

# IFRS 16 - Financial statements impacts

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This presentation contains a summary of the impacts of IFRS 16 on IAG's financial statements for 2018

- IAG applies the new accounting standard IFRS 16 'Leases' from 1 January 2019.
- This presentation contains a summary of the impacts of IFRS 16 on IAG's financial statements for 2018
  - Preliminary balance sheet – impact on adoption of IFRS 16 on 1 January 2019 (also in 2018 IAG Annual Report and Accounts, note 33)
  - Pro-forma income statement for 2018
  - Pro-forma cash flow statement for 2018
  - Pro-forma quarterly income statements for 2018
- The information has not been audited, apart from the preliminary balance sheet on adoption of IFRS 16 at 1 January 2019.
- For 2018, pro-forma pre-exceptional operating profit under IFRS 16 is higher than reported operating profit but pre-exceptional PBT is slightly lower due to right of use depreciation plus lease finance cost being higher than reported lease rental costs. There is no impact on net cash flow.
- In 2019, we intend to publish quarterly and full year pro-forma income statements for 2018 alongside statutory information.
- We intend to provide further information on the impacts of IFRS 16 on our KPI definitions, including Return on Invested Capital (RoIC) and Equity Free Cash Flow (EqFCF), at 1Q 2019 results.

# IFRS 16 'Leases' has been adopted from 1 January, 2019

The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. We have adopted the modified retrospective transition method which does not permit the restatement of the statutory comparator information (the 2018 income statement, balance sheet and cash flow statement). IAG has prepared a quarterly and full year pro-forma income statement for 2018 which it intends to publish alongside its statutory information.

- The Group has a number of operating leases for assets including aircraft, property and other equipment.
- The main changes arising on the adoption of IFRS 16 will be as follows:
  - 1) Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet at their discounted present value, along with the related 'right-of-use' (ROU) asset. The Group has opted to use the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases will continue to be recognised in the Income statement on a straight-line basis over the life of the lease.
  - 2) There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
  - 3) The adoption of IFRS 16 has required the Group to make a number of judgements, estimates and assumptions. These include:
    - The approach to be adopted on transition
    - The estimated lease term
    - The discount rate used to determine the present value of the lease liability
    - Terminal arrangements
    - Restoration obligations
  - 4) For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the ROU asset will be recognised at the historic exchange rate. This will create volatility in the Income statement. The Group intends to manage this volatility as part of its risk management strategy.

# IFRS 16 – Impact of adoption on preliminary balance sheet

Operating leases recognised on the balance sheet in the form of a right of use (ROU) asset (aircraft, property and equipment) and associated debt

Consolidated balance sheet 2018 (€m)	2018 as reported	IFRS 16 Impact	Restated for IFRS 16	Notes
<b>Non-current assets</b>				
Fleet	10,790	3,730	14,520	Addition of right of use aircraft assets (around 280 out of 573 aircraft)
Property and equipment	1,647	755	2,402	Addition of right of use property and equipment assets
Deferred tax assets	536	130	666	
Other non-current assets	4,968	-	4,968	
<b>Current assets</b>				
Other current assets	10,093	(35)	10,058	Decrease in other current assets (lease prepayments)
<b>Total assets</b>	<b>28,034</b>	<b>4,580</b>	<b>32,614</b>	
<b>Total equity</b>	<b>6,720</b>	<b>(550)</b>	<b>6,170</b>	Reduction in equity due to discounted ROU liabilities more than depreciated ROU assets
<b>Non-current liabilities</b>				
Interest-bearing long term borrowings	6,633	4,315	10,948	Addition of right of use liabilities due after one year (discounted at incremental borrowing rate)
Deferred tax liability	453	(40)	413	
Provisions for liabilities and charges	2,268	120	2,388	Increase in restoration and handback provisions
Other non-current liabilities	910	(125)	785	Decrease in other non-current liabilities (deferred income on sale and leasebacks)
<b>Current liabilities</b>				
Current portion of long term borrowings	876	880	1,756	Addition of right of use liabilities due within one year
Other current liabilities	10,174	(20)	10,154	
<b>Total liabilities</b>	<b>21,314</b>	<b>5,130</b>	<b>26,444</b>	
<b>Total equity and liabilities</b>	<b>28,034</b>	<b>4,580</b>	<b>32,614</b>	

# IFRS 16 – Pro-forma income statement before exceptional items

Increase in operating profit offset by increase in finance cost; impact on PBT slightly negative overall but in future subject to revaluation of ROU liabilities and related hedges due to currency

Consolidated income statement 2018 (€m)	2018 as reported	IFRS 16 Impact	Adjusted for IFRS 16	Notes
<b>Total revenue</b>	<b>24,406</b>	-	<b>24,406</b>	
Employee costs	4,812	-	4,812	
Fuel, oil costs and emissions charges	5,283	-	5,283	
Other supplier costs	8,019	22	8,041	Mainly wet lease costs, offset by reduction in maintenance provisions.
Property, IT and other costs	918	(129)	789	Property and non-aircraft operating lease rentals recognised as depreciation and lease finance costs
<b>EBITDAR</b>	<b>5,374</b>	107	<b>5,481</b>	Increase in EBITDAR following reclassification of property and non-aircraft rentals
Aircraft operating lease costs	890	(890)	-	Aircraft operating lease rentals recognised as depreciation and lease finance costs
<b>EBITDA</b>	<b>4,484</b>	997	<b>5,481</b>	
Depreciation, amortisation and impairment	1,254	742	1,996	Aircraft ROU depreciation (€634m) and property and non-aircraft ROU depreciation (€108m)
<b>Operating profit</b>	<b>3,230</b>	255	<b>3,485</b>	
Net non-operating costs	(191)	(330)	(521)	Aircraft lease finance cost (€294m) and property and non-aircraft lease finance cost (€36m)
Revaluation of ROU lease liabilities <sup>2</sup>	-	-	-	Change in mark-to-market value of ROU liabilities (mainly in US dollars)
Gains/(losses) on hedges <sup>2</sup>	-	-	-	Change in mark-to-market value of hedges related to ROU liabilities
<b>Profit before tax (before exceptional items)</b>	<b>3,039</b>	<b>(75)</b>	<b>2,964</b>	PBT slightly negative overall due to relatively young lease portfolio (relatively high lease finance cost). Reported PBT will vary due to revaluation of ROU obligations and gains/(losses) on hedge accounting
Tax	(558)	16	(542)	
<b>Profit after tax (before exceptional items)</b>	<b>2,481</b>	<b>(59)</b>	<b>2,422</b>	

# IFRS 16 – Pro-forma cash flow statement

Overall neutral impact with an increase in net cash flows from operating activities offset by an increase in net cash outflows from financing activities

Consolidated cash flow statement 2018 (€m)	2018 as reported	IFRS 16 Impact	Adjusted for IFRS 16	Notes
<b>Cash flows from operating activities</b>				
Operating profit after exceptional items	3,678	255	3,933	Increase in operating profit due to reclassification of lease finance cost of ROU lease liabilities
Depreciation, amortisation and impairment	1,254	742	1,996	Aircraft ROU depreciation (€634m) and property and non-aircraft ROU depreciation (€108m)
Movement in working capital	(64)	-	(64)	
Net interest (paid)/received	(112)	(330)	(442)	Aircraft lease finance cost (€294m) and property and non-aircraft lease finance cost (€36m)
Other operating items	(1,520)	-	(1,520)	
<b>Net cash flows from operating activities</b>	<b>3,236</b>	<b>667</b>	<b>3,903</b>	Increase in cash flows from operating activities of €667m
<b>Net cash flows from investing activities</b>	<b>(1,243)</b>	-	<b>(1,243)</b>	Cash flow from investing activities unchanged
<b>Cash flows from financing activities</b>				
Repayment of ROU liabilities	-	(667)	(667)	
Other financing items	(1,410)	-	(1,410)	
<b>Net cash flows from financing activities</b>	<b>(1,410)</b>	<b>(667)</b>	<b>(2,077)</b>	Increase in net cash outflows from financing activities of €667m
<b>Net increase in cash and cash equivalents</b>	<b>583</b>	-	<b>583</b>	
Net foreign exchange differences	(38)	-	(38)	
Cash and cash equivalents at 1 January	3,292	-	3,292	
<b>Cash and cash equivalents at year end</b>	<b>3,837</b>	-	<b>3,837</b>	Cash and cash equivalents unchanged

# IFRS 16 – Pro-forma 2018 quarterly income statements before exceptional items (1Q, 2Q, 1H)

Consolidated Income Statement (€m) 2018	1Q reported	1Q adjusted	Change	2Q reported	2Q adjusted	Change	1H reported	1H adjusted	Change
<b>Total revenue</b>	<b>5,022</b>	<b>5,022</b>	-	<b>6,184</b>	<b>6,184</b>	-	<b>11,206</b>	<b>11,206</b>	-
Employee costs	1,154	1,154	-	1,219	1,219	-	2,373	2,373	-
Fuel, oil costs and emissions charges	1,112	1,112	-	1,325	1,325	-	2,437	2,437	-
Handling, catering and other operating costs	645	643	(2)	719	718	(1)	1,364	1,361	(3)
Landing fees and en-route charges	472	472	-	579	579	-	1,051	1,051	-
Engineering and other aircraft costs	391	388	(3)	431	438	7	822	826	4
Property, IT and other costs	207	176	(31)	239	205	(34)	446	381	(65)
Selling costs	271	271	-	263	263	-	534	534	-
Depreciation, amortisation and impairment	307	485	178	311	494	183	618	979	361
Aircraft operating lease costs	202	-	(202)	220	-	(220)	422	-	(422)
Currency differences	(19)	(19)	-	43	43	-	24	24	-
<b>Operating profit</b>	<b>280</b>	<b>340</b>	<b>60</b>	<b>835</b>	<b>900</b>	<b>65</b>	<b>1,115</b>	<b>1,240</b>	<b>125</b>
Finance costs	(48)	(132)	(84)	(63)	(147)	(84)	(111)	(279)	(168)
Other non-operating items	14	14	-	17	17	-	31	31	-
<b>Profit before tax (before exceptional items)</b>	<b>246</b>	<b>222</b>	<b>(24)</b>	<b>789</b>	<b>770</b>	<b>(19)</b>	<b>1,035</b>	<b>992</b>	<b>(43)</b>
Tax	(40)	(35)	5	(160)	(154)	6	(200)	(189)	11
<b>Profit after tax (before exceptional items)</b>	<b>206</b>	<b>187</b>	<b>(19)</b>	<b>629</b>	<b>616</b>	<b>(13)</b>	<b>835</b>	<b>803</b>	<b>(32)</b>

1. Adjustments have been translated at the actual quarterly exchange rates.
2. USD ROU lease liabilities and related hedges not retranslated in 2018 pro-formas.

# IFRS 16 – Pro-forma 2018 quarterly income statements before exceptional items (3Q, 4Q, FY)

Consolidated Income Statement (€m) 2018	3Q reported	3Q adjusted	Change	4Q reported	4Q adjusted	Change	FY reported	FY adjusted	Change
<b>Total revenue</b>	<b>7,140</b>	<b>7,140</b>	-	<b>6,060</b>	<b>6,060</b>	-	<b>24,406</b>	<b>24,406</b>	-
Employee costs	1,216	1,216	-	1,223	1,223	-	4,812	4,812	-
Fuel, oil costs and emissions charges	1,497	1,497	-	1,349	1,349	-	5,283	5,283	-
Handling, catering and other operating costs	790	787	(3)	734	733	(1)	2,888	2,881	(7)
Landing fees and en-route charges	618	618	-	515	515	-	2,184	2,184	-
Engineering and other aircraft costs	463	480	17	543	551	8	1,828	1,857	29
Property, IT and other costs	232	199	(33)	240	209	(31)	918	789	(129)
Selling costs	272	272	-	240	240	-	1,046	1,046	-
Depreciation, amortisation and impairment	310	500	190	326	517	191	1,254	1,996	742
Aircraft operating lease costs	241	-	(241)	227	-	(227)	890	-	(890)
Currency differences	41	41	-	8	8	-	73	73	-
<b>Operating profit</b>	<b>1,460</b>	<b>1,530</b>	<b>70</b>	<b>655</b>	<b>715</b>	<b>60</b>	<b>3,230</b>	<b>3,485</b>	<b>255</b>
Finance costs	(55)	(135)	(80)	(65)	(147)	(82)	(231)	(561)	(330)
Other non-operating charges	14	14	-	(5)	(5)	-	40	40	-
<b>Profit before tax (before exceptional items)</b>	<b>1,419</b>	<b>1,409</b>	<b>(10)</b>	<b>585</b>	<b>563</b>	<b>(22)</b>	<b>3,039</b>	<b>2,964</b>	<b>(75)</b>
Tax	(284)	(282)	2	(74)	(71)	3	(558)	(542)	16
<b>Profit after tax (before exceptional items)</b>	<b>1,135</b>	<b>1,127</b>	<b>(8)</b>	<b>511</b>	<b>492</b>	<b>(19)</b>	<b>2,481</b>	<b>2,422</b>	<b>(59)</b>

1. Adjustments have been translated at the actual quarterly exchange rates.
2. USD ROU lease liabilities and related hedges not retranslated in 2018 pro-formas.



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