumed to be in line with increases in RPI.

3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and APS as at December 31, 2021.

4 The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.00 per cent grading down to 5.00 per cent over five years (2020: 6.25 per cent to 5.00 per cent over five years).

In the UK, mortality rates for APS and NAPS are calculated using the standard SAPS mortality tables produced by the CMI. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. Life expectancy assumptions do not reflect any adjustments for the impact of COVID-19 due to the uncertainty of the long-term effects. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2021	2020
Life expectancy at age 60 for a:		
• male currently aged 60	28.1	28.2
• male currently aged 40	29.9	29.9
• female currently aged 60	29.5	29.3
• female currently aged 40	31.9	31.8

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables.

At December 31, 2021, the weighted-average duration of the defined benefit obligation was 12 years for APS (2020: 12 years) and 19 years for NAPS (2020: 20 years). The weighted-average duration of the defined benefit obligations was 11 to 23 years for other schemes (2020: 11 to 24 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.

### iii Sensitivity analysis

Reasonable 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:

€ million	Increase in scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	(35)	(424)	(9)
Future salary growth (increase of 10 basis points)	n/a	n/a	(3)
Future pension growth (increase of 10 basis points)	(47)	(400)	(4)
Future mortality rate (one year increase in life expectancy)	(35)	(871)	(34)

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 and guarantees

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

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

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2021 amounted to €22 million (December 31, 2020: €56 million).

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2021 are not expected to result in material losses for the Group.

## 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 is expected to run through to April, 2022. For those qualifying employees (earning less than €1,462 per week), the government will reimburse wage costs up to a maximum of €203 per week. Such costs are 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 2021 amounted to €286 million (2020: €344 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 is expected to run 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 2021, the Group would have incurred further employee costs of €269 million (2020: €214 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.

### **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 €1.2 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, 2021 the facility remained undrawn.



## 35 Related party transactions

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

€ million	2021	2020
<b>Sales of goods and services</b>		
Sales to associates <sup>1</sup>	6	12
Sales to significant shareholders <sup>2</sup>	16	23
<b>Purchases of goods and services</b>		
Purchases from associates <sup>3</sup>	49	42
Purchases from significant shareholders <sup>2</sup>	69	80
<b>Receivables from related parties</b>		
Amounts owed by associates <sup>4</sup>	1	1
Amounts owed by significant shareholders <sup>5</sup>	5	1
<b>Payables to related parties</b>		
Amounts owed to associates <sup>6</sup>	3	2
Amounts owed to significant shareholders <sup>5</sup>	2	1

1 Sales to associates: Consisted primarily of sales for airline-related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €5 million (2020: €9 million), €nil (2020: €1 million) to Viajes Ame S.A. and €1 million (2020: €1 million) to Serpista, S.A. and Multiservicios Aeroportuarios, S.A.

2 Sales to and purchases from significant shareholders related to interline services with Qatar Airways.

3 Purchases from associates: Consisted primarily of €33 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2020: €23 million), €8 million of handling services provided by Dunwoody (2020: €9 million) and €8 million of maintenance services received from Serpista, S.A. (2020: €7 million).

4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A., Dunwoody and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2020: €1 million).

5 Amounts owed by and to significant shareholders related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of €3 million due to Multiservicios Aeroportuarios, S.A., Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A., Viajes Ame S.A, Serpista, S.A. and Dunwoody (2020: €2 million).

During the year to December 31, 2021 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 €6 million (2020: €7 million) in relation to the costs of the Pension Protection Fund levy.

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

For the year to December 31, 2021, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2020: 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, 2021 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2020: €nil).

### Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2021 and 2020 is as follows:

€ million	Year to December 31	
	2021	2020
<b>Base salary, fees and benefits</b>		
<b>Board of Directors</b>		
Short-term benefits	3	3
Share based payments	-	-
<b>Management Committee</b>		
Short-term benefits	11	5
Share based payments	1	-

For the year to December 31, 2021 the Board of Directors includes remuneration for one Executive Director (December 31, 2020: three Executive Directors). The Management Committee includes remuneration for 14 members (December 31, 2020: 14 members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2021 the Company's obligation was €35,000 (2020: €38,000).

At December 31, 2021 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €9 million (2020: €9 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at December 31, 2021 (2020: nil).

### 36 Change in accounting policy

#### Change in accounting policy relating to employee benefits

During the course of 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPS Defined benefit schemes. The change in policy has been adopted to better reflect the underlying management and operation of these schemes, while remaining in compliance with IAS 19. This change in accounting policy has been applied retrospectively to the consolidated financial statements and is detailed below.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing charge relating to pensions in the Income statement, as well as increased the Remeasurements of post-employment benefit obligations and Currency translation differences in the Statement of other comprehensive income for the year ended December 31, 2020.

The impact of the changes in these accounting policies on the Consolidated income statement and the Consolidated statement of comprehensive income for 2020, as well as the Consolidated balance sheet at December 1, 2020 and January 1, 2020 are shown below:

#### Consolidated income statement (extract for the year to December 31, 2020)

€ million	Reported	Adjustment - administration costs	Restated
<b>Total revenue</b>	<b>7,806</b>	<b>-</b>	<b>7,806</b>
Employee costs	3,560	25	3,585
Other expenditure on operations	11,672	-	11,672
<b>Total expenditure on operations</b>	<b>15,232</b>	<b>25</b>	<b>15,257</b>
<b>Operating loss</b>	<b>(7,426)</b>	<b>(25)</b>	<b>(7,451)</b>
Net financing credit relating to pensions	4	8	12
Other financing items	(384)	-	(384)
Other non-operating items	(4)	-	(4)
Total net non-operating costs	(384)	8	(376)
<b>Loss before tax</b>	<b>(7,810)</b>	<b>(17)</b>	<b>(7,827)</b>
Tax	887	5	892
<b>Loss after tax for the year</b>	<b>(6,923)</b>	<b>(12)</b>	<b>(6,935)</b>

#### Consolidated statement of other comprehensive income (extract for the year to December 31, 2020)

€ million	Reported	Adjustment - administration costs	Restated
<i>Items that may be classified subsequently to net profit</i>			
Currency translation differences	(192)	(21)	(213)
Other items that may be classified subsequently to net profit	(335)	-	(335)
<i>Items that will not be reclassified to net profit</i>			
Remeasurements of post-employment benefit obligations	(632)	36	(596)
Other items that will not be reclassified to net profit	(72)	-	(72)
Total other comprehensive loss for the year, net of tax	(1,231)	15	(1,216)
<b>Loss after tax for the year</b>	<b>(6,923)</b>	<b>(12)</b>	<b>(6,935)</b>
<b>Total comprehensive loss for the year</b>	<b>(8,154)</b>	<b>3</b>	<b>(8,151)</b>

### Consolidated balance sheet (extract at December 31, 2020 and December 31, 2019)

€ million	Reported 2020	Adjustment - administration costs <sup>1</sup>	Restated 2020	Reported 2019	Adjustment - administration costs <sup>1</sup>	Restated 2019
<b>Non-current assets</b>						
Employee benefit assets	282	52	334	314	217	531
Other non-current assets	22,142	-	22,142	23,810	-	23,810
	<b>22,424</b>	<b>52</b>	<b>22,476</b>	<b>24,124</b>	<b>217</b>	<b>24,341</b>
<b>Current assets</b>	<b>7,840</b>	<b>-</b>	<b>7,840</b>	<b>11,327</b>	<b>-</b>	<b>11,327</b>
<b>Total assets</b>	<b>30,264</b>	<b>52</b>	<b>30,316</b>	<b>35,451</b>	<b>217</b>	<b>35,668</b>
Other equity	8,233	-	8,233	6,269	-	6,269
Other reserves	(6,917)	294	(6,623)	560	291	851
<b>Total equity</b>	<b>1,316</b>	<b>294</b>	<b>1,610</b>	<b>6,829</b>	<b>291</b>	<b>7,120</b>
<b>Non-current liabilities</b>						
Employee benefit obligations	719	(242)	477	400	(74)	326
Other non-current liabilities	16,713	-	16,713	15,474	-	15,474
	<b>17,432</b>	<b>(242)</b>	<b>17,190</b>	<b>15,874</b>	<b>(74)</b>	<b>15,800</b>
<b>Current liabilities</b>	<b>11,516</b>	<b>-</b>	<b>11,516</b>	<b>12,748</b>	<b>-</b>	<b>12,748</b>
<b>Total liabilities</b>	<b>28,948</b>	<b>(242)</b>	<b>28,706</b>	<b>28,622</b>	<b>(74)</b>	<b>28,548</b>
<b>Total equity and liabilities</b>	<b>30,264</b>	<b>52</b>	<b>30,316</b>	<b>35,451</b>	<b>217</b>	<b>35,668</b>

<sup>1</sup> Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

### 37 Post balance sheet events

Between the reporting date and the date of this report there have been no post balance sheet events.

## 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 2021, while 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, 2020, the Group has added an additional APM regarding the Liquidity of the Group to reflect the increased level of scrutiny, internally and externally, on this measure as a result of the COVID-19 pandemic.

The impact of the COVID-19 pandemic has significantly changed the basis on which the 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 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 Loss after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence to supplement the understanding 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, 2021 and 2020 include: significant discontinuation of hedge accounting; significant restructuring; significant changes in the long-term fleet plans that result in the impairment of fleet assets and the recognition of associated provisions; and legal settlements.

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

€ million	Year to December 31					
	Statutory 2021	Exceptional items	Before exceptional items 2021	Statutory 2020 <sup>1</sup>	Exceptional items	Before exceptional items 2020
Passenger revenue <sup>2</sup>	5,835	5	5,830	5,512	(62)	5,574
Cargo revenue	1,673	-	1,673	1,306	-	1,306
Other revenue	947	-	947	988	-	988
<b>Total revenue</b>	<b>8,455</b>	<b>5</b>	<b>8,450</b>	<b>7,806</b>	<b>(62)</b>	<b>7,868</b>
Employee costs <sup>3</sup>	3,013	(18)	3,031	3,585	313	3,272
Fuel, oil costs and emissions charges <sup>2</sup>	1,781	(154)	1,935	3,735	1,694	2,041
Handling, catering and other operating costs	1,308	-	1,308	1,340	-	1,340
Landing fees and en-route charges	923	-	923	918	-	918
Engineering and other aircraft costs <sup>4</sup>	1,085	(7)	1,092	1,456	108	1,348
Property, IT and other costs <sup>5</sup>	758	-	758	782	28	754
Selling costs	434	-	434	405	-	405
Depreciation, amortisation and impairment <sup>6</sup>	1,932	(21)	1,953	2,955	856	2,099
Currency differences	(14)	-	(14)	81	-	81
Total expenditure on operations	11,220	(200)	11,420	15,257	2,999	12,258
<b>Operating (loss)/profit</b>	<b>(2,765)</b>	<b>205</b>	<b>(2,970)</b>	<b>(7,451)</b>	<b>(3,061)</b>	<b>(4,390)</b>
Finance costs	(830)	-	(830)	(670)	-	(670)
Finance income	13	-	13	41	-	41
Net change in fair value of convertible bond	89	-	89	-	-	-
Net financing (charge)/credit relating to pensions	(2)	-	(2)	12	-	12
Net currency retranslation (charges)/credits	(82)	-	(82)	245	-	245
Other non-operating (charges)/credits <sup>7</sup>	70	(75)	145	(4)	-	(4)
Total net non-operating costs	(742)	(75)	(667)	(376)	-	(376)
<b>(Loss)/profit before tax</b>	<b>(3,507)</b>	<b>130</b>	<b>(3,637)</b>	<b>(7,827)</b>	<b>(3,061)</b>	<b>(4,766)</b>
Tax	574	(25)	599	892	463	429
<b>(Loss)/profit after tax for the year</b>	<b>(2,933)</b>	<b>105</b>	<b>(3,038)</b>	<b>(6,935)</b>	<b>(2,598)</b>	<b>(4,337)</b>

Three months to December 31

€ million	Three months to December 31					
	Statutory 2021	Exceptional items	Before exceptional items 2021	Statutory 2020 <sup>1</sup>	Exceptional items	Before exceptional items 2020
Passenger revenue <sup>2</sup>	2,695	-	2,695	684	(2)	686
Cargo revenue	499	-	499	389	-	389
Other revenue	340	-	340	228	-	228
<b>Total revenue</b>	<b>3,534</b>	<b>-</b>	<b>3,534</b>	1,301	(2)	1,303
Employee costs <sup>3</sup>	914	(18)	932	698	44	654
Fuel, oil costs and emissions charges <sup>2</sup>	732	(1)	733	453	95	358
Handling, catering and other operating costs	520	-	520	260	-	260
Landing fees and en-route charges	325	-	325	181	-	181
Engineering and other aircraft costs <sup>4</sup>	383	-	383	321	25	296
Property, IT and other costs <sup>5</sup>	218	-	218	185	-	185
Selling costs	154	-	154	65	-	65
Depreciation, amortisation and impairment <sup>6</sup>	548	(8)	556	620	140	480
Currency differences	18	-	18	(6)	-	(6)
Total expenditure on operations	3,812	(27)	3,839	2,777	304	2,473
<b>Operating (loss)/profit</b>	<b>(278)</b>	<b>27</b>	<b>(305)</b>	(1,476)	(306)	(1,170)
Finance costs	(218)	-	(218)	(167)	-	(167)
Finance income	8	-	8	14	-	14
Net change in fair value of convertible bond	85	-	85	-	-	-
Net financing (charge)/credit relating to pensions	(4)	-	(4)	1	-	1
Net currency retranslation (charges)/credits	(19)	-	(19)	62	-	62
Other non-operating (charges)/credits <sup>7</sup>	(31)	(75)	44	(47)	-	(47)
Total net non-operating costs	(179)	(75)	(104)	(137)	-	(137)
<b>Loss before tax</b>	<b>(457)</b>	<b>(48)</b>	<b>(409)</b>	(1,613)	(306)	(1,307)
Tax	146	-	146	254	99	155
<b>Loss after tax for the period</b>	<b>(311)</b>	<b>(48)</b>	<b>(263)</b>	(1,359)	(207)	(1,152)

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

The rationale for each exceptional item is given below. In 2021 and 2020 all items were associated with the impact of COVID-19, except the settlement provision in relation to the charge in 2020 relating to the theft of customer data at British Airways (item 5).

2 Discontinuation of hedge accounting

The exceptional credit of €159 million (2020: expense of €1,756 million) arising 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 (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy is to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

The cash outflow impact associated with the discontinuance of hedge accounting was €338 million in the year to December 31, 2021 (2020: €1,187 million).

The related tax charge was €26 million (2020: credit of €273 million), with €1 million (2020: credit of €11 million) being attributable to Passenger revenue and €25 million (2020: credit of €262 million) being attributable to Fuel, oil costs and emissions charges.

3 Restructuring costs

The exceptional credit of €18 million (2020: charge of €319 million) relates to the reversal of restructuring provisions that have been released unutilised. In 2020, the exceptional charge (comprising €313 million of employee severance pay and €6 million of associated legal costs) represented the Group-wide restructuring programme, which right-sized the Group for the near term. While the restructuring programme affected all of the Group's operating companies, the exceptional charges in the year to December 31, 2020 related to British Airways, Aer Lingus, Iberia and LEVEL only, due to the status of negotiations with employees and their representatives. The exceptional credit (2020: charge) has been recorded within Employee costs (2020: Employee costs and Property, IT and other costs). There has been no cash flow impact relating to the exceptional restructuring credit in 2021.

The related tax charge was €3 million (2020: credit of €53 million).

#### 4 Engineering and other aircraft costs

The exceptional credit of €7 million (2020: charge of €108 million) relates to the reversal of contractual lease provisions for those aircraft in Vueling that have been 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. In 2020, the exceptional charge included an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €37 million. The inventory write down expense represented those expendable inventories that, given the asset impairments, were no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions represented the estimation of the additional cost to fulfil the hand back conditions associated with the leased aircraft that were permanently stood down and impaired. The exceptional credit (2020: charge) is recorded within Engineering and other aircraft costs. There has been no cash flow impact relating to the exceptional credit in 2021.

There is no tax impact on the recognition of this credit (2020: credit of €14 million).

#### 5 Settlement provision

The exceptional charge of €22 million recognised in 2020 represented the fine issued by the Information Commissioner's Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018. The exceptional charge was been recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.

There was no tax impact on the recognition of this charge

#### 6 Impairment of fleet and associated assets

The exceptional impairment reversal of €21 million 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 following the successful slot allocation at Paris Orly and the resultant increased capacity. 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.

The total exceptional impairment expense of €856 million recorded in 2020 was represented by an impairment of fleet assets of €837 million and an impairment of other assets of €19 million. The fleet impairment related to 82 aircraft, their associated engines and rotatable inventories that had been stood down permanently and 2 further aircraft which were impaired down to their recoverable value at December 31, 2020, which included 32 Boeing 747 aircraft, 23 Airbus A320 aircraft, 15 Airbus A340 aircraft, 4 Airbus A330-200 aircraft, 2 Airbus A318 aircraft, 1 Airbus A321 aircraft, 1 Airbus A319 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €676 million was recorded within Property, plant and equipment relating to owned aircraft and €161 million was recorded within Right of use assets relating to leased aircraft.

Included within the impairment of other assets was an amount of €15 million relating to the landing rights, classified within Intangible assets, that were held by the operations of LEVEL in Paris. Following the decision to cease the operations of LEVEL in Paris, these landing rights were recorded at the lower of their carrying value and their recoverable value.

The exceptional impairment (reversals)/expenses were recorded within Depreciation, amortisation and impairment in the Income statement. There has been no cash flow impact relating to the exceptional impairment reversals in 2021.

The related tax charge was €1 million (2020: credit of €123 million).

#### 7 Air Europa termination agreement

The exceptional charge of €75 million 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. The exceptional charge has been 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 table below provides a reconciliation of the post-exceptional to pre-exceptional condensed alternative income statement by operating segment for the years to 31 December 2021 and 2020:

€ 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
<b>Total revenue</b>	<b>3,699</b>	<b>5</b>	<b>3,694</b>	<b>4,318</b>	<b>6</b>	<b>4,312</b>	<b>2,784</b>	<b>-</b>	<b>2,784</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>	<b>376</b>	<b>(1)</b>	<b>377</b>
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
<b>Operating loss</b>	<b>(1,769)</b>	<b>131</b>	<b>(1,900)</b>	<b>(2,041)</b>	<b>151</b>	<b>(2,192)</b>	<b>(220)</b>	<b>14</b>	<b>(234)</b>	<b>(233)</b>	<b>29</b>	<b>(262)</b>	<b>(338)</b>	<b>9</b>	<b>(347)</b>
<b>Operating margin (%)</b>	<b>(47.8)%</b>		<b>(51.4)%</b>				<b>(7.9)%</b>		<b>(8.4)%</b>	<b>(23.0)%</b>		<b>(25.8)%</b>	<b>(90.0)%</b>		<b>(92.1)%</b>

€ million	Year to December 31, 2020														
	British Airways (£) <sup>1</sup>			British Airways (€) <sup>1</sup>			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	2,840	(54)	2,894	3,309	(59)	3,368	1,160	-	1,160	569	-	569	379	(3)	382
Cargo revenue	890	-	890	998	-	998	240	-	240	-	-	-	88	-	88
Other revenue	217	-	217	251	-	251	859	-	859	5	-	5	-	-	-
<b>Total revenue</b>	<b>3,947</b>	<b>(54)</b>	<b>4,001</b>	<b>4,558</b>	<b>(59)</b>	<b>4,617</b>	<b>2,259</b>	<b>-</b>	<b>2,259</b>	<b>574</b>	<b>-</b>	<b>574</b>	<b>467</b>	<b>(3)</b>	<b>470</b>
Employee costs	1,938	221	1,717	2,193	243	1,950	798	14	784	196	-	196	217	24	193
Fuel, oil costs and emissions charges	1,996	837	1,159	2,317	984	1,333	716	344	372	314	154	160	286	144	142
Depreciation, amortisation and impairment	1,475	399	1,076	1,659	445	1,214	612	242	370	345	68	277	157	24	133
Other operating costs	2,440	42	2,398	2,792	47	2,745	1,544	52	1,492	594	30	564	370	7	363
Total expenditure on operations	7,849	1,499	6,350	8,961	1,719	7,242	3,670	652	3,018	1,449	252	1,197	1,030	199	831
<b>Operating loss</b>	<b>(3,902)</b>	<b>(1,553)</b>	<b>(2,349)</b>	<b>(4,403)</b>	<b>(1,778)</b>	<b>(2,625)</b>	<b>(1,411)</b>	<b>(652)</b>	<b>(759)</b>	<b>(875)</b>	<b>(252)</b>	<b>(623)</b>	<b>(563)</b>	<b>(202)</b>	<b>(361)</b>
<b>Operating margin (%)</b>	<b>(98.9)%</b>		<b>(58.7)%</b>				<b>(62.5)%</b>		<b>(33.6)%</b>	<b>(152.4)%</b>		<b>(108.5)%</b>	<b>(120.6)%</b>		<b>(76.8)%</b>

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## b Basic loss per share before exceptional items and adjusted earnings per share (KPI)

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

€ million	Note	2021	2020 <sup>1</sup>
Loss after tax attributable to equity holders of the parent	a	<b>(2,933)</b>	(6,935)
Exceptional items	a	<b>105</b>	(2,598)
<b>Loss after tax attributable to equity holders of the parent before exceptional items</b>		<b>(3,038)</b>	(4,337)
<b>Adjusted loss</b>		<b>(3,038)</b>	(4,337)
Weighted average number of shares used for basic loss per share <sup>2</sup>	11	<b>4,964</b>	3,528
Weighted average number of shares used for diluted loss per share	11	<b>4,964</b>	3,528
<b>Basic loss per share (€ cents)</b>		<b>(61.2)</b>	(122.9)
<b>Adjusted loss per share before exceptional items (€ cents)</b>		<b>(61.2)</b>	(122.9)

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 29).

## 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.

€ million	Note	2021 Reported	ccy adjustment	2021 ccy	2020 <sup>1</sup>
Total expenditure on operations	a	11,220	41	11,261	15,257
(Add)/less: exceptional items in operating expenditure	a	(200)		(200)	2,999
Less: fuel, oil costs and emission charges	a	1,935	59	1,994	2,041
Non-fuel costs		9,485	(18)	9,467	10,217
Less: Non-flight specific costs		815	12	827	851
<b>Airline non-fuel costs</b>		<b>8,670</b>	<b>(30)</b>	<b>8,640</b>	<b>9,366</b>
ASKs (millions)		121,965		121,965	113,195
<b>Airline non-fuel unit costs per ASK (€ cents)</b>		<b>7.11</b>		<b>7.08</b>	8.27

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## 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, less the cash inflows from the rights issue 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	2021	2020
<b>Net Increase in cash and cash equivalents</b>	<b>1,913</b>	1,940
Less: Decrease in other current interest-bearing deposits	<b>(91)</b>	(2,366)
Less: Other financing movements	-	(2,674)
Add: Dividends paid	-	53
<b>Levered free cash flow</b>	<b>1,822</b>	(3,047)



#### e Net debt to EBITDA (KPI)

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

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

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

€ million	Note	2021	2020 <sup>1</sup>
Interest-bearing long-term borrowings	25	19,610	15,679
Less: Cash and cash equivalents	21	(7,892)	(5,774)
Less: Other current interest-bearing deposits	21	(51)	(143)
<b>Net debt</b>		<b>11,667</b>	9,762
Operating loss	a	(2,765)	(7,451)
Add: Exceptional items	a	(205)	3,061
Add: Depreciation, amortisation and impairment	a	1,953	2,099
<b>EBITDA</b>		<b>(1,017)</b>	(2,291)
<b>Net debt to EBITDA</b>		<b>(11.5)</b>	(4.3)

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

#### 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, 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	2021	2020 <sup>1</sup>
EBITDA	e	(1,017)	(2,291)
Less: Fleet depreciation multiplied by inflation adjustment		(1,777)	(1,921)
Less: Other property, plant and equipment depreciation		(257)	(258)
Less: Software intangible amortisation		(167)	(151)
		<b>(3,218)</b>	(4,621)
<b>Invested capital</b>			
Average fleet value <sup>3</sup>	13	15,241	16,020
Less: average progress payments <sup>4</sup>	13	(729)	(1,117)
Fleet book value less progress payments		14,512	14,903
<i>Inflation adjustment<sup>2</sup></i>		1.16	1.18
		<b>16,893</b>	17,520
Average net book value of other property, plant and equipment <sup>5</sup>	13	2,106	2,329
Average net book value of software intangible assets <sup>6</sup>	17	640	652
<b>Total invested capital</b>		<b>19,639</b>	20,501
<b>Return on Invested Capital</b>		<b>(16.4)%</b>	(22.5)%

<sup>1</sup> Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

<sup>2</sup> Presented to two decimal places and calculated using a 1.5 per cent inflation (December 31, 2020: 1.5 per cent inflation) rate over the weighted average age of the fleet December 31, 2021: 10.6 years (December 31, 2020: 9.8 years).

<sup>3</sup> The average net book value of aircraft is calculated from an amount of €15,365 million at December 31, 2020 and €15,116 million at December 31, 2021.

<sup>4</sup> The average net book value of progress payments is calculated from an amount of €710 million at December 31, 2020 and €748 million at December 31, 2021.

<sup>5</sup> The average net book value of other property, plant and equipment is calculated from an amount of €2,166 million at December 31, 2020 and €2,045 million at December 31, 2021.

<sup>6</sup> The average net book value of software intangible assets is calculated from an amount of €638 million at December 31, 2020 and €642 million at December 31, 2021.

### g Results on a constant currency (ccy) basis

Movements in foreign exchange rates impact the Group's financial results. The Group reviews the results, including revenue and operating costs at constant rates of exchange (abbreviated to 'ccy'). The Group calculates these financial measures at constant rates of exchange based on a 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 2021 figures are stated at a constant currency basis, they have applied the 2020 rates stated below:

#### Foreign exchange rates

	Weighted average		Closing	
	2021	2020	2021	2020
Pound sterling to euro	<b>1.15</b>	1.13	<b>1.18</b>	1.10
Euro to US dollar	<b>1.20</b>	1.13	<b>1.13</b>	1.22
Pound sterling to US dollar	<b>1.38</b>	1.27	<b>1.33</b>	1.35

### h Liquidity

The Management Committee monitors liquidity in order to assess the resilience of the Group to adverse events and uncertainty and develops 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	2021	2020
Cash and cash equivalents	21	<b>7,892</b>	5,774
Current interest-bearing deposits	21	<b>51</b>	143
Committed general undrawn facilities	27f	<b>2,864</b>	905
Committed aircraft undrawn facilities	27f	<b>1,126</b>	1,180
Overdrafts and other facilities	27f	<b>53</b>	52
<b>Total liquidity</b>		<b>11,986</b>	8,054

## GROUP INVESTMENTS

### Subsidiaries

#### British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Avios Group (AGL) Limited*</b> Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
<b>BA and AA Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Call Centre India Private Limited (callBA)</b> F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100%
<b>BA Cityflyer Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>BA European Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Excepted Group Life Scheme Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
<b>BA Healthcare Trust Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
<b>BA Holdco Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Number One Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>BA Number Two Limited</b> IFC 5, St Helier, JE11ST	Dormant	Jersey	100%
<b>Bealine Plc</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>BritAir Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>British Airways (BA) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>British Airways 777 Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
<b>British Airways Associated Companies Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>British Airways Avionic Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Capital Limited</b> Queensway House, Hilgrove Street, St Helier, JE11ES	Aircraft financing	Jersey	100%
<b>British Airways Holdings B.V.</b> Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
<b>British Airways Holidays Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
<b>British Airways Interior Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
<b>British Airways Maintenance Cardiff Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Pension Trustees (No 2) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
<b>British Midland Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
<b>British Midland Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>Flyline Tele Sales &amp; Services GmbH</b> Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
<b>Gatwick Ground Services Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
<b>Overseas Air Travel Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
<b>Speedbird Insurance Company Limited*</b> Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
<b>British Mediterranean Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
<b>BA Euroflyer Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>Teleflight Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Call centre	England	100%

## Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Compañía Explotación Aviones Cargueros Cargosur, S.A.</b> Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100%
<b>Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.*</b> Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
<b>Iberia Líneas Aéreas de España, S.A. Operadora*</b> Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%1
<b>Iberia México, S.A.*</b> Calle Montes Urales 424, Colonia Lomas de Chapultepec V, Ciudad de México, 11000	Storage and custody services	Mexico	100%
<b>Iberia Operadora UK Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>Iberia Tecnología, S.A.*</b> Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
<b>Iberia Desarrollo Barcelona, S.L.*</b> Avenida de les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%

## Aer Lingus

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Aer Lingus (Ireland) Limited</b> Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
<b>Aer Lingus 2009 DCS Trustee Limited</b> Dublin Airport, Dublin	Trustee	Republic of Ireland	100%
<b>Aer Lingus Beachey Limited</b> Penthouse Suite, Analyst House, Peel Road, IM1 4LZ	Dormant	Isle of Man	100%
<b>Aer Lingus Group DAC*</b> Dublin Airport, Dublin	Holding company	Republic of Ireland	100%2
<b>Aer Lingus Limited*</b> Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
<b>Aer Lingus (UK) Limited</b> Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Airline operations	Northern Ireland	100%
<b>ALG Trustee Limited</b> 33-37 Athol Street, Douglas, IM1 1LB	Trustee	Isle of Man	100%
<b>Dirnan Insurance Company Limited</b> Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12	Insurance	Bermuda	100%
<b>Santain Developments Limited</b> Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

## IAG Loyalty

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Avios South Africa Proprietary Limited</b> Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	Dormant	South Africa	100%
<b>IAG Loyalty Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%

## IAG Cargo

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Cargo Innovations Limited</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Dormant	England	100%
<b>Zenda Group Limited</b> 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
<b>Yellow Handling, S.L.U</b> Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Ground handling services	Spain	100%
<b>Vueling Airlines, S.A.*</b> Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99,5%

## LEVEL

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>FLYLEVEL UK Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Airline operations	England	100%
<b>Openskies SASU</b> 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
<b>AERL Holding Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
<b>British Airways Plc*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Airline operations	England	100%3
<b>FLY LEVEL, S.L.</b> Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100%
<b>IAG Cargo Limited*</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
<b>IAG Connect Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Inflight eCommerce platform	Republic of Ireland	100%
<b>IAG GBS Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	IT, finance, procurement services	England	100%
<b>IAG GBS Poland sp z.o.o.*</b> Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
<b>IB Opco Holding, S.L.</b> Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%1
<b>Veloz Holdco, S.L.</b> Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Holding company	Spain	100%

## Principal subsidiaries

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 both 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.

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%, correspond to a trust established for implementing the Aer Lingus nationality structure.

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
<b>Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.</b> Avenida de Vantroi y Final, Jose Martí Airport, Havana	Cuba	50%
<b>Empresa Logística de Carga Aérea, S.A.</b> Carretera de Wajay km 15, Jose Martí Airport, Havana	Cuba	50%
<b>Multiservicios Aeroportuarios, S.A.</b> Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
<b>Dunwoody Airline Services Limited</b> Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	England	40%
<b>Serpista, S.A.</b> Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
<b>Air Miles España, S.A.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>Inloyalty by Travel Club, S.L.U.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>Viajes Ame, S.A.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>DeepAir Solutions Limited</b> Ground Floor North, 86 Brook Street, London, W1K 5AY	England	23%
<b>LanzaJet</b> 520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015, USA	United States	16.7%

## Joint ventures

Name and address	Country of Incorporation	Percentage of equity owned
<b>Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.</b> 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)
<b>Servicios de Instrucción de Vuelo, S.L.</b> Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	71	(0.6)
<b>The Airline Group Limited</b> 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	n/a	n/a
<b>Travel Quinto Centenario, S.A.</b> Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
<b>i6 Group Limited</b> Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4%	GBP	4	(1)
<b>Monese Limited</b> 1 King Street, London, EC2V 8AU	England	5.9%	GBP	(13)	(25)
<b>NAYAKJVI, S.L.</b> C/ d'Osona, 2, El Prat de Llobregat, 08820	Spain	5%	EUR	n/a	n/a

**STATEMENT OF DIRECTORS' REPONSIBILITIES**

**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 24, 2022, 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, 2021 prepared in accordance with the applicable international accounting standards, offer a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the interim consolidated management report includes a fair review of the required information.

February 24, 2022

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**Javier Ferrán Larraz**  
Chairman

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**Luis Gallego Martín**  
Chief Executive Officer

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**Giles Agutter**

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**Peggy Bruzelius**

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**Eva Castillo Sanz**

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**Margaret Ewing**

---

**Maurice Lam**

---

**Heather Ann McSharry**

---

**Robin Phillips**

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**Emilio Saracho Rodríguez de Torres**

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**Lucy Nicola Shaw**

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**Alberto Terol Esteban**

**AIRCRAFT FLEET**

	Owned	Right of use	Total December 31, 2021	Total December 31, 2020	Changes since December 31, 2020	Future deliveries	Options
Airbus A319	8	31	39	49	(10)	-	-
Airbus A320	63	177	240	232	8	22	76
Airbus A321	16	57	73	72	1	34	14
Airbus A330-200	-	18	18	19	(1)	-	-
Airbus A330-300	5	13	18	18	-	-	-
Airbus A350	10	7	17	17	-	26	52
Airbus A380	2	10	12	12	-	-	-
Boeing 777-200	38	5	43	43	-	-	-
Boeing 777-300	4	12	16	16	-	-	-
Boeing 777-9	-	-	-	-	-	18	24
Boeing 787-8	-	12	12	12	-	-	-
Boeing 787-9	1	17	18	18	-	-	-
Boeing 787-10	2	-	2	2	-	10	6
Embraer E170	-	-	-	1	(1)	-	-
Embraer E190	9	14	23	22	1	-	-
<b>Group total</b>	<b>158</b>	<b>373</b>	<b>531</b>	<b>533</b>	<b>(2)</b>	<b>110</b>	<b>172</b>

At December 31, 2021, the Group held 29 aircraft not in service, pending disposal.