IAG half year results 2023

Record first half profit driven by continuing strong performance across the Group

Highlights

- Record first half operating profit before exceptional items of €1,260 million (first half 2022: €446 million loss), an increase of €1,706 million, with sustained strong demand across our network and particular outperformance from our Spanish businesses
- Quarter 2 2023 operating profit before exceptional items of €1,251 million (quarter 2 2022: €295 million), including a record operating profit before exceptional items for any quarter at Iberia of €307 million
- Net debt has reduced to €7.6 billion at June 30, 2023 (December 31, 2022: €10.4 billion) due to the increase in profit and seasonal working capital inflows; net debt to EBITDA before exceptional items of 1.5 times (2022: 3.1 times)
- We are particularly focused on delivering resilient operations over the summer, reflecting a challenging operating environment in the UK and parts of Europe
- Encouraging outlook for the summer with around 80% of expected quarter 3 revenue now booked
- IAG is well-positioned to benefit from its attractive customer base and strong network in large and growing markets

Luis Gallego, International Airlines Group's CEO, said:

"Our strong profits since the start of the year are helping to fund investment for our customers, and to improve our balance sheet by reducing debt. We are aiming to be back to pre-pandemic capacity at the end of this year.

"These results are thanks to a strong performance from all companies across the Group, and we would like to thank our teams for their hard work during the year so far.

"Customer demand remains strong across the Group, particularly for leisure travel, with around 80% of passenger revenue for the third quarter already booked. And our airlines have put in place plans to support operations during the busy summer period."

Financial summary:

	Six months to June 30		Three months to June 30	
Reported results (€ million)	**2023**	2022[1]	**2023**	2022[1]
Total revenue	**13,583**	9,351	**7,694**	5,916
Operating profit/(loss)	**1,260**	(417)	**1,251**	301
Profit/(loss) after tax	**921**	(654)	**1,008**	133
Basic earnings/(loss) per share (€ cents)	**18.6**	(13.2)		
Cash, cash equivalents and interest-bearing deposits[2]	**12,010**	9,599		
Borrowings[2]	**19,623**	19,984		

Alternative performance measures (€ million)	**2023**	2022[1]	**2023**	2022[1]
Total revenue before exceptional items	**13,583**	9,351	**7,694**	5,916
Operating profit/(loss) before exceptional items	**1,260**	(446)	**1,251**	295
Operating margin before exceptional items	**9.3%**	(4.8)%	**16.3%**	5.0%
Profit/(loss) after tax before exceptional items	**921**	(683)	**1,008**	127
Adjusted earnings/(loss) per share (€ cents)	**17.6**	(13.8)		
Net debt[2]	**7,613**	10,385		
Net debt to EBITDA before exceptional items (times)[2]	**1.5**	3.1		
Total liquidity[2,3]	**15,552**	13,999		

For definitions of Alternative performance measures, refer to the IAG Annual report and accounts 2022.
[1]The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment. There is no impact on the Loss after tax.
[2]The prior period comparative is December 31, 2022.
[3]Total liquidity includes Cash, cash equivalents and interest-bearing deposits, plus committed and undrawn general and overdraft facilities and aircraft specific financing facilities.

Financial highlights for first half of 2023

- Restored 94% of 2019 capacity, measured in available seat kilometres (ASKs)
- Passenger unit revenue for the first six months was 18.4% higher than the same period in 2022, with strong leisure traffic recovery and business traffic recovering more slowly. The premium leisure segment continued to perform very well.
- Non-fuel unit costs reduced by 7.3% versus the first six months of 2022, driven by a passenger capacity increase of 30.9% and transformation initiatives, net of supplier cost increases, mainly linked to inflation.
- Fuel unit cost was up 5.7% versus 2022, linked to higher effective average fuel prices net of hedging in the first six months of 2023 versus 2022 and the benefits of IAG's more efficient aircraft deliveries over the last few years
- Operating margin before exceptional items was 9.3% for the first half and 16.3% for the second quarter
- Profit after tax for the first six months of 2023 of €921 million (first six months of 2022: loss after tax of €654 million)

Trading outlook

- Customer demand remains strong across the Group, particularly for leisure customers, with around 80% of the third quarter's passenger revenue already booked
- We expect full year 2023 capacity to be around 97% of pre-COVID-19 levels, subject to disruption
- Whilst there is no sign of weakness in forward bookings, we continue to be mindful of wider uncertainties that might affect the full year. This includes the potential impact of geopolitical and macroeconomic volatility on the price of fuel and consumer confidence, as well as the impact of external factors on the operating environment, such as strikes. Our Cargo business continues to be impacted by a weak market
- We are currently c.30% booked for the fourth quarter, which is typical for this time of year
- We continue to expect non-fuel unit costs for the year to be in the range of 6% to 10% better compared to full year 2022
- We expect to generate sustainable free cash flow this year and for our net debt at December 31, 2023 to reduce compared to December 31, 2022, in line with our profit outperformance

Strategic highlights

IAG's airlines are well-positioned in large and growing markets
- Both the North and South Atlantic markets are seeing strong customer demand and are expected to reach pre-COVID-19 capacity by the end of this year
- We are seeing very strong leisure demand this year, across all our airlines and across all our cabins, as customers prioritise holidays and visiting friends and relatives
- This is compensating for slower recovery in the corporate market

Trading and network
- We are focusing our capacity restoration in our strongest markets
  - Aer Lingus is focused on its US markets, targeting new cities (e.g. Cleveland) and reopening previous destinations (e.g. Hartford), as well as consolidating its Manchester base
  - British Airways is continuing to focus on its traditionally strong North Atlantic markets, as well as reopening its key Asian routes
  - Iberia is building its capacity from Madrid to reflect strong demand in both the South and North Atlantic
  - Vueling continues to strengthen its presence in its core European markets and slot-constrained bases
- Strong demand for our attractive network and frequencies driving strong yields
  - Aer Lingus driven by US markets and recovery in the shorthaul European leisure destinations
  - British Airways seeing strong leisure demand in all cabins but lower levels of corporate travel
  - Iberia revenue is strong across the network due to exceptionally high demand
  - Vueling's high leisure demand and revenue strategy is delivering very high ancillary revenue growth

Fleet
- Disciplined capacity restoration, with a focus on reinstating British Airways' widebody capacity and supporting strategic opportunity for Iberia
  - 11 new deliveries in first half of 2023 to British Airways, Iberia and Vueling;
  - We are now expecting 30 aircraft in total to be delivered in 2023 including an additional leased aircraft for LEVEL
    - 11 widebodies (six to British Airways, four to Iberia and one to LEVEL); 19 narrowbodies (across all airlines)
  - 43% (243 aircraft) of both our longhaul and shorthaul fleet are now more efficient and quieter next generation aircraft
  - Better aircraft utilisation at Iberia and Vueling supporting capacity growth without the need for new aircraft
  - British Airways to return to pre-pandemic levels of non-premium capacity in 2024; longhaul capacity by 2025; and premium capacity by 2026

- Continuing to order more efficient, sustainable aircraft to support group commercial and sustainability objectives
  - Converted 10 A320neo options to firm deliveries from 2028 as replacement aircraft for our shorthaul network
  - New order for six Boeing 787-10 aircraft to be delivered to British Airways in 2025 and 2026 to accelerate its premium widebody capacity recovery; one new Airbus A350-900 aircraft for Iberia

Investing in our customer proposition
We recognise that we need to continue to drive investment in our propositions at all of our airlines to improve the customer experience. We are investing in our premium propositions to ensure we are competitive and remain attractive to our loyal customers

- We are continuing to roll out our new business class seats at British Airways and Iberia; 55% of British Airways' Heathrow longhaul fleet now embodied with the new Club Suite
- Both Iberia and British Airways are also investing in new and upgraded lounges, as well as developing a premium ground-based service at Madrid airport
- All of our network airlines are offering improved onboard catering in their premium cabins

We are also continuing to invest in customers across all parts of our airlines

- We continue to invest in our IT and digital capability:
    - Cloud-based systems and data centres for greater future reliability and flexibility
    - Commercial re-platforming at British Airways is underway which will deliver better customer experience and a greater range of commercial opportunities
    - Self-service capabilities and disruption management at Vueling
- British Airways recently opened a larger, more modern call centre in Delhi, with better IT and data capability

Building resilience in our operations

- Some of our operations are not where we would want them to be and this is affecting our overall customer service
- We are working in a challenging environment: French ATC strikes are affecting most of our airlines and global supply chain issues are reducing aircraft availability
- British Airways is being particularly affected due to its London exposure (at both Heathrow and Gatwick) and complex schedule. We are addressing this by:
    - Recruited 4,000 people in the first half, with a particular focus on ground operations
    - Taking on a number of wet lease aircraft to supplement availability: four Finnair A320s, one Air Belgium A330 and three Avion Express A320s at Gatwick
- Iberia still one of the world's leading airlines for punctuality

Loyalty

- Our Loyalty business continues to deliver strong growth in its operating profit, up 11% versus the first half of 2022 at £141 million (€160 million) – and 64% higher than the first half of 2019
- This included record remuneration from American Express of £286 million (€326 million), 76% higher than 2019, driven by more users of the branded card, which was relaunched in 2021
- During the first half of the year we issued 66.4 billion Avios, a 14% increase from the first half of 2022. We continue to add new ways for members to collect points:
    - 55% more members using our shopping portal; "Avios Balance Booster" leading to half a billion Avios issued in the first few weeks
    - In July we announced an update to how British Airways Executive Club members earn Avios, based on spend instead of the distance they fly, making it simpler and more transparent
- We are also helping our members to redeem points, with a total of 50.9 billion redeemed in the first six months:
    - Launch of 7 dedicated Avios-only flights to in-demand destinations including Geneva, Sharm El Sheikh and Tenerife; continued growth in BA Holidays redemptions with almost 20% of bookings using Avios
- Continuing to develop third party partnerships for both airline and non-airline earnings and redemptions

People

- We continue to make good progress recruiting people across the Group, in particular to support operations this summer
    - Over 7,000 employees recruited in the first half of 2023
    - British Airways and Iberia have also recently announced cadet schemes to provide a continued source of pilots
- We continue to be in negotiations with a number of employee representatives around the Group
- With respect to improving our gender diversity we are implementing resourcing, talent and succession strategies across the Group in order to achieve our target of 40% of women in senior leadership roles by 2025

Sustainability

- We continue to state the case for the positive social impact of aviation, including commissioning a report by PwC that concluded that IAG contributes directly and indirectly around €70 billion to the EU and UK economies, as well as supporting more than 600,000 jobs
- We are also taking an active role in EU and UK discussions on Sustainable Aviation Fuel (SAF), in particular around mandate design and potential pricing mechanisms
- Specifically we are making further progress in our initiatives to deliver our sustainability targets:
    - adding 11 new, more efficient aircraft which reduce our emissions by 20% compared to previous generation aircraft
    - we have just signed an agreement with Nova Pangea to provide funding for its project to convert waste to ethanol, the first stage in 2nd Generation SAF production.

Other

- We continue to focus on securing the required approvals for our acquisition of Air Europa, which is still expected to take between 18 to 24 months since our announcement of the transaction in February 2023

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

Forward-looking statements 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, acquisitions and divestments relating to the Group and discussions of the Group’s business plans. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement and speak as of the date of this announcement. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

Actual results may differ from those expressed or implied in the forward-looking statements in this announcement as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the current economic and geopolitical environment and ongoing recovery from the COVID-19 pandemic and uncertainties about its future 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 announcement 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 2022; this document is available on www.iairgroup.com. All forward-looking statements made on or after the date of this announcement and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the ongoing recovery from the COVID-19 pandemic and uncertainties about its future impact and duration and any further disruption to the global airline industry as well as the current economic and geopolitical environment.

Alternative Performance Measures:
This announcement contains, in addition to the financial information prepared in accordance with International Financial Reporting Standards (‘IFRS’) and derived from the Group’s financial statements, alternative performance measures (‘APMs’) as defined in the Guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA) on October 5, 2015. The performance of the Group is assessed using a number of APMs. These measures are not defined under IFRS, should be considered in addition to IFRS measurements, may differ to definitions given by regulatory bodies relevant 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’. For definitions and explanations of APMs, refer to the APMs section in the most recent published financial report and in the IAG Annual report and accounts; these documents are available on www.iairgroup.com.

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CONSOLIDATED INCOME STATEMENT

	Six months to June 30			Three months to June 30		
€ million	2023	2022[1]	Higher/ (lower)	2023	2022[1]	Higher/ (lower)
Passenger revenue	**11,784**	7,604	55.0 %	**6,743**	4,949	36.2 %
Cargo revenue	**603**	843	(28.5)%	**280**	411	(31.9)%
Other revenue	**1,196**	904	32.3 %	**671**	556	20.7 %
Total revenue	**13,583**	9,351	45.3 %	**7,694**	5,916	30.1 %
Employee costs	**2,610**	2,167	20.4 %	**1,353**	1,122	20.6 %
Fuel, oil costs and emissions charges	**3,550**	2,566	38.3 %	**1,792**	1,648	8.7 %
Handling, catering and other operating costs	**1,796**	1,322	35.9 %	**1,020**	780	30.8 %
Landing fees and en-route charges	**1,104**	847	30.3 %	**620**	489	26.8 %
Engineering and other aircraft costs	**1,208**	928	30.2 %	**621**	553	12.3 %
Property, IT and other costs	**515**	435	18.4 %	**266**	231	15.2 %
Selling costs	**578**	442	30.8 %	**298**	241	23.7 %
Depreciation, amortisation and impairment	**983**	1,015	(3.2)%	**497**	484	2.7 %
Net gain on sale of property, plant and equipment	**(17)**	(21)	(19.0)%	**(7)**	(8)	(12.5)%
Currency differences	**(4)**	67	nm	**(17)**	75	nm
Total expenditure on operations	**12,323**	9,768	26.2 %	**6,443**	5,615	14.7 %
Operating profit/(loss)	**1,260**	(417)	nm	**1,251**	301	nm
Finance costs	**(565)**	(480)	17.7 %	**(291)**	(247)	17.8 %
Finance income	**167**	3	nm	**99**	2	nm
Net change in fair value of financial instruments	**(13)**	130	nm	**(12)**	70	nm
Net financing credit relating to pensions	**51**	13	nm	**26**	6	nm
Net currency retranslation credits/(charges)	**149**	(197)	nm	**89**	(136)	nm
Other non-operating (charges)/credits	**(12)**	105	nm	**(4)**	77	nm
Total net non-operating costs	**(223)**	(426)	(47.7)%	**(93)**	(228)	(59.2)%
Profit/(loss) before tax	**1,037**	(843)	nm	**1,158**	73	nm
Tax	**(116)**	189	nm	**(150)**	60	nm
Profit/(loss) after tax for the period	**921**	(654)	nm	**1,008**	133	nm

[1]The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment within Operating profit/(loss). Accordingly, for the six month and three month periods to June 30, 2022, the Group has reclassified €21 million and €8 million, respectively, of gains from Other non-operating (charges)/credits to Expenditure on operations. There is no impact on the Loss after tax.

ALTERNATIVE PERFORMANCE MEASURES

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

	Six months to June 30			Three months to June 30		
	Before exceptional items			Before exceptional items		
€ million	**2023**	2022[1]	Higher/ (lower)	**2023**	2022[1]	Higher/ (lower)
Passenger revenue	**11,784**	7,604	55.0 %	**6,743**	4,949	36.2 %
Cargo revenue	**603**	843	(28.5)%	**280**	411	(31.9)%
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Depreciation, amortisation and impairment	**983**	1,021	(3.7)%	**497**	490	1.4 %
Net gain on sale of property, plant and equipment	**(17)**	(21)	(19.0)%	**(7)**	(8)	(12.5)%
Currency differences	**(4)**	67	nm	**(17)**	75	nm
Total expenditure on operations	**12,323**	9,797	25.8 %	**6,443**	5,621	14.6 %
Operating profit/(loss)	**1,260**	(446)	nm	**1,251**	295	nm
Finance costs	**(565)**	(480)	17.7 %	**(291)**	(247)	17.8 %
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Net financing credit relating to pensions	**51**	13	nm	**26**	6	nm
Net currency retranslation credits/(charges)	**149**	(197)	nm	**89**	(136)	nm
Other non-operating (charges)/credits	**(12)**	105	nm	**(4)**	77	nm
Total net non-operating costs	**(223)**	(426)	(47.7)%	**(93)**	(228)	(59.2)%
Profit/(loss) before tax	**1,037**	(872)	nm	**1,158**	67	nm
Tax	**(116)**	189	nm	**(150)**	60	nm
Profit/(loss) after tax for the period	**921**	(683)	nm	**1,008**	127	nm
Operating figures	**2023**	2022[1]	Higher/ (lower)	**2023**	2022[1]	Higher/ (lower)
Available seat kilometres (ASK million)	**154,034**	117,710	30.9 %	**82,371**	68,630	20.0 %
Revenue passenger kilometres (RPK million)	**129,585**	91,546	41.6 %	**71,162**	56,114	26.8 %
Seat factor (per cent)	**84.1**	77.8	6.3pts	**86.4**	81.8	4.6pts
Passenger numbers (thousands)	**54,307**	39,969	35.9 %	**30,028**	25,592	17.3 %
Cargo tonne kilometres (CTK million)	**2,224**	1,939	14.7 %	**1,099**	949	15.8 %
Sold cargo tonnes (thousands)	**294**	276	6.5 %	**142**	137	3.6 %
Sectors	**342,036**	277,368	23.3 %	**184,536**	169,668	8.8 %
Block hours (hours)	**1,018,110**	796,719	27.8 %	**549,484**	474,636	15.8 %
Average headcount	**68,477**	59,491	15.1%	**n/a**	n/a	n/a
Aircraft in service	**565**	549	2.9 %	**n/a**	n/a	n/a
Passenger revenue per RPK (€ cents)	**9.09**	8.31	9.5 %	**9.48**	8.82	7.4 %
Passenger revenue per ASK (€ cents)	**7.65**	6.46	18.4 %	**8.19**	7.21	13.5 %
Cargo revenue per CTK (€ cents)	**27.11**	43.48	(37.6)%	**25.48**	43.31	(41.2)%
Fuel cost per ASK (€ cents)	**2.30**	2.18	5.7 %	**2.18**	2.40	(9.4)%
Non-fuel costs per ASK (€ cents)	**5.70**	6.14	(7.3)%	**5.65**	5.79	(2.5)%
Total cost per ASK (€ cents)	**8.00**	8.32	(3.9)%	**7.82**	8.19	(4.5)%

[1]The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment within Operating profit/(loss). Accordingly, for the six month and three month periods to June 30, 2022, the Group has reclassified €21 million and €8 million, respectively, of gains from Other non-operating (charges)/credits to Expenditure on operations. There is no impact on the Loss after tax.

FINANCIAL REVIEW FOR THE SIX MONTHS TO JUNE 30, 2023

Developments since the last report (May 5, 2023)

On June 30, 2023, the Group announced that it had converted 10 A320neo options into firm orders, with the option to convert certain aircraft into A321neos. The aircraft will be delivered in 2028 and will be used by any of the Group's current airlines to replace A320ceo family aircraft.

On July 27, 2023, the Group announced that it had converted six Boeing 787-10 options held by British Airways into firm orders and at the same time is adding a further six 787-10 options to its longhaul order book. The Group is also converting one Airbus A350-900 option held by Iberia into a firm order. The firm aircraft will be delivered in 2025 and 2026 and will be used by British Airways and Iberia to restore capacity in the airlines' longhaul fleets.

Basis of preparation

At June 30, 2023, the Group had total liquidity of €15,552 million, comprising cash, cash equivalents and interest-bearing deposits of €12,010 million, €3,308 million of committed and undrawn general and overdraft facilities, and a further €234 million of committed and undrawn aircraft specific facilities.

In its assessment of going concern over the period of at least 12 months from the date of approval of this report (the 'going concern period'), the Group has prepared extensive modelling, including considering a plausible but severe downside scenario. Having reviewed these scenarios, 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 condensed consolidated interim financial statements for the six months to June 30, 2023.

Principal risks and uncertainties

The Group has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed in the Risk management and principal risk factors section of the 2022 Annual report and accounts, remain relevant at the date of this report. The Group continues to monitor risks as the risk landscape evolves, particularly considering how risks combine to create increased threats and how to re-assess the potential severity and likelihood accordingly. The Group's exposure and ability to directly manage the external risk environment remains a challenge, given the fundamental weaknesses in the resilience of the aviation sector's supply chain, inflationary impacts in both supplier costs and salaries, and policy measures taken by governments to address economic threats. Management remains focused on mitigating risks at all levels in the business and investing to increase resilience.

The Board reviews and challenges management on the risk landscape in the light of changes that influence the Group and the aviation industry. Where further action has been required, the Board has considered potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks or retain them within the Board's determined Group risk appetite.

In assessing its principal risks, the Group has considered operational resilience, supply chain risk, the status of the financial markets, the industrial relations landscape and people engagement and cultural change across the Group. No new principal risks were identified through the risk management discussions and assessments across the business in the year to date. From the risks identified in the 2022 Annual report and accounts, given the current environment, the main risks that continue to be a key area of focus, due to their potential implications for the Group, are outlined below.

- *Brand and customer trust*. Operational resilience and customer satisfaction underpin customer trust. Reliability, including on-time performance, service and product delivery, are key elements of brand value and of each customer's experience. The Group continues to improve its disruption management capabilities to support customers through disruption and improve its service propositions to help ensure that our customers choose to fly with the Group's airlines.
- *Critical third parties in the supply chain*. The aviation sector continues to be affected by global supply chain disruption which has impacted aircraft deliveries, component availability, resource availability and/or threat of employee industrial action in critical third parties and airport services, airports' resilience weaknesses, particularly Heathrow and air traffic control (ATC) restrictions and strikes. The Group proactively assesses its schedules for operability and continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource, strike action or production delays which could impact the availability of new fleet, engines or critical goods or services.
- *Cyber attack and data security*. The threat of sophisticated ransomware attacks on critical infrastructure and services remains high with the Group exposed to threat actors targeting both the Group's operating companies and its suppliers. In the half year, some of the Group's businesses were impacted by an attack on a third-party services provider holding employee data. The Group is focused on improving its cyber security posture and better understanding the risk presented by its suppliers.
- *Debt funding*. Interest rates increases implemented by central banks to address inflation increase the cost for the Group for existing floating rate debt, as well as for new financing. The Group continues to successfully secure aircraft financing.
- *Economic, political and regulatory environment*. The economic impact of increases in commodity and wage costs has driven significant inflation and impacted on interest rates as governments seek to moderate inflation, which may result in demand softening. If interest rate increases have not yet materially passed through to customers for their personal debt, they may need to reduce their spend on travel to accommodate the increase in their cost of borrowing.
- *IT systems and IT infrastructure*. The Group is reliant upon the resilience of its systems for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. The Group continues with major programmes and upgrades to modernise, including new commercial capabilities and customer centric enhancements using agile based models, as well as replacing core IT infrastructure and improving network connectivity. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans for the go-live of IT systems related changes.
- *Operational resilience*. Ongoing labour shortages, industrial unrest and strike action in the aviation sector, shortages in the supply chain and airspace and ATC restrictions can all impact the operational environment of the Group's airlines as well as the operations of the businesses on which the Group relies. The Group continues with its ambitious IT infrastructure transformation agenda to

modernise and digitalise its IT estates. The Group is focused on minimising any unplanned outages or disruption to customers with additional resilience built into the airlines' networks.

- *People, culture and employee relations*. Our people, their engagement and cultural appetite and mindset for change are critical to the Group's current performance and future success. Our leadership recognises the efforts of our staff and their commitment through the continued operational challenges facing our airlines. Resource shortages in crew have been addressed and our businesses are building the knowledge and experience of their new starters and managing the cultural impacts of onboarding at scale to ensure they have the right capabilities to operate. Shortages in engineers across the aviation sector and in the Group's airlines may impact maintenance delivery timelines unless resource levels can be secured. Across the Group, collective bargaining is in place with various unions. Where agreements are open, our operating companies continue to engage in discussions with unions to secure sustainable agreements and address concerns arising within the negotiations.
- *Sustainable aviation*. The plan to decarbonise aviation has resulted in fragmentation of policy measures and support offered by governments for green initiatives across the different regions in which the Group airlines operate. As Sustainable Aviation Fuel (SAF) infrastructure and availability still lags demand for SAF, mandates and other tax-based measures may disproportionately impact the Group's airlines versus their competitors.

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

Operating and market environment
The average jet fuel spot price for the six months was $834 per metric tonne, 25 per cent lower than the average spot price in the first six months of 2022 of $1,120 per metric tonne. Prices fell over the course of the six months, from a peak of $1,142 per metric tonne in January and ended the six months at $769 per metric tonne. The shape of price movements within the first six months of 2023 was markedly different from that in the first six months of 2022, which saw a significant rise in fuel prices from late February, following the outbreak of the war in Ukraine, with the commodity price of jet fuel rising from $708 per metric tonne at the start of January to $1,235 per metric tonne at the end of June 2022. Jet fuel supply contracts are typically based on pricing up to one month in arrears, which results in the reduction in the average price paid for jet fuel supply in the first six months of 2023 compared with the first six months of 2022 being lower than the movement in spot jet fuel prices, with a reduction in the average commodity price paid of approximately 13 per cent for the six months.

The average foreign exchange rates for the first six months of 2023 resulted in the US dollar strengthening by three per cent against the euro and seven per cent against the pound sterling, compared with the average of the first six months of 2022. The closing foreign exchange rates, applied for balance sheet translations, represented a weakening of the US dollar of three per cent against the euro and five per cent against the pound sterling since December 31, 2022.

The net impact of transaction and translation exchange for the Group for the six months of 2023 was €15 million favourable versus the first six months of 2022, with the net impact €54 million adverse in quarter 1 and €69 million favourable in quarter 2.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on the operating result was favourable by €45 million for the first six months, increasing revenues by €222 million and costs by €177 million, with the impact €48 million adverse in quarter 1 and €93 million favourable in quarter 2.

IAG's results are impacted by exchange rates used for the translation of British Airways' and IAG Loyalty's financial results from pound sterling to the Group's reporting currency of euro. For the six months, the net impact of translation was €30 million adverse versus the first six months of 2022, with the impact €6 million adverse in quarter 1 and €24 million adverse in quarter 2.

Unless stated otherwise, all variances quoted below compare the first six months of 2023 with the first six months of 2022 on a reported basis (including exceptional items). Results for 2022 include a reclassification to conform with the 2023 presentation for Net gain on sale of property, plant and equipment within Operating profit/(loss), with €21 million of gains in 2022 reclassified from Other non-operating (charges)/credits to Expenditure on operations.

Capacity and passenger traffic
The Group continued to restore its passenger capacity, following the significant reductions due to COVID-19, with passenger capacity now close to pre-pandemic levels. In the first six months of 2023, IAG capacity, measured in available seat kilometres (ASKs), was 30.9 per cent higher than in the first six months of 2022, which was impacted by the Omicron variant of COVID-19, particularly in January and February. Passenger capacity was only 5.7 per cent lower than in the first six months of 2019. Passenger load factor for the six months was 84.1 per cent, up 6.3 points on the previous year and 1.1 points higher than in the first six months of 2019 (quarter 1: 0.8 points higher, quarter 2: 1.4 points higher).

FINANCIAL REVIEW FOR THE SIX MONTHS TO JUNE 30, 2023

Summary of passenger capacity and load factor by region

Six months to June 30, 2023	ASKs higher/(lower) v2022	ASKs higher/(lower) v2019	Passenger load factor (%)	Passenger load factor higher/(lower) v2022	Passenger load factor higher/(lower) v2019
Domestic	12.8%	10.8%	88.0	6.6 pts	1.9 pts
Europe	25.4%	(5.0%)	84.6	7.1 pts	3.3 pts
North America	36.6%	1.5%	81.7	7.3 pts	(0.5) pts
Latin America and Caribbean	14.1%	(2.4%)	87.0	5.3 pts	1.5 pts
Africa, Middle East and South Asia	47.1%	1.2%	81.8	4.4 pts	(0.4) pts
Asia Pacific	366.0%	(63.9%)	88.4	11.8 pts	4.2 pts
Total network	**30.9%**	**(5.7%)**	**84.1**	**6.3 pts**	**1.1 pts**

As can be seen in the table above, the remaining capacity shortfall to 2019 is principally attributable to the pace of capacity restoration in the Asia Pacific region, linked to the late lifting of COVID-19 restrictions. The Group is increasing its schedule to the region during 2023. British Airways services to Shanghai and Beijing resumed in the summer travel season and the airline has increased frequencies to Hong Kong and Tokyo Haneda.

Revenue

Passenger revenue rose €4,180 million from the first six months of 2022 to €11,784 million, reflecting the 30.9 per cent increase in capacity operated, together with the positive impact of the 6.3 percentage point increase in the passenger load factor and passenger yields per revenue passenger kilometre (RPK) up 9.5 per cent. The resulting passenger unit revenue (passenger revenue per ASK) was 18.4 per cent higher than the previous year and 18.1 per cent higher than the first six months of 2019 (quarter 1: up 14.8 per cent versus 2019, quarter 2: up 20.8 per cent). Leisure traffic performed particularly strongly, with corporate traffic recovering more slowly.

Cargo revenue was down €240 million versus the previous year to €603 million. Cargo carried, measured in cargo tonne kilometres (CTKs), rose by 14.7 per cent. Yields were 37.6 per cent lower than in the previous year, reflecting the increase in global passenger airline capacity across the industry and the recovery from the global supply chain and sea freight disruption seen in the first half of 2022. Cargo revenue was up €47 million, or 8.5 per cent, versus the same period in 2019, with cargo yields up 36.6 per cent versus 2019 despite challenging air cargo market conditions.

Other revenue increased by €292 million to €1,196 million, reflecting the recovery in the Group's non-airline businesses, including Iberia's third-party maintenance business, BA Holidays, and the growth of IAG Loyalty. Other revenue was 35.3 per cent higher than in the first six months of 2019.

Costs

Costs were impacted by the 30.9 increase in capacity versus 2022, with Total expenditure on operations 26.2 per cent higher than the previous year and non-fuel costs per ASK down 7.3 per cent.

Employee costs increased by €443 million versus the first six months of 2022 to €2,610 million, reflecting the increase in airline operations and the related increase in employee numbers, together with pay increases. On a unit basis per ASK, Employee costs were down 8.0 per cent.

Fuel, oil costs and emissions charges increased by €984 million to €3,550 million, principally reflecting the impact of the higher capacity operated. On a unit basis per ASK, Fuel, oil costs and emissions charges were up 5.7 per cent, principally reflecting the increase in the effective fuel price net of hedging. The significant increase in commodity fuel prices in the first half of 2022 was mitigated by hedging gains from hedging placed when the fuel prices were lower in 2021 and previously, whereas in 2023 there was a small net cost of hedging, due to the sustained increase in fuel prices since the start of 2022. Fuel costs continue to benefit from the Group's investment in new, more fuel-efficient aircraft.

Supplier costs increased by €1,156 million to €5,197 million, mainly linked to the increase in capacity operated, together with inflationary increases and disruption costs, partly offset by the Group's procurement initiatives. On a unit basis per ASK, Supplier costs were down 2.3 per cent.

Depreciation, amortisation and impairment costs for the first six months were €983 million and the Net gain from the sale of property, plant and equipment was €17 million, representing the disposal of assets, mainly connected with the disposal of aircraft and related spare parts. On a unit basis per ASK, Ownership costs (which include Depreciation, amortisation and impairment costs, and the Net gain from the sale of property, plant and equipment) were down 26.2 per cent.

FINANCIAL REVIEW FOR THE SIX MONTHS TO JUNE 30, 2023

Operating result
The Group's operating profit for the period was €1,260 million, an improvement of €1,677 million versus the operating loss of €417 million for the first half of 2022. Excluding exceptional items, the operating result improved €1,706 million versus the previous year.

The breakdown of the operating result between the Group's main operating companies is shown below.

Operating profit/(loss) before exceptional items, € million	Six months to June 30, 2023	Six months to June 30, 2022[1]	Six months to June 30, 2019[2]	2023 higher / (lower) v2022	2023 higher / (lower) v2019	% of 2019 capacity (ASKs) operated
British Airways	602	(436)	857	1,038	(255)	88.1
Iberia	372	2	117	370	255	102.1
Vueling	96	(58)	5	154	91	109.0
Aer Lingus	40	(83)	78	123	(38)	103.5
IAG Loyalty	160	152	98	8	62	n/a
Other Group companies	(10)	(23)	(67)	13	57	n/a
Total Group (including other companies)	1,260	(446)	1,088	1,706	172	94.3

[1]Figures for 2022 restated for change in classification of Net gain on sale of property, plant and equipment within Operating profit/(loss) to conform with the 2023 presentation.
[2]Figures for 2019 adjusted for impact of change to accounting for pension administration costs for British Airways in 2021 and the change in classification of Net gain on sale of property, plant and equipment within Operating profit/(loss) to conform with the 2023 presentation.

Restoration of capacity in British Airways has been lower than in the other operating companies, reflecting the retirement of British Airways' Boeing 747-400 fleet in its response to the COVID-19 pandemic and the slower restoration of capacity in the Asia Pacific region. Both Iberia and Vueling have performed strongly in the first six months of 2023, with operating profit before exceptional items exceeding that achieved in 2019. IAG Loyalty continues to increase its base of collectors of the Group's loyalty currency, Avios, with its operating profit for the first six months significantly increased versus the same period in 2019.

For further information, see note 4 'Segment information'.

Exceptional items
There were no exceptional items in the first six months of 2023. In the first six months of 2022, the Group recorded an exceptional credit of €23 million, relating to the partial reversal of a fine previously issued by the European Commission, in 2010, to British Airways, and an exceptional credit of €6 million reflecting the reversal of an aircraft impairment made in 2020. See Reconciliation of Alternative performance measures for further information.

Net non-operating costs, taxation and loss after tax
The Group's net non-operating costs for the first six months of 2023 were €223 million, compared with €426 million in the first six months of 2022, mainly reflecting: net finance costs of €398 million, down €79 million, driven by the significant increase in interest received on deposits, linked to rising interest rates; €149 million of Net currency retranslation credits in 2023, versus charges of €197 million in 2022; a charge of €13 million for the net changes in the fair value of financial instruments versus a credit of €130 million in 2022, principally due to changes in the mark-to-market of the IAG €825 million convertible bond, which is held at fair value; and other non-operating charges of €12 million in 2023 versus a credit of €105 million in 2022.

The tax charge on the profit for the period was €116 million (2022: tax credit of €189 million), and the effective tax rate was 11 per cent (2022: 22 per cent).

The substantial majority of the Group's activities are taxed where the main operations are based: in the UK, Spain and Ireland, which have corporation tax rates during 2023 of 23.5 per cent, 25 per cent and 12.5 per cent, respectively. The expected tax rate for the Group is determined by applying the relevant corporation tax rate to the profits or losses of each jurisdiction. The geographical distribution of profits and losses in the Group results in the expected tax rate being 24 per cent for the six months to June 30, 2023. The difference between the actual effective tax rate of 11 per cent and the expected tax rate of 24 per cent is primarily due to the partial recognition of previously unrecognised tax assets in the Group's Spanish companies.

The profit after tax for the first six months of 2023 was €921 million (2022: loss after tax of €654 million).

FINANCIAL REVIEW FOR THE SIX MONTHS TO JUNE 30, 2023

Cash, debt and liquidity

The Group's cash balance (defined as cash, cash equivalents and current interest-bearing deposits) of €12,010 million at June 30, 2023 was up €2,411 million on December 31, 2022, in line with the normal seasonal pattern of working capital movements and the trading performance. The Group's airlines typically experience a rise in deferred revenue in the first half of the year, linked to bookings for future travel, particularly leisure bookings for summer travel; deferred revenue then usually falls in the second half of the year.

During the six months, the Group took delivery of 11 aircraft and drew financing for 11 aircraft as set down below.

Number of aircraft	Delivered in the six months to June 30, 2023	Of which financed in the six months to June 30, 2023	Aircraft delivered in 2022 and financed in the six months to June 30, 2023
Airbus A320neo (British Airways)	1	1	2
Airbus A320neo (Iberia)	1	-	-
Airbus A321neo (Vueling)	4	4	-
Airbus A350-900 (Iberia)	2	1	-
Airbus A350-1000 (British Airways)	1	-	3
Boeing 787-10 (British Airways)	2	-	-
Total	11	6	5

The five aircraft for British Airways delivered in 2022 and financed in 2023 had financing secured at December 31, 2022, which was reported within committed and undrawn aircraft financing facilities. The Group has a number of options available to it to finance aircraft during the remainder of the year.

The Group's total borrowings at June 30, 2023 were €19,623 million, down €361 million from December 31, 2022. The reduction was mainly due to foreign exchange movements, linked to the weakening of the US dollar, in which a substantial portion of the Group's aircraft-related debt is denominated, together with the value of repayments of existing debt exceeding the value of new debt raised in the six months. Debt maturities in 2023, aside from regular aircraft lease payments, include the repayment of a €500 million senior unsecured IAG bond, which was redeemed at its maturity on July 4, 2023 and has not been refinanced.

Net debt (total borrowings less cash, cash equivalents and current interest-bearing deposits) was €7,613 million at June 30, 2023, a reduction of €2,772 million since December 31, 2022, mainly due to the increase in cash outlined above, driven by the profitability in the first six months, inflows of forward bookings for future travel, partially offset by capital expenditure and net interest, with the direct impact of foreign exchange movements reducing Net debt by €332 million.

The Group's EBITDA before exceptional items for the rolling four quarters to June 30, 2023 was €4,993 million. Net debt to EBITDA before exceptional items was 1.5 times at June 30, 2023. The seasonal pattern of airline bookings typically results in Net debt and Net debt to EBITDA before exceptional items being lower at the end of June than at the end of December. See Reconciliation of Alternative performance measures and Alternative performance measures section of IAG's 2022 Annual report and accounts for further information.

Total liquidity at June 30, 2023 was €15,552 million, up €1,553 million from €13,999 million at December 31, 2022. Committed and undrawn general and overdraft facilities were €3,308 million (December 31, 2022: €3,284 million) and committed and undrawn aircraft specific facilities were €234 million (December 31, 2022: €1,116 million).

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Unaudited Condensed Consolidated Interim Financial Statements
January 1, 2023 – June 30, 2023

CONSOLIDATED INCOME STATEMENT

€ million	Six months to June 30 Total 2023	 Total 2022[1]
Passenger revenue	**11,784**	7,604
Cargo revenue	**603**	843
Other revenue	**1,196**	904
Total revenue	**13,583**	9,351
Employee costs	**2,610**	2,167
Fuel, oil costs and emissions charges	**3,550**	2,566
Handling, catering and other operating costs	**1,796**	1,322
Landing fees and en-route charges	**1,104**	847
Engineering and other aircraft costs	**1,208**	928
Property, IT and other costs	**515**	435
Selling costs	**578**	442
Depreciation, amortisation and impairment	**983**	1,015
Net gain on sale of property, plant and equipment	**(17)**	(21)
Currency differences	**(4)**	67
Total expenditure on operations	**12,323**	9,768
Operating profit/(loss)	**1,260**	(417)
Finance costs	**(565)**	(480)
Finance income	**167**	3
Net change in fair value of financial instruments	**(13)**	130
Net financing credit relating to pensions	**51**	13
Net currency retranslation credits/(charges)	**149**	(197)
Other non-operating (charges)/credits	**(12)**	105
Total net non-operating costs	**(223)**	(426)
Profit/(loss) before tax	**1,037**	(843)
Tax	**(116)**	189
Profit/(loss) after tax for the period	**921**	(654)
Attributable to:		
Equity holders of the parent	**921**	(654)
Non-controlling interest	**-**	-
	921	(654)
Basic earnings/(loss) per share (€ cents)	**18.6**	(13.2)
Diluted earnings/(loss) per share (€ cents)	**17.6**	(13.2)

[1]The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment. There is no impact on the Loss after tax. Further information is given in note 1.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months to June 30	
€ million	**2023**	2022[1]
Items that may be reclassified subsequently to net profit		
Cash flow hedges:		
Fair value movements in equity[1]	**(287)**	1,502
Reclassified and reported in net profit	**(43)**	(373)
Fair value movements on cost of hedging[1]	**(114)**	(63)
Cost of hedging reclassified and reported in net profit	**36**	4
Currency translation differences	**33**	(15)
Items that will not be reclassified to net profit		
Fair value movement on other equity investments	**62**	-
Fair value movements on liabilities attributable to credit risk changes	**(83)**	19
Remeasurements of post-employment benefit obligations	**(476)**	547
Total other comprehensive (loss)/income for the period, net of tax	**(872)**	1,621
Profit/(loss) after tax for the period	**921**	(654)
Total comprehensive income for the period	**49**	967
Total comprehensive income is attributable to:		
Equity holders of the parent	**49**	967
Non-controlling interest	**-**	-
	49	967

[1]The 2022 results include a reclassification of losses and gains associated with the fair value movements on cash flow hedge and fair value movements on cost of hedging, respectively. There is no impact on Total other comprehensive income for the period, net of tax. Further information is given in note 1.

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

CONSOLIDATED BALANCE SHEET

€ million	**June 30, 2023**	December 31, 2022
Non-current assets		
Property, plant and equipment	**18,928**	18,346
Intangible assets	**3,757**	3,556
Investments accounted for using the equity method	**42**	43
Other equity investments	**117**	55
Employee benefit assets	**1,951**	2,334
Derivative financial instruments	**59**	81
Deferred tax assets	**1,428**	1,282
Other non-current assets	**404**	362
	26,686	26,059
Current assets		
Non-current assets held for sale	**-**	19
Inventories	**408**	353
Trade receivables	**1,731**	1,330
Other current assets	**1,474**	1,226
Current tax receivable	**44**	72
Derivative financial instruments	**173**	645
Current interest-bearing deposits	**1,282**	403
Cash and cash equivalents	**10,728**	9,196
	15,840	13,244
Total assets	**42,526**	39,303
Shareholders' equity		
Issued share capital	**497**	497
Share premium	**7,770**	7,770
Treasury shares	**(89)**	(28)
Other reserves	**(6,107)**	(6,223)
Total shareholders' equity	**2,071**	2,016
Non-controlling interest	**6**	6
Total equity	**2,077**	2,022
Non-current liabilities		
Borrowings	**16,284**	17,141
Employee benefit obligations	**210**	217
Provisions	**2,652**	2,652
Deferred revenue	**293**	326
Derivative financial instruments	**106**	84
Other long-term liabilities	**189**	200
	19,734	20,620
Current liabilities		
Borrowings	**3,339**	2,843
Trade and other payables	**5,813**	5,209
Deferred revenue	**9,979**	7,318
Derivative financial instruments	**638**	387
Current tax payable	**58**	8
Provisions	**888**	896
	20,715	16,661
Total liabilities	**40,449**	37,281
Total equity and liabilities	**42,526**	39,303

CONSOLIDATED CASH FLOW STATEMENT

	Six months to June 30	
€ million	**2023**	2022[1]
Cash flows from operating activities		
Operating profit/(loss)	**1,260**	(417)
Depreciation, amortisation and impairment	**983**	1,015
Net gain on disposal of property, plant and equipment	**(17)**	(21)
Employer contributions to pension schemes	**(20)**	(10)
Pension scheme service costs	**11**	1
Increase in provisions	**123**	291
Unrealised currency differences	**(44)**	38
Other movements	**11**	17
Interest paid	**(486)**	(403)
Interest received	**160**	3
Tax paid	**(53)**	(2)
Net cash flows from operating activities before movements in working capital	**1,928**	512
Increase in trade receivables	**(406)**	(811)
(Increase)/decrease in inventories	**(54)**	4
Increase in other receivables and current assets	**(248)**	(85)
Increase in trade payables	**54**	733
Increase in deferred revenue	**2,382**	2,370
Increase in other payables and current liabilities	**563**	527
Net movement in working capital	**2,291**	2,738
Net cash flows from operating activities	**4,219**	3,250
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	**(1,509)**	(2,100)
Sale of property, plant and equipment and intangible assets	**242**	173
Proceeds from sale of investments	**11**	20
Increase in other current interest-bearing deposits	**(869)**	(134)
Payment to Globalia for convertible loan	**-**	(100)
Other investing movements	**9**	41
Net cash flows from investing activities	**(2,116)**	(2,100)
Cash flows from financing activities		
Proceeds from borrowings	**614**	641
Repayment of borrowings	**(360)**	(275)
Repayment of lease liabilities	**(839)**	(726)
Settlement of derivative financial instruments	**(66)**	364
Acquisition of treasury shares	**(65)**	(23)
Net cash flows from financing activities	**(716)**	(19)
Net increase in cash and cash equivalents	**1,387**	1,131
Net foreign exchange differences	**145**	(19)
Cash and cash equivalents at 1 January	**9,196**	7,892
Cash and cash equivalents at period end	**10,728**	9,004
Interest-bearing deposits maturing after more than three months	**1,282**	186
Cash, cash equivalents and other interest-bearing deposits	**12,010**	9,190

[1]The 2022 results have been represented. Further information is given in note 1 and note 19.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to June 30, 2023

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	**Total shareholders' equity**	Non-controlling interest	**Total equity**
January 1, 2023	497	7,770	(28)	(6,223)	**2,016**	6	**2,022**
Total comprehensive income for the period (net of tax)	-	-	-	49	**49**	-	**49**
Hedges transferred and reported in the Balance sheet	-	-	-	44	**44**	-	**44**
Cost of share-based payments	-	-	-	28	**28**	-	**28**
Vesting of share-based payment schemes	-	-	4	(5)	**(1)**	-	**(1)**
Acquisition of treasury shares	-	-	(65)	-	**(65)**	-	**(65)**
June 30, 2023	**497**	**7,770**	**(89)**	**(6,107)**	**2,071**	**6**	**2,077**

For the six months to June 30, 2022

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non-controlling interest	Total equity
At January 1, 2022	497	7,770	(24)	(7,403)	840	6	846
Total comprehensive income for the period (net of tax)	-	-	-	967	967	-	967
Hedges transferred and reported in the Balance sheet	-	-	-	(10)	(10)	-	(10)
Cost of share-based payments	-	-	-	18	18	-	18
Vesting of share-based payment schemes	-	-	17	(20)	(3)	-	(3)
Acquisition of treasury shares	-	-	(23)	-	(23)	-	(23)
June 30, 2022	497	7,770	(30)	(6,448)	1,789	6	1,795

NOTES TO THE ACCOUNTS

For the six months to June 30, 2023

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG (hereinafter the 'Company') is a Spanish company registered in Madrid and was incorporated on December 17, 2009. 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.

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*).

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 (as adopted by the EU) and authorised for issue by the Board of Directors on July 27, 2023. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited.

The same basis of preparation and accounting policies set out in the IAG Annual report and accounts for the year to December 31, 2022 have been applied in the preparation of these condensed consolidated interim financial statements, other than those matters described below. IAG's financial statements for the year to December 31, 2022, have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

Change in presentation of results

Net gain on sale of property, plant and equipment
The prior period Income statement includes a reclassification to conform with the current period presentation for the Net gain on the sale of property, plant and equipment within Operating profit/(loss). Accordingly, for the six months to June 30, 2022, the Group has reclassified €21 million of gains from Other non-operating (charges)/credits to Expenditure on operations. There is no impact on the Loss after tax. The segmental operating profit/(loss) has been updated to reflect the reclassification.

Statement of other comprehensive income
The prior period Statement of other comprehensive income includes a reclassification of €150 million of gains associated with the fair value movements on cash flow hedges and of €15 million of losses associated with the fair value movements on cost of hedging, which had been previously presented under the sub-heading Items that will not be reclassified to net profit, to the sub-heading Items that may be reclassified subsequently to net profit as these may recycle to net profit in future periods. There is no impact on Total other comprehensive income for the period, net of tax.

Cash flow statement
The prior period Cash flow statement has been represented and further detailed in note 19. Accordingly, the Group has reclassified the results for the six months to June 30, 2022.

Going concern

At June 30, 2023, the Group had total liquidity of €15,552 million (December 31, 2022: total liquidity of €13,999 million), comprising cash, cash equivalents and interest-bearing deposits of €12,010 million, €3,308 million of committed and undrawn general and overdraft facilities and a further €234 million of committed and undrawn aircraft specific facilities. At June 30, 2023, the Group has no financial covenants associated with its loans and borrowings.

In its assessment of going concern, the Group has modelled two scenarios referred to below as the Base Case and the Downside Case over the period of at least twelve months from the date of the approval of these condensed consolidated interim financial statements (the 'going concern period'). The Group's three-year business plan, used in the creation of the Base Case, prepared for and approved by the Board in December 2022, was subsequently refreshed with the latest available internal and external information in June and July 2023. The refreshed business plan takes into account the Board's and management's views on the anticipated continued recovery from the COVID-19 pandemic and the wider economic and geopolitical environments on the Group's businesses across the going concern period. The key inputs and assumptions underlying the Base Case through to July 31, 2024, include:

- capacity recovery modelled by geographical region with total capacity increasing from 97 per cent in quarter 3 2023 (compared to the equivalent period in 2019) to above 2019 levels by the end of the going concern period;
- passenger unit revenue per ASK is forecast to continue to remain above the levels obtained in 2019 throughout the going concern period;
- the Group has assumed that the committed and undrawn general and aircraft facilities of €3,542 million will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €3,042 million being available to the Group at July 31, 2024;
- the Group has assumed that the €500 million bond that matured and was repaid on July 4, 2023 will not be refinanced;

- of the capital commitments detailed in note 9, €2.8 billion is due to be paid over the period to July 31, 2024;
- the Group has forecast securing approximately 100 per cent, or €2.9 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries, including aircraft delivered in the first half of 2023 that have not yet been financed; and
- the Group has assumed that the relevant approvals required in relation to the acquisition of Air Europa Holdings are obtained by July 31, 2024, and that cash outflows of €150 million will be incurred, comprising €100 million of the cash consideration and €50 million for the purchase of ordinary shares in the Company that have not already been purchased at the Balance sheet date.

The Downside Case applies stress to the Base Case to model adverse commercial and operational impacts over the going concern period, represented by: reduced levels of capacity operated in each month, including reductions of 25 per cent for three months in 2023 and 2024; reduced passenger unit revenue per ASK; increases in the price of jet fuel by 20 per cent; and increased operational costs. In the Downside Case, over the going concern period capacity would be ten per cent down when compared to the Base Case. The Downside Case assumes that none of available general and aircraft facilities are required to be drawn. The Downside Case also assumes that upon completion of the Air Europa Holdings acquisition that a further €200 million of working capital needs are paid by the Group. The Directors consider the Downside Case to be a severe but plausible scenario.

Having reviewed the Base Case and the Downside Case, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for a period of at least twelve months from the date of approval of these condensed consolidated interim financial statements and hence continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the six months to June 30, 2023.

2. ACCOUNTING POLICIES

Critical judgement and estimates

Except as described below, the accounting policies adopted in the presentation of the condensed consolidated interim financial statements for the six months to June 30, 2023, are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year to December 31, 2022.

In preparing the condensed consolidated interim financial statements for the six months to June 30, 2023, except as described below, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses consistent with those disclosed in the Group's annual consolidated financial statements for the year to December 31, 2022.

Significant changes in estimates due to the macroeconomic and geopolitical environment
During the six months to June 30, 2023, the macroeconomic and geopolitical environment has affected the assumptions and estimation uncertainty associated with the measurement of certain of the Group's assets and liabilities. In particular high inflation, rising interest rates and the volatility of commodity prices have led to the remeasurement of the Group's assets and liabilities in accordance with the Group's accounting policies as detailed in the Group's annual consolidated financial statements for the year to December 31, 2022. In doing so, the Group has updated for the following, amongst others, where material: (i) its long term provisions for the impact of inflation and discounting; (ii) employee benefit assets and obligations for both the expected impact of inflation and the impact of interest rates on discount rates; (iii) the determination of the fair value of equity investments, for the effects of interest rates on discount rates applied; (iv) the valuation of derivative assets and liabilities for changes in interest rates and commodity prices; (v) the recoverability of deferred tax assets for the long-term effects of inflation, interest rates and commodity prices, and; (vi) the going concern scenario modelling for the effects of inflation, interest rates and commodity prices.

Revenue recognition from customer loyalty schemes
For the year ended December 31, 2022, in regard to the Group's customer loyalty schemes, given the uncertainty as to whether recent redemption data was representative of long-term behavioural trends, the Group estimated the level of redemption activity based on pre-COVID-19 customer behaviour. In the six month period ended June 30, 2023, the Group now considers historical redemption activity, including more recent customers' behaviours following COVID-19, to predict the long-term trends and accordingly the Group has updated the estimated level of redemption activity to incorporate current customer behaviour.

Impairment indicator assessment of non-financial assets
At June 30, 2023, the Group recognised €2,441 million in respect of intangible assets with an indefinite life, including goodwill.

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 are 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.

At June 30, 2023, the Group has applied judgement in the consideration as to whether either external or internal sources of information would indicate that one or more of the cash generating units may be impaired. Such significant judgement included the increase, since the last impairment test date, in interest rates and other market rates of return that influence the pre-tax discount rate used in the value-in-use modelling as well as broader changes and expected changes in the short, medium and long-term economic environment.

The Group considers that the impact of increases in interest rates, while maintaining other assumptions constant, would lead to increases in the pre-tax discount rate applied to the value-in-use of each cash generating units. However, the level of headroom for each cash generating unit at the last testing date was of such a magnitude that the increase in the pre-tax discount rates would not lead to the recognition of an impairment charge. In addition, a reasonable possible further increase in the pre-tax discount rate of 2.5 percentage points would not lead to the recognition of an impairment charge.

In addition, the Group has not identified any adverse external or internal source of information when compared to impairment analysis performed at the last testing date. Such analysis has considered, but not limited to, internal updated forecasts (as detailed above in relation to going concern), external short term macro-economic forecasts, external long-term GDP forecasts and external jet fuel forward price curves.

Accordingly, at June 30, 2023, no impairment test has been undertaken.

Pillar Two minimum effective tax rate reform
In 2021 the OECD released the Two Pillar solution to address the tax challenges arising from the digitalisation of the economy. This reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation, and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate.

On December 15, 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. Member States are expected to transpose the Directive into national law by the end of 2023. On April 3, 2023, the UK Government issued the Spring Finance Bill, which included legislation that implements the OECD Pillar Two reforms, which was substantively enacted on June 20, 2023, and received Royal Assent on July 11, 2023. At June 30, 2023 and through to the date of the report, EU Member States have not substantively enacted these reforms, however, when enacted, such legislation shall apply prospectively for accounting periods beginning on or after December 31, 2023.

On May 23, 2023, the IASB issued the amendments to IAS 12 – international tax reform: Pillar Two model reforms, effective for periods beginning on or after January 1, 2023. The amendments to IAS 12 provide temporary mandatory relief from the recognition of deferred tax balances arising from the implementation of the Pillar Two legislation. At June 30, 2023, the amendments to IAS 12 have not been endorsed by the EU.

Subject to the substantive enactment of the Pillar Two legislation and the endorsement of the amendments to IAS 12, the Group has developed an accounting policy consistent with the amendments to IAS 12, whereby, the Group does not recognise adjustments to deferred tax assets and liabilities that arise from the introduction of the minimum 15 per cent effective tax rate. In developing this accounting policy, the Group has also adopted the relief given in paragraph 98M of the amendments of IAS 12 not to provide the disclosure requirements of the amendments for interim periods beginning on or after January 1, 2023.

This accounting policy shall continue to be monitored as legislation are substantively enacted and the amendments to IAS 12 are endorsed.

At June 30, 2023, the Group is continuing to assess the implications of these Two Pillar reforms, including quantification of the impact of substantive enactment on current tax.

New standards, interpretations and amendments adopted by the Group

The following amendments and interpretations apply for the first time in the six months to June 30, 2023, but do not have a material impact on the condensed consolidated interim financial statements of the Group:

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

The IASB and IFRIC have issued the following standards, amendments and interpretations with an effective date after the period end of these financial statements which management believe could impact the Group in future periods. The Group has assessed the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- lease liability in a sale and leaseback – amendments to IFRS 16 effective for periods beginning on or after January 1, 2024.

On October 31, 2022, the IASB issued the amendments to IAS 1 – classification of liabilities as current or non-current (the 'Amendments'), effective for periods beginning on or after January 1, 2024. The Amendments will require the €825 million convertible bond that matures in 2028, which as at June 30, 2023, had a carrying value of €701 million, to be reclassified from a non-current liability to a current liability with the comparative presentation as at December 31, 2023 also reclassified. The Amendments require that where the conversion feature of a convertible instrument does not meet the recognition criteria for separate presentation within equity and where the associated bond holders have the irrevocable right to exercise the conversion feature within twelve months of the balance sheet date, that such convertible instruments be presented as current. Other than this reclassification, the Amendments will not have a material effect on the reported results or net assets of the Group.

Significant changes and transactions in the current reporting period

The financial performance and position of the Group was affected by the following significant events and transactions in the six-month period to June 30, 2023:

- On February 23, 2023, the Group entered into an agreement to acquire the remaining 80 per cent of the share capital of Air Europa Holdings that it had not previously owned. On successful completion of the transaction, 54,064,575 ordinary shares of the Company (which represented €100 million at the date of the agreement) will be transferred to and €100 million in cash will be paid to Globalia, with a further €100 million paid on both the first and second anniversary of completion.
- In addition, the Group has agreed to pay a break-fee to Globalia of €50 million should: (i) the relevant approvals, detailed below, not be forthcoming within 24 months of entering into the agreement; or (ii) the Group terminates the agreement at any time prior to completion. Under the agreement, this 24-month period can be extended, by mutual consent. The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the Instituto de Crédito Oficial (ICO) and Sociedad Estatal de Participaciones Industriales (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities. Until the completion of these approvals, the acquisition does not meet the recognition criteria under IFRS 3 Business combinations, and no accounting has been made for the transaction in these condensed consolidated interim financial statements.
- In May 2023, the Group announced its intention to carry out a share purchase programme in order to acquire approximately 50 per cent of the aforementioned ordinary shares required as part of the acquisition of Air Europa Holdings. The programme completed during the period to June 30, 2023, with the Group having purchased 27 million shares amounting to €49 million.
- On March 3, 2023, Aer Lingus repaid in full the €50 million of the financial arrangement with the Ireland Strategic Investment Fund (ISIF). At June 30, 2023, €350 million of undrawn facilities remain available for draw down; and
- On June 30, 2023, the Group converted 10 Airbus A320neo options into firm orders. The aircraft will be delivered in 2028 and will be used by any of the Group's current airlines to replace A320ceo family aircraft.

3. SEASONALITY

Except for the impact of COVID-19, the Group's business is highly seasonal with demand strongest during the summer months. Accordingly higher revenues and operating profits are usually expected in the latter six months of the financial year than in the first six months.

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

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

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

For the six months to June 30, 2023

€ million	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty	Other Group companies[1]	Total
	2023						
Revenue							
Passenger revenue	6,613	2,368	1,418	976	260	149	**11,784**
Cargo revenue	448	120	-	31	-	4	**603**
Other revenue	410	521	8	5	252	-	**1,196**
External revenue	7,471	3,009	1,426	1,012	512	153	**13,583**
Inter-segment revenue	185	237	-	7	139	198	**766**
Segment revenue	7,656	3,246	1,426	1,019	651	351	**14,349**
Depreciation and amortisation charge	(550)	(196)	(127)	(72)	(5)	(33)	**(983)**
Operating profit/(loss)	**602**	**372**	**96**	**40**	**160**	**(10)**	**1,260**
Exceptional items	-	-	-	-	-	-	**-**
Operating profit/(loss) before exceptional items	**602**	**372**	**96**	**40**	**160**	**(10)**	**1,260**
Net non-operating costs							**(223)**
Profit before tax							**1,037**
Total assets	25,781	9,933	3,534	2,166	3,642	(2,530)	**42,526**
Total liabilities	(23,097)	(9,458)	(4,106)	(2,193)	(3,115)	1,520	**(40,449)**

[1]Includes eliminations on total assets of €16,420 million and total liabilities of €5,805 million.

For the six months to June 30, 2022

€ million	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty[1]	Other Group companies[1,2,3]	Total
	2022[2]						
Revenue							
Passenger revenue	4,137	1,601	973	610	204	79	7,604
Cargo revenue	654	144	-	40	-	5	843
Other revenue	378	364	4	7	150	1	904
External revenue	5,169	2,109	977	657	354	85	9,351
Inter-segment revenue	128	188	-	9	102	185	612
Segment revenue	5,297	2,297	977	666	456	270	9,963
Depreciation and amortisation charge	(644)	(178)	(97)	(70)	(3)	(29)	(1,021)
Impairment reversal	-	-	6	-	-	-	6
Operating (loss)/profit[2]	(413)	2	(52)	(83)	152	(23)	(417)
Exceptional items	23	-	6	-	-	-	29
Operating (loss)/profit before exceptional items	(436)	2	(58)	(83)	152	(23)	(446)
Net non-operating costs[2]							(426)
Loss before tax							(843)
Total assets	23,956	8,698	3,290	2,161	3,260	(1,534)	39,831
Total liabilities	(21,114)	(8,778)	(3,944)	(2,150)	(2,973)	923	(38,036)

[1]In the 2022 Annual report and accounts, based on size thresholds the Group determined that IAG Loyalty was a reportable segment and accordingly presented the financial information of the segment separately. The prior period segment note has been re-presented to align with the current year presentation.
[2]Segment information for 2022 has been restated for the reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment. Further information is given in note 1.
[3]Includes eliminations on total assets of €16,189 million and total liabilities of €5,902 million.

b Other revenue

€ million	Six months to June 30 2023	2022
Holiday and hotel services	**443**	391
Maintenance and overhaul services	**368**	210
Brand and marketing	**168**	130
Ground handling and services	**62**	82
Other	**155**	91
	1,196	904

c Geographical analysis

Revenue by area of original sale

€ million	Six months to June 30 2023	2022
UK	**4,668**	3,390
Spain	**2,461**	1,779
USA	**2,372**	1,383
Rest of world	**4,082**	2,799
	13,583	9,351

Assets by area

June 30, 2023

€ million	**Property, plant and equipment**	**Intangible assets**
UK	**12,506**	**1,615**
Spain	**5,167**	**1,530**
USA	**63**	**10**
Rest of world	**1,192**	**602**
	18,928	**3,757**

December 31, 2022

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

5. FINANCE COSTS, INCOME AND OTHER NON-OPERATING CREDITS

	Six months to June 30	
€ million	**2023**	2022
Finance costs		
Interest expense on:		
Bank borrowings	**(130)**	(94)
Asset financed liabilities	**(82)**	(46)
Lease liabilities	**(250)**	(217)
Bonds	**(32)**	(45)
Provisions unwinding of discount	**(42)**	(5)
Other borrowings	**(32)**	(46)
Capitalised interest on progress payments	**13**	2
Other finance costs	**(10)**	(29)
	(565)	(480)
Finance income		
Interest on other interest-bearing deposits	**164**	2
Other finance income	**3**	1
	167	3
Net change in fair value of financial instruments		
Net change in the fair value of convertible bond	**(13)**	171
Net fair value losses on financial assets at fair value through profit or loss	**-**	(41)
	(13)	130
Net credit relating to pensions		
Net financing credit relating to pensions	**51**	13
	51	13
Other non-operating (charges)/credits[1]		
Net gain on sale of investments	**10**	-
Share of profits in investments accounted for using the equity method	**-**	1
Realised (losses)/gains on derivatives not qualifying for hedge accounting	**(22)**	83
Unrealised gains on derivatives not qualifying for hedge accounting	**-**	21
	(12)	105

[1]The 2022 Other non-operating (charges)/credits include a reclassification to conform with the current year presentation of the Income statement. Refer to note 1 for further details.

6. TAX

The tax (charge)/credit in the Income statement was as follows:

	Six months to June 30	
€ million	**2023**	2022
Current tax	**(134)**	(21)
Deferred tax	**18**	210
Total tax	**(116)**	189

The effective tax rate for the six months to June 30, 2023, was 11 per cent (2022: 22 per cent). The substantial majority of the Group's activities are taxed where the main operations are based, being Spain, UK, and Ireland, with corporation tax rates during 2023 of 25 per cent, 23.5 per cent and 12.5 per cent respectively. These result in an expected tax rate of 24 per cent.

The difference between the actual effective tax rate of 11 per cent and the expected tax rate of 24 per cent was primarily due to the partial recognition of previously unrecognised tax assets in the Group's Spanish companies.

The details of the unrecognised temporary differences and losses are given in the table below:

€ million	**June 30, 2023**	December 31, 2022
Income tax losses		
Spanish corporate income tax losses	**1,399**	1,596
Openskies SASU trading losses	**405**	405
UK trading losses	**72**	72
Other tax losses	**11**	11
	1,887	2,084
Other losses and temporary differences		
Spanish deductible temporary differences	**223**	481
UK capital losses	**350**	343
Irish capital losses	**17**	17
	590	841

None of the unrecognised temporary differences or losses have an expiry date.

As at June 30, 2023, the Group had unrecognised tax losses and other temporary differences of €1,887 million and €590 million respectively that the Group does not reasonably expect to utilise. The Group only recognises net deferred tax assets in relation temporary differences and losses to the extent 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 utilises judgement in order to assess the probability of recoverability. In applying the aforementioned judgement, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised tax losses would have reduced by €1,410 million.

The increase in the main rate of UK corporation tax to 25 per cent was substantively enacted on May 24, 2021. This has led to the remeasurement of deferred tax balances at June 30, 2023 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 charge of €7 million (June 30, 2022: €66 million credit) was recorded in the Income statement and a charge of €nil million (June 30, 2022: €17 million charge) was 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. The Irish government is consulting on the detail on how this will be implemented. This expected tax rate change has not been reflected in these results because it has not yet been substantively enacted. The effect of this proposed rate change is not expected to be material over the period of the management-approved business plan.

Tax related contingent liabilities

The Group has certain contingent liabilities that could be reliably estimated, across all taxes, but excluding the IAG Loyalty VAT matter detailed below, at June 30, 2023 amounting to €110 million (December 31, 2022: €110 million). While the Group does not consider it more likely than not that there will be material losses on these matters, given the inherent uncertainty associated with tax litigation and tax audits, there can be no guarantee that material losses will not eventuate. As the Group considers that it is more probable than not of success in each of these matters, it is not appropriate to make a provision for these amounts. Included in the tax related contingent liabilities are the following:

Merger gain
Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The maximum exposure in this case is €99 million (December 31, 2022: €98 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to June 30, 2023.

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

The Company disputes the technical merits of the assessment and ruling of the TEAC, both in terms of whether a gain arose and in terms of the quantum of any gain. Based on legal advice and an external accounting experts' opinion, 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.

Should the Company be unsuccessful in its appeal to the *Audiencia Nacional*, it would re-assess its position and the associated accounting treatment accordingly.

IAG Loyalty VAT
At June 30, 2023, and through to the date of this report, His Majesty's Revenue and Customs (HMRC) has issued protective notices of VAT assessments for the 19 months ended September 2019 to Avios Group (AGL) Limited, a controlled undertaking of the Group trading as IAG Loyalty. At the date of this report none of these protective notices of assessment are due for payment.

During the second quarter of 2023, and while its enquiries are ongoing at the date of this report, HMRC shared with the Group its emerging view on the appropriate VAT accounting, which differs to the current approach by IAG Loyalty. HMRC's emerging view asserts that the charges made by IAG Loyalty are for participating/membership in the Avios scheme and the associated charges and are subject to VAT. IAG Loyalty accounts for VAT depending on the nature of the goods or services for which Avios are redeemed, the vast majority of which are flights, and zero-rated. IAG Loyalty's VAT accounting has and continues to be based on historical rulings issued by HMRC.

As at the date of this report, this emerging view did not consider the validity of the rulings HMRC has previously issued with regard to IAG Loyalty's VAT accounting. Accordingly, and while having issued the protective notices, HMRC has not confirmed whether it considers its emerging view to be retroactive or only prospective in nature. The Group expects further developments in this matter during the remainder of 2023, which may include HMRC issuing an update to its emerging view.

Given the early stages of HMRC's enquiries there remain a number of possible scenarios that could eventuate. The Group has reviewed HMRC's emerging view with its legal and tax advisors and considers it has strong arguments to support its VAT accounting, including having received rulings previously from HMRC on the matter, and therefore does not consider it probable that an adverse ruling will eventuate. Accordingly, the Group does not consider it appropriate to record any provision for this case at June 30, 2023. The Group, in conjunction with its advisors, considers the disclosure of a potential range of exposures, associated with the aforementioned possible scenarios that could eventuate, could prejudice seriously the position of the Group in its ongoing engagement with HMRC.

Subsequent to the issuance of the emerging view, the Group continues to engage with HMRC on the underlying facts, circumstances and technical analysis of the matter. Should the Group and HMRC be unable to reach agreement on the appropriate VAT accounting, then the Group will have the ability to advance the case to an independent tax tribunal. To enable the Group to advance to an independent tax tribunal, it will need to pay, without admission of liability, to HMRC the total amount of assessments issued at the time of application to the independent tax tribunal, which will be recoverable, in part or in full, should the Group be successful in the case. Until HMRC further progresses its enquiries, it is not possible to determine the payment required, if any, but any potential payment may result in a material cash outflow from to the Group.

7. EARNINGS PER SHARE AND SHARE CAPITAL

	Six months to June 30	
Millions	**2023**	2022
Weighted average number of ordinary shares in issue	**4,950**	4,963
Weighted average number of ordinary shares for diluted earnings/(loss) per share	**5,297**	4,963

	Six months to June 30	
€ cents	**2023**	2022
Basic earnings/(loss) per share	**18.6**	(13.2)
Diluted earnings/(loss) per share	**17.6**	(13.2)

The number of ordinary shares in issue at June 30, 2023 was 4,971,476,000 (December 31, 2022: 4,971,476,000) with a par value of €0.10 each.

The effect of the assumed conversion of the IAG €825 million convertible bond 2028 and outstanding employee share schemes has a dilutive impact on the earnings per share for the six months to June 30, 2023 due to the reported profit after tax for the period, but are antidilutive for six months to June 30, 2022 due to the reported loss after tax for the period, and therefore have not been included in the diluted loss per share calculation for six months to June 30, 2022.

8. DIVIDENDS

The Directors propose that no dividend be paid for the six months to June 30, 2023 (June 30, 2022: nil).

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

Certain debt obligations place restrictions or conditions on the payment of dividends from the Group's main operating companies to the Company, including a loan to British Airways partially guaranteed by UKEF and loans to Iberia and Vueling partially guaranteed by the *Instituto de Crédito Oficial* (ICO) in Spain; these loans can be repaid early without penalty at the election of each company. British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of the triennial valuation as at March 31, 2021 that, subject to the over-funding protection mechanism, no dividends will be paid to IAG before December 31, 2023 and that any dividends paid to IAG from January 1, 2024 through to September 30, 2025, will trigger a pension contribution of 50 per cent of the amount of the dividend. Further information on the British Airways dividend restrictions agreed with NAPS are given in note 32a of the 2022 Annual report and accounts.

9. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT OF USE ASSETS

€ million	Other Property, plant and equipment	Right of use	**Total Property, plant and equipment**	**Intangible assets**
Net book value at January 1, 2023	9,649	8,697	**18,346**	**3,556**
Additions	1,156	141	**1,297**	**354**
Modifications	-	114	**114**	**-**
Disposals	(202)	-	**(202)**	**(97)**
Reclassifications[1]	181	(181)	**-**	**-**
Depreciation and amortisation charge	(374)	(519)	**(893)**	**(90)**
Exchange movements	161	105	**266**	**34**
Net book value at June 30, 2023	**10,571**	**8,357**	**18,928**	**3,757**

	Other Property, plant and equipment	Right of use	Total Property, plant and equipment	Intangible assets
Net book value at January 1, 2022	7,858	9,303	17,161	3,239
Additions	1,962	109	2,071	171
Modifications	-	225	225	-
Disposals	(198)	(1)	(199)	(10)
Reclassifications[1]	237	(237)	-	-
Depreciation and amortisation[2]	(418)	(538)	(956)	(94)
Impairment reversal	-	6	6	-
Exchange movements	(83)	(61)	(144)	(18)
Net book value at June 30, 2022	9,358	8,806	18,164	3,288

[1]Amounts with a net book value of €181 million (six months to June 30, 2022: €237 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]Included in the prior period Depreciation, amortisation and impairment charge in the Income statement, not included within above reconciliation, is a credit of €29 million relating to the de-designation of hedge accounting that had been applied to mitigate the foreign currency exposure on aircraft purchases.

At June 30, 2023, bank and other loans of the Group are secured on owned fleet assets with a net book value of €4,611 million (December 31, 2022: €3,931 million).

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €13,340 million (December 31, 2022: €13,749 million). The majority of capital expenditure commitments are for fleet and are denominated in US dollars, and as such are subject to changes in exchange rates.

10. OTHER EQUITY INVESTMENTS

Other equity investments include the following:

€ million	**June 30, 2023**	December 31, 2022
Unlisted securities	**117**	55
	117	55

Investment in Air Europa Holdings
Consistent with the approach at December 31, 2022, the Group has designated its investment in Air Europa Holdings as measured at fair value through Other comprehensive income. Changes in fair value are recognised in Other comprehensive income. At June 30, 2023, the Group determined the fair value of the investment in Air Europa Holdings using both the market approach and the income approach, whereby the Group used both observable market data and unobservable inputs. The fair value was determined on the stand-alone basis of Air Europa Holdings without consideration of potential synergies that could be obtained if the Group were able to obtain control over the operations of Air Europa Holdings. The results of these valuation approaches resulted in a fair value of €88 million, representing an increase of €64 million since January 1, 2023, which has been recorded within Other comprehensive income.

11. BORROWINGS

	June 30, 2023			December 31, 2022		
€ million	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Bank and other loans	**902**	**5,570**	**6,472**	822	5,724	6,546
Asset financed liabilities	**283**	**3,923**	**4,206**	255	3,564	3,819
Lease liabilities	**2,154**	**6,791**	**8,945**	1,766	7,853	9,619
Interest-bearing long-term borrowings	**3,339**	**16,284**	**19,623**	2,843	17,141	19,984

Banks and other loans are repayable up to the year 2029. Long-term borrowings of the Group amounting to €4,337 million (December 31, 2022: €3,962 million) are secured on owned fleet assets with a net book value of €4,611 million (December 31, 2022: €3,931 million). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

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 June 30, 2023 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 June 30, 2023 was €701 million (December 31, 2022: €605 million), representing an increase of €96 million since January 1, 2023. Of this increase, the amount recorded in Other comprehensive income arising from credit risk of the convertible bonds was €83 million and a charge recorded as Net change in fair value of convertible bond in the Income statement attributable to changes in market conditions of €13 million.

12. FINANCIAL INSTRUMENTS

a Financial assets and liabilities by category

The detail of the Group's financial instruments at June 30, 2023 and December 31, 2022 by nature and classification for measurement purposes is as follows:

June 30, 2023

€ million	Financial assets: Amortised cost	Financial assets: Fair value through Other comprehensive income	Financial assets: Fair value through Income statement	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets					
Other equity investments	-	117	-	-	**117**
Derivative financial instruments	-	-	59	-	**59**
Other non-current assets	197	-	-	207	**404**
Current assets					
Trade receivables	1,731	-	-	-	**1,731**
Other current assets	341	-	-	1,133	**1,474**
Derivative financial instruments	-	-	173	-	**173**
Other current interest-bearing deposits	1,282	-	-	-	**1,282**
Cash and cash equivalents	10,728	-	-	-	**10,728**

€ million	Financial liabilities: Amortised cost	Financial liabilities: Fair value through Other comprehensive income	Financial liabilities: Fair value through Income statement	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Lease liabilities	6,791	-	-	-	**6,791**
Interest-bearing long-term borrowings	8,801	-	692	-	**9,493**
Derivative financial instruments	-	-	106	-	**106**
Other long-term liabilities	129	-	-	60	**189**
Current liabilities					
Lease liabilities	2,154	-	-	-	**2,154**
Current portion of long-term borrowings	1,176	-	9	-	**1,185**
Trade and other payables	5,444	-	-	369	**5,813**
Derivative financial instruments	-	-	638	-	**638**

December 31, 2022

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

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

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 determination of the fair value of derivative financial assets and liabilities are detailed in the 2022 Annual report and accounts.

The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date. The fair value of the Group's interest-bearing borrowings is adjusted for own credit risk.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets. For the methodology in the determination of the fair value of the investment in Air Europa Holdings, refer to note 10.

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 June 30, 2023 are as follows:

	Fair value				**Carrying value**
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Other equity investments	-	-	117	117	**117**
Other non-current financial assets	-	18	-	18	**31**
Derivative financial assets[1]	-	232	-	232	**232**
Financial liabilities					
Interest-bearing loans and borrowings	2,781	7,151	-	9,932	**10,678**
Derivative financial liabilities[2]	-	744	-	744	**744**

[1]Current portion of derivative financial assets is €173 million.
[2]Current portion of derivative financial liabilities is €638 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2022 are as follows:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	-	-	55	55	55
Other non-current financial assets	-	20	-	20	31
Derivative financial assets[1]	-	726	-	726	726
Financial liabilities					
Interest-bearing loans and borrowings	2,538	6,416	-	8,954	10,365
Derivative financial liabilities[2]	-	471	-	471	471

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

There have been no transfers between levels of fair value hierarchy during the period. Financial assets, other equity instruments, financial liabilities and derivative financial assets and liabilities are all measured at fair value in the consolidated financial statements. Interest-bearing borrowings, with the exception of the €825 million convertible bond due 2028 which is measured at fair value, are measured at amortised cost.

c Level 3 financial assets reconciliation

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

€ million	**June 30, 2023**	December 31, 2022
Opening balance for the period	**55**	31
Addition of Air Europa Holdings	**-**	22
Additions - other	**-**	2
Losses recognised in Income statement	**-**	(2)
Net gains recognised in Other comprehensive income	**62**	2
Closing balance for the period	**117**	55

13. SHARE BASED PAYMENTS

During the six months to June 30, 2023, 24,323,265 awards were made under the Group's Restricted Share Plan to key senior executives and selected members of the wider management team. The fair value of equity-settled share awards granted is the share price at the date of the grant. The Group settles the employees' tax obligations arising from the issue of the shares directly with the relevant tax authority in cash and an equivalent number of shares is withheld by the Group upon vesting. The fair value of equity-settled share awards granted is the share price at the time of the grant.

The Group also made awards under the Group's Incentive Award Deferral Plan during the period, under which 1,007,562 conditional shares were awarded.

14. EMPLOYEE BENEFIT OBLIGATIONS

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 British Airways schemes in the UK and are closed to new members.

APS has been closed to new members since 1984, but remains open to future accrual. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment.

NAPS has been closed to new members since 2003 and closed to future accrual since 2018, 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).

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

During 2022, the triennial valuations, as at March 31, 2021, were finalised for APS and NAPS which resulted in a technical surplus of €343 million (£295 million) for APS and a technical deficit of €1,887 million (£1,650 million) for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at June 30, 2023 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation performed as at March 31, 2021 compared with IAS 19 requirements used in the accounting valuation assumptions as at the reporting date.

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 six months to June 30, 2023 net of service costs made by the Group were €20 million (six months to June 30, 2022: €8 million). The Group expects to pay €1 million in employer contributions to APS and NAPS over the six month period to December 31, 2023.

Deficit contributions and deferred deficit contributions
At the date of the actuarial valuation, being March 31, 2021, the actuarial deficit of NAPS amounted to €1,887 million. In order to address the deficit in the scheme, the Group has also committed to deficit contribution payments through to May 31, 2032. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are suspended if the funding position reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, or until such point as the scheme funding level reaches 100 per cent.

During the six months to June 30, 2023, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At June 30, 2023, 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.

	June 30, 2023			
€ million	**APS**	**NAPS**	**Other**	**Total**
Scheme assets at fair value[1, 3]	**6,032**	**16,468**	**393**	**22,893**
Present value of scheme liabilities[1]	**(5,929)**	**(13,592)**	**(572)**	**(20,093)**
Net pension asset/(liability)	**103**	**2,876**	**(179)**	**2,800**
Effect of the asset ceiling[2]	**(36)**	**(1,007)**	**(7)**	**(1,050)**
Other employee benefit obligations	**-**	**-**	**(9)**	**(9)**
June 30, 2023	**67**	**1,869**	**(195)**	**1,741**
Represented by:				
Employee benefit assets				**1,951**
Employee benefit obligations				**(210)**
Net employee benefit asset				**1,741**

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

[1]Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At June 30, 2023, such assets were €322 million (December 31, 2022: €320 million) with a corresponding amount recorded in the scheme liabilities.
[2]Both APS and NAPS are in an IAS 19 accounting surplus, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to the withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.
[3]Included within the fair value of scheme assets are €1.5 billion of private equities and alternatives at June 30, 2023, where the fair value has been determined based on the most recent third-party valuations. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not through to the reporting date unless there are indications of significant market movements.

Scheme liability assumptions

At June 30, 2023, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect the market condition at that date. Principal assumptions were as follows:

	June 30, 2023		December 31, 2022	
Per cent per annum	**APS**	**NAPS**	APS	NAPS
Discount rate	**5.40**	**5.25**	4.85	4.80
Rate of increase in pensionable pay	**3.45**	**-**	3.40	-
Rate of increase of pensions in payment	**3.45**	**2.85**	3.40	2.80
RPI rate of inflation	**3.45**	**3.25**	3.40	3.20
CPI rate of inflation	**2.85**	**2.85**	2.80	2.80

Further information on the basis of the assumptions is included in note 32 of the Annual report and accounts for the year to December 31, 2022.

15. PROVISIONS

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	ETS provisions	Other provisions	**Total**
Net book value January 1, 2023	2,400	194	673	89	132	60	**3,548**
Provisions recorded during the period	251	1	19	6	110	14	**401**
Reclassifications	(40)	-	-	(1)	-	(6)	**(47)**
Utilised during the period	(135)	(38)	(18)	(6)	-	(14)	**(211)**
Extinguished during the period	-	-	-	-	(118)	-	**(118)**
Release of unused amounts	(33)	(2)	-	(10)	-	-	**(45)**
Unwinding of discount	36	-	6	-	-	-	**42**
Remeasurements	11	-	-	-	-	-	**11**
Exchange differences	(44)	(1)	-	3	1	-	**(41)**
Net book value June 30, 2023	**2,446**	**154**	**680**	**81**	**125**	**54**	**3,540**
Analysis:							
Current	541	94	62	58	125	8	**888**
Non-current	1,905	60	618	23	-	46	**2,652**
	2,446	**154**	**680**	**81**	**125**	**54**	**3,540**

16. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks: market risk (including commodity risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The principal impact of these on the interim financial statements are discussed below.

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 anticipated fuel consumption for the coming two years within the approved hedging profile.

At June 30, 2023, the fair value of such net liability derivative instruments was €254 million, representing a decrease of €341 million since January 1, 2023.

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 the coming three years.

At June 30, 2023, the fair value of foreign currency net liability derivative instruments was €323 million, representing a decrease of €431 million since January 1, 2023.

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

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 an acceptable level of 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 recycled from Other comprehensive income to the Income statement with Other non-operating expenses.

17. CONTINGENT LIABILITIES

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at June 30, 2023, where they could be reliably estimated, amounted to €57 million (December 31, 2022: €11 million). The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provisions have been recorded.

Contingent liabilities associated with income taxes, deferred taxes and indirect taxes are presented in note 6.

Included in contingent liabilities is the following:

Air Europa Holdings acquisition break-fee
On February 23, 2023, the Group entered into an agreement to acquire the remaining 80 per cent of the share capital of Air Europa Holdings from Globalia that it had not previously owned. The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the *Instituto de Crédito Oficial* (ICO) and *Sociedad Estatal de Participaciones Industriales* (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities.

In the event that the relevant approvals, detailed above, are not forthcoming within 24 months of entering into the agreement or the Group terminates the agreement at any time prior to completion, then the Group is required to pay a break-fee to Globalia of €50 million. Under the agreement, this 24-month period can be extended, by mutual consent.

At June 30, 2023 and through to the date of these condensed consolidated interim financial statements, the Group considers that it is probable that the acquisition will successfully complete and accordingly does not consider it probable that the break-fee shall be paid. Given the above the Group does not consider it appropriate to record a provision for the break-fee.

18. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties.

Sales and purchases of goods and services:

€ million	Six months to June 30 **2023**	2022
Sales of goods and services		
Sales to associates	**3**	2
Sales to significant shareholders	**142**	41
Purchases of goods and services		
Purchases from associates	**28**	31
Purchases from significant shareholders	**69**	72

Period end balances arising from sales and purchases of goods and services:

€ million	**June 30, 2023**	December 31, 2022
Receivables from related parties		
Amounts owed by associates	**1**	1
Amounts owed by significant shareholders	**63**	25
Payables to related parties		
Amounts owed to associates	**2**	-
Amounts owed to significant shareholders	**13**	26

For the six months to June 30, 2023 the Group has not made any allowance on expected credit losses relating to amounts owed by related parties (2022: nil).

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel is as follows:

€ million	Six months to June 30 **2023**	2022
Base salary, fees and benefits		
Board of Directors' remuneration	**2**	2
Management Committee remuneration	**4**	4

For the six months to June 30, 2023 the remuneration for the Board of Directors includes one Executive Director (June 30, 2022: one Executive Director). The Management Committee includes remuneration for 13 members (June 30, 2022: 12 members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the six months to June 30, 2023 the Company's obligation was €23,000 (2022: €20,000).

At June 30, 2023 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €3 million (2022: €6 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at June 30, 2023 (2022: nil).

19. CHANGE IN PRESENTATION OF THE CASH FLOW STATEMENT

During the course of 2023, the Group has made a number of changes to its Cash flow statement. These changes have been applied retrospectively to the Cash flow statement and are detailed below.

Net gain on disposal of property plant and equipment
Previously gains/losses on the disposal of property, plant and equipment were recorded in the Income statement within Other non-operating charges. Under the updated presentation, gains/losses on the disposal of property, plant and equipment are presented separately in the Income statement and included within Operating profit. Accordingly, operating profit included within Net cash flows from operating activities has been updated. See note 1 for further information.

Unrealised currency differences
Previously all unrealised foreign currency gains/losses arising in the Cash flow statement were recorded within Net foreign exchange differences. Under the updated presentation, Net foreign exchange differences has been amended to only include those unrealised currency differences arising from the retranslation of opening cash and cash equivalent balances, while unrealised currency differences arising from working capital used in operating activities are presented within Net cash flows from operating activities.

Other cash flows from operating activities
Previously movements in working capital balances were presented aggregated between working capital assets and working capital liabilities. Under the updated presentation working capital balances have been disaggregated by their nature to allow greater visibility as to the cash flow impacts associated with these balances. There has been no change in the overall total movement in working capital.

In addition previously the Group presented the non-cash movements in provisions combined with other non-cash movements. Under the updated presentation these items have been separated into individual row items within the Cash flow statement.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2023

The following table summarises the impact of the changes in presentation in the Cash flow statement for the six month period to June 30, 2022:

Cash flow statement (extract for the six months to June 30, 2022)

€ million	As reported	Adjustment – net gain on disposal of PPE	Adjustment – unrealised currency differences	Adjustment – operating cash flow items	Restated
Cash flows from operating activities					
Operating loss	(438)	21			(417)
Depreciation, amortisation and impairment	1,015				1,015
Net gain on disposal of property, plant and equipment	-	(21)			(21)
Movement in working capital	2,738			(2,738)	-
Increase in trade receivables, inventories and other current assets	*(996)*			*996*	-
Increase in trade and other payables and deferred revenue on ticket sales	*3,734*			*(3,734)*	-
Employer contributions to pension schemes	(10)				(10)
Pension scheme service costs	1				1
Payments related to restructuring	(41)			41	-
Provisions and other non-cash movements	349			(349)	-
Increase in provisions	-			291	291
Unrealised currency differences	-		38		38
Other movements	-			17	17
Interest paid	(403)				(403)
Interest received	3				3
Tax paid	(2)				(2)
Net cash flows from operating activities before movements in working capital	**3,212**	**-**	**38**	**(2,738)**	**512**
Increase in trade receivables	-			(811)	(811)
Increase in inventories	-			4	4
Increase in other receivables and current assets	-			(85)	(85)
Increase in trade payables	-			733	733
Increase in deferred revenue	-			2,370	2,370
Increase in other payables and current liabilities	-			527	527
Movement in working capital	**-**	**-**	**-**	**2,738**	**2,738**
Net cash flows from operating activities	**3,212**	**-**	**38**	**-**	**3,250**
Net cash flows from investing activities	**(2,100)**	**-**	**-**	**-**	**(2,100)**
Net cash flows from financing activities	**(19)**	**-**	**-**	**-**	**(19)**
Net increase in cash and cash equivalents	1,093		38		1,131
Net foreign exchange differences	19		(38)		(19)
Cash and cash equivalents at 1 January	7,892				7,892
Cash and cash equivalents at period end	**9,004**	**-**	**-**	**-**	**9,004**
Interest-bearing deposits maturing after more than three months	186	-	-	-	186
Cash, cash equivalents and interest-bearing deposits	**9,190**	**-**	**-**	**-**	**9,190**

20. POST BALANCE SHEET EVENTS

On July 4, 2023, the Group redeemed upon maturity the senior unsecured €500 million fixed rate bond.

On July 27, 2023, the Group announced that it had converted six Boeing 787-10 options held by British Airways into firm orders and at the same time is adding a further six 787-10 options to its longhaul order book. The Group is also converting one Airbus A350-900 option held by Iberia into a firm order. The firm aircraft will be delivered in 2025 and 2026 and will be used by British Airways and Iberia to restore capacity in the airlines' longhaul fleets.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY 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 July 27, 2023, the directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the condensed consolidated financial statements for the six months to June 30, 2023, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the companies that fall within the consolidated group taken as a whole, and that the interim management report includes a fair review of the required information.

July 27, 2023

Javier Ferrán Larraz Chairman	Luis Gallego Martín Chief Executive Officer
Giles Agutter	Peggy Bruzelius
Eva Castillo Sanz	Margaret Ewing
Maurice Lam	Heather Ann McSharry
Robin Phillips	Emilio Saracho Rodríguez de Torres
Lucy Nicola Shaw	

KPMG Auditores, S.L.
P°. de la Castellana, 259 C
28046 Madrid

Limited Review Report on the Condensed Consolidated Interim Financial Statements

To the Shareholders of International Consolidated Airlines Group, S.A.
commissioned by management:

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of International Consolidated Airlines Group, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the balance sheet at 30 June 2023, the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and the explanatory notes thereto for the six-month period then ended (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2023 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

Emphasis of Matter

We draw your attention to the accompanying note 1, which states that these interim financial statements do not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2022. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim management report for the six-month period ended 30 June 2023 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim management report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2023. Our work is limited to the verification of the consolidated interim management report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and subsidiaries.

Other Matter

This report has been prepared at the request of management in relation to the publication of the six-monthly financial report required by article 100 of Law 6/2023 of 17 March 2023 on Securities Markets and Investment Services.

KPMG Auditores, S.L.

Bernardo Rücker-Embden
27 July 2023

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 the six months to June 30, 2023, 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, 2022.

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

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

a Profit/(loss) after tax before exceptional items

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

While there have been no exceptional items recorded in the six months to June 30, 2023, exceptional items in the six months to June 30, 2022 include: significant changes in the long-term fleet plans that result in the reversal of impairment of fleet assets and legal re-imbursements.

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

	Six months to June 30					
€ million	**Statutory 2023**	**Exceptional items**	**Before exceptional items 2023**	Statutory 2022[1]	Exceptional items	Before exceptional items 2022
Passenger revenue	**11,784**	**-**	**11,784**	7,604	-	7,604
Cargo revenue	**603**	**-**	**603**	843	-	843
Other revenue	**1,196**	**-**	**1,196**	904	-	904
Total revenue	**13,583**	**-**	**13,583**	9,351	-	9,351
Employee costs	**2,610**	**-**	**2,610**	2,167	-	2,167
Fuel, oil costs and emissions charges	**3,550**	**-**	**3,550**	2,566	-	2,566
Handling, catering and other operating costs	**1,796**	**-**	**1,796**	1,322	-	1,322
Landing fees and en-route charges	**1,104**	**-**	**1,104**	847	-	847
Engineering and other aircraft costs	**1,208**	**-**	**1,208**	928	-	928
Property, IT and other costs[2]	**515**	**-**	**515**	435	(23)	458
Selling costs	**578**	**-**	**578**	442	-	442
Depreciation, amortisation and impairment[3]	**983**	**-**	**983**	1,015	(6)	1,021
Net gain on sale of property, plant and equipment	**(17)**	**-**	**(17)**	(21)	-	(21)
Currency differences	**(4)**	**-**	**(4)**	67	-	67
Total expenditure on operations	**12,323**	**-**	**12,323**	9,768	(29)	9,797
Operating profit/(loss)	**1,260**	**-**	**1,260**	(417)	29	(446)
Finance costs	**(565)**	**-**	**(565)**	(480)	-	(480)
Finance income	**167**	**-**	**167**	3	-	3
Net change in fair value of financial instruments	**(13)**	**-**	**(13)**	130	-	130
Net financing credit/(charge) relating to pensions	**51**	**-**	**51**	13	-	13
Net currency retranslation charges	**149**	**-**	**149**	(197)	-	(197)
Other non-operating credits	**(12)**	**-**	**(12)**	105	-	105
Total net non-operating costs	**(223)**	**-**	**(223)**	(426)	-	(426)
Profit/(loss) before tax	**1,037**	**-**	**1,037**	(843)	29	(872)
Tax	**(116)**	**-**	**(116)**	189	-	189
Profit/(loss) after tax for the period	**921**	**-**	**921**	(654)	29	(683)

€ million	Three months to June 30 Statutory 2023	Exceptional items	Before exceptional items 2023	Statutory 2022[1]	Exceptional items	Before exceptional items 2022
Passenger revenue	**6,743**	**-**	**6,743**	4,949	-	4,949
Cargo revenue	**280**	**-**	**280**	411	-	411
Other revenue	**671**	**-**	**671**	556	-	556
Total revenue	**7,694**	**-**	**7,694**	5,916	-	5,916
Employee costs	**1,353**	**-**	**1,353**	1,122	-	1,122
Fuel, oil costs and emissions charges	**1,792**	**-**	**1,792**	1,648	-	1,648
Handling, catering and other operating costs	**1,020**	**-**	**1,020**	780	-	780
Landing fees and en-route charges	**620**	**-**	**620**	489	-	489
Engineering and other aircraft costs	**621**	**-**	**621**	553	-	553
Property, IT and other costs	**266**	**-**	**266**	231	-	231
Selling costs	**298**	**-**	**298**	241	-	241
Depreciation, amortisation and impairment[3]	**497**	**-**	**497**	484	(6)	490
Net gain on sale of property, plant and equipment	**(7)**	**-**	**(7)**	(8)	-	(8)
Currency differences	**(17)**	**-**	**(17)**	75	-	75
Total expenditure on operations	**6,443**	**-**	**6,443**	5,615	(6)	5,621
Operating profit	**1,251**	**-**	**1,251**	301	6	295
Finance costs	**(291)**	**-**	**(291)**	(247)	-	(247)
Finance income	**99**	**-**	**99**	2	-	2
Net change in fair value of financial instruments	**(12)**	**-**	**(12)**	70	-	70
Net financing credit/(charge) relating to pensions	**26**	**-**	**26**	6	-	6
Net currency retranslation charges	**89**	**-**	**89**	(136)	-	(136)
Other non-operating credits	**(4)**	**-**	**(4)**	77	-	77
Total net non-operating costs	**(93)**	**-**	**(93)**	(228)	-	(228)
Profit/(loss) before tax	**1,158**	**-**	**1,158**	73	6	67
Tax	**(150)**	**-**	**(150)**	60	-	60
Profit/(loss) after tax for the period	**1,008**	**-**	**1,008**	133	6	127

[1] The 2022 results include a reclassification to confirm with the current period presentation for the Net (gains)/losses on sale of property, plant and equipment. Accordingly, for the six month and three month periods to June 30, 2022, the Group has reclassified €21 million and €8 million, respectively, of gains from Other non-operating (charges)/credits to Net (gains)/losses on sale of property, plant and equipment within Operating expenses. There is no impact on the Loss after tax.

The rationale for each exceptional item is given below.

[2] Partial reversal of historical fine

The exceptional credit of €23 million for the six months to June 30, 2022, relates to the partial reversal of the fine, plus accrued interest, initially issued by the European Commission, in 2010, to British Airways regarding its involvement in cartel activity in the air cargo sector and that had been recognised as an exceptional charge. The exceptional credit was recorded within Property, IT and other costs in the Income statement with no resultant tax charge arising. The cash inflow associated with the partial reversal of the fine was recognised during 2022.

[3] Impairment reversal of fleet and associated assets

The exceptional impairment reversal of €6 million for the six months to June 30, 2022, relates to four Airbus A320s in Vueling, previously stood down in the fourth quarter of 2020 and subsequently stood up in the second quarter of 2022. The exceptional impairment reversal was recorded within Right of use assets on the Balance sheet and within Depreciation, amortisation and impairment in the Income statement.

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

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

€ million	Six months to June 30 2023	2022
Profit/(loss) after tax attributable to equity holders of the parent	**921**	(654)
Exceptional items	**-**	29
Profit/(loss) after tax attributable to equity holders of the parent before exceptional items	**921**	(683)
Income statement impact of convertible bonds	**13**	-
Adjusted profit/(loss)	**934**	(683)
Weighted average number of shares used for basic earnings/(loss) per share	**4,950**	4,963
Weighted average number of shares used for diluted earnings/(loss) per share	**5,297**	4,963
Basic earnings/(loss) per share (€ cents)	**18.6**	(13.8)
Basic earnings/(loss) per share before exceptional items (€ cents)	**18.6**	(13.8)
Adjusted earnings/(loss) per share before exceptional items (€ cents)	**17.6**	(13.8)

c Airline non-fuel costs per ASK

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

€ million	Six months to June 30, 2023 Reported	ccy adjustment[1]	Six months to June 30, 2023 ccy	Six months to June 30, 2022
Total expenditure on operations	12,323	177	12,500	9,768
Add: exceptional items in operating expenditure	-	-	-	(29)
Less: fuel, oil costs and emission charges	3,550	(58)	3,492	2,566
Non-fuel costs	8,773	235	9,008	7,231
Less: Non-flight specific costs	1,030	17	1,047	757
Airline non-fuel costs	7,743	218	7,961	6,474
ASKs (millions)	154,034	-	154,034	117,710
Airline non-fuel unit costs per ASK (€ cents)	**5.03**	**-**	**5.17**	**5.50**

[1]Refer to note g for the definition of the ccy adjustment.

d Levered free cash flow (KPI)

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

€ million	Six months to June 30 2023	2022
Net Increase in cash and cash equivalents	**1,387**	1,131
Add: Increase in other current interest-bearing deposits	**869**	134
Levered free cash flow	**2,256**	1,265

e Net debt to EBITDA before exceptional items (KPI)

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

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.

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

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

€ million	**Six months to June 30, 2023**	December 31, 2022[1]
Interest-bearing long-term borrowings	**19,623**	19,984
Less: Cash and cash equivalents	**(10,728)**	(9,196)
Less: Other current interest-bearing deposits	**(1,282)**	(403)
Net debt	**7,613**	10,385
Operating profit	**2,955**	1,278
Add: Depreciation, amortisation and impairment	**2,038**	2,070
EBITDA	**4,993**	3,348
Add: Exceptional items (excluding those reported within Depreciation, amortisation and impairment)	**-**	(23)
EBITDA before exceptional items	**4,993**	3,325
Net debt to EBITDA before exceptional items (times)	**1.5**	3.1

[1]The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment.

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 the rolling four quarters EBITDA before exceptional items, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage.

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

€ million	**June 30, 2023**	December 31, 2022[1]
EBITDA before exceptional items	**4,993**	3,325
Less: Fleet depreciation multiplied by inflation adjustment	**(1,901)**	(1,944)
Less: Other property, plant and equipment depreciation	**(214)**	(247)
Less: Software intangible amortisation	**(207)**	(210)
	2,671	924
Invested capital		
Average fleet value[2]	**16,448**	15,717
Less: Average progress payments[3]	**(1,055)**	(910)
Fleet book value less progress payments	**15,393**	14,807
Inflation adjustment[4]	***1.18***	*1.18*
	18,114	17,435
Average net book value of other property, plant and equipment[5]	**2,098**	2,037
Average net book value of software intangible assets[6]	**664**	640
Total invested capital	**20,876**	20,112
Return on Invested Capital	**12.8%**	4.6%

[1] The 2022 results include a reclassification to conform with the current period presentation for the Net gain on sale of property, plant and equipment. See note 1.
[2] The average net book value of aircraft is calculated from an amount of €16,087 million at June 30, 2022 and €16,809 million at June 30, 2023.
[3] The average net book value of progress payments is calculated from an amount of €1,141 million at June 30, 2022 and €969 million at June 30, 2023.
[4] Presented to two decimal places and calculated using a 1.5 per cent inflation (June 30, 2022: 1.5 per cent inflation) rate over the weighted average age of the fleet at June 30, 2023: 11.1 years (June 30, 2022: 10.8 years).
[5] The average net book value of other property, plant and equipment is calculated from an amount of €2,077 million at June 30, 2022 and €2,119 million at June 30, 2023.
[6] The average net book value of software intangible assets is calculated from an amount of €640 million at June 30, 2022 and €689 million at June 30, 2023.

g Results on a constant currency basis

Movements in foreign exchange rates impact the Group's financial results. The Group reviews the results, including revenue and operating costs at constant rates of exchange. The Group calculates these financial measures at constant rates of exchange based on a retranslation, at prior period exchange rates, of the current period'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 2023 figures are stated at a constant currency basis, they have applied the 2022 rates stated below:

Foreign exchange rates

	Weighted average six months to June 30		**Closing at June 30**	Closing at December 31
	2023	2022	**2023**	2022
Pound sterling to euro	**1.14**	1.19	**1.17**	1.14
Euro to US dollar	**1.08**	1.16	**1.09**	1.06
Pound sterling to US dollar	**1.24**	1.38	**1.28**	1.21

h Liquidity

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

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

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

€ million	**June 30, 2023**	December 31, 2022
Cash and cash equivalents	**10,728**	9,196
Current interest-bearing deposits	**1,282**	403
Committed general undrawn facilities	**3,255**	3,231
Committed aircraft undrawn facilities	**234**	1,116
Overdrafts and other facilities	**53**	53
Total liquidity	**15,552**	13,999

AIRCRAFT FLEET

	Number in service with Group companies							
	Owned	Finance lease	Operating lease	**Total June 30, 2023**	Total December 31, 2022	Changes since December 31, 2022	Future deliveries	Options[1]
Airbus A319ceo	9	-	33	**42**	41	1	-	-
Airbus A320ceo	46	16	132	**194**	199	(5)	-	-
Airbus A320neo	1	38	23	**62**	60	2	53	40
Airbus A321ceo	11	3	29	**43**	44	(1)	-	-
Airbus A321neo	-	2	18	**20**	16	4	42	-
Airbus A321 LR	-	-	8	**8**	8	-	-	-
Airbus A321 XLR	-	-	-	**-**	-	-	14	14
Airbus A330-200	2	1	15	**18**	16	2	-	-
Airbus A330-300	4	4	12	**20**	20	-	-	-
Airbus A350-900	-	6	10	**16**	15	1	7	16
Airbus A350-1000	1	13	-	**14**	13	1	4	36
Airbus A380	2	10	-	**12**	12	-	-	-
Boeing 737-8200	-	-	-	**-**	-	-	25	100
Boeing 737-10	-	-	-	**-**	-	-	25	-
Boeing 777-200	38	2	3	**43**	43	-	-	-
Boeing 777-300	7	2	7	**16**	16	-	-	-
Boeing 777-9	-	-	-	**-**	-	-	18	24
Boeing 787-8	-	10	2	**12**	12	-	-	-
Boeing 787-9	1	8	9	**18**	18	-	-	-
Boeing 787-10	2	5	-	**7**	4	3	5	6
Embraer E190	9	-	11	**20**	21	(1)	-	-
Group total	**133**	**120**	**312**	**565**	**558**	**7**	**193**	**236**

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

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

As well as those aircraft in service, the Group also holds 10 aircraft (December 31, 2022: 18) not in service.