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Auditor's Report on International Consolidated Airlines Group, S.A. and Subsidiaries

(Together with the consolidated financial statements and consolidated management report of International Consolidated Airlines Group, S.A. and subsidiaries for the year ended 31.12.22)

KPMG Auditores, S.L.
Edificio Torre de Cristal
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Consolidated Financial statements

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the Parent) and subsidiaries (together the "Group") which comprise the consolidated balance sheet at 31 December 2022 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Going Concern

See note 2 to the financial statements, refer further to accounting policy and financial disclosures.

Key audit matter	*How the matter was addressed in our audit*
Note 2 to the accompanying consolidated financial statements, explains how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business plan prepared by Group Management, and approved by the Board, and how those risks might affect the Group's financial resources or ability to continue operations over the going concern period to 30 June 2024 from the date of approval of the financial statements, in particular as the Group continues its recovery from the COVID-19 pandemic and its cash flows are impacted by the wider economic and geopolitical environments affecting the Group business. The risks most likely to adversely affect the Group's available financial resources over this period were: • reduced levels of capacity, reduced passenger-unit revenue due to pricing pressures as a result of the current economic outlook; • increased operational costs reflective of inflationary pressures; and • the Group's ability to securing approximately 100 percent of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. In these circumstances, we consider the risk associated with the Board of Directors' assessment of the application of the going concern basis to be a key audit matter because of the significant judgements required, as well as the inherent uncertainty in the elaboration of the business plans and cash flow projections and also the impact that such an assessment could have on the consolidated financial statements.	We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures included: - Funding assessment: Assessing the financing arrangements currently in place and the actions taken by Group to maintain liquidity and the headroom throughout the going concern assessment period. - Key dependency assessment: Using our knowledge of the business and the audit work performed on the areas such as revenue, operating costs, and pensions to identify critical factors within the Group's financial forecasts and in our assessment of the severe-but-plausible downside scenario. - Sensitivity analysis: Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. - Benchmarking assumptions: Critically assessing the key assumptions in the Group's financial forecasts in relation to specific risks with reference to market trends (ASKs, PRASKs, fuel prices), third-party economic and industry forecasts, the Group's recovery pattern versus industry expectations, and the Group's ability to raise finance throughout the pandemic period, as well as our findings in relation to the work performed on other areas of the audit. - Historical comparisons: Assessing the Directors' track record of forecasts vs. actual cashflows by analysing actual monthly results since January 2022 and actual results for the three years preceding the pandemic (i.e., 2017 to 2019). - Assessing consistency: Evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which included mitigation actions to reduce operating and capital expenditure, and asset disposal. - Assessing transparency: Considering whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

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Recoverability of property, plant and equipment and intangible assets, including goodwill (€21,902 million; 2021: €20,400 million) See notes 13 and 17 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Forecast-based assessment Property, plant and equipment, intangible assets and goodwill are significant and at risk of not being recoverable due to continuing economic uncertainty following the effects of the COVID-19 pandemic, its impact on the aviation industry, and current economic outlook and pressures. The estimated recoverable amount of the Group's cash generating units ("CGUs") to which property, plant and equipment, and intangible assets including goodwill are allocated is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Changes in the key assumptions in cash flow forecasts can have a material impact on the available headroom and so whether any impairment is required. The most significant assumptions are: revenue growth and operating profit margins recovery, available seat kilometres ("ASK") used to predict capacity levels; fuel prices, impact of climate change, long-term growth rate and discount rate. Based on the headroom available the risk is specifically associated with British Airways, Iberia and Aer Lingus CGUs. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the British Airways, Iberia and Aer Lingus CGUs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount, which is the reason why we have considered it a key matter of our audit. The financial statements (note 17b) disclose the sensitivity estimated by the Group.	Our procedures included: - **Benchmarking assumptions**: Evaluating assumptions applied, including forecast revenue growth and operating profit margins recovery, ASK, and fuel prices and comparing to externally derived data. We also assessed, how the impact of the climate change risk has been incorporated into the forecasts, discount rates applied and long-term growth rates, including the impact of the cost of sustainable aviation fuel (SAF) on the cost base, demand and the Group's ability to recover the additional costs. - **Benchmarking assumptions:** With the assistance of our valuation specialists, assessing the methodology applied by the Group to derive its discount rates and the basis for the calculation of the key components such as debt/equity ratio, risk free rates and market risk premium. - **Sensitivity analysis**: Re-performing the Directors' breakeven analysis on the key assumptions, together with performing our own sensitivities based on industry analyses and forecast assumptions to assess their impact on the headroom. - **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation, including the analysis of the implied trading multiples, to assess the reasonableness of those cashflows. - **Methodology implementation**: Assessing mathematical accuracy of the model and whether the calculation has been prepared in accordance with IAS 36. - **Assessing consistency:** Assessing the consistency with the forecasts used in impairment testing with those applied for going concern assessment and deferred tax recoverability assessment - **Assessing transparency**: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment **assessment** to changes in key assumptions reflected the risks inherent in the recoverable amount of property, plant and equipment and intangible assets, including goodwill.

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Valuation of the gross defined benefit pension obligation (DBO) (€19,744mbillion; 2021: €30,916 million) See note 32 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's gross defined benefit pension scheme obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness. A small change in assumptions and estimates can have a material financial impact on the Group's gross defined benefit pension obligations. The significant risk relates to New Airways Pension Scheme and Airways Pension Scheme which represent 97.3% (2021: 97.8%) of pension scheme obligations. The most significant assumptions are discount rate, inflation rate and mortality/life expectancy. The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension scheme obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements, and possibly many times that amount, which is the reason why we have considered it a key matter of our audit. The financial statements (note 32) disclose the sensitivity estimated by the Group.	Our procedures included: - Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data in the context of market practice and the macroeconomic uncertainties. - Assumptions assessment: Evaluating the experience analysis from the schemes' triennial reviews and considering the implications over the accounting estimate and demographic assumptions. - Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Customer loyalty programmes - revenue recognition for deferred revenue liabilities (€2,630 million; 2021: €2,820 million] See note 23 to the financial statements, refer further to page accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Subjective estimate Significant estimates are made in determining the assumptions applied in calculating the number of Avios not expected to be redeemed (breakage). Relatively small changes in these assumptions could result in significant adjustments to revenue and deferred revenue. The effect of these matters is that, as part of our risk assessment, we determined that deferred revenue liabilities arising on customer loyalty programs have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, which is the reason why we have considered it a key matter of our audit. The financial statements (note 23) disclose the sensitivity estimated by the Group	Our procedures included: - Control design: Testing the design and implementation of controls around customer loyalty revenue recognition and estimation of breakage. - Assessing principles: Assessing the application of the Group's accounting policies in determining customer loyalty revenues by reference to the revenue accounting standard. - Methodology implementation: With the assistance of our own actuarial specialists, assessing the methods applied to estimate future redemption and breakage rates in the Group's statistical model. - Assumptions assessment: Assessing the future customer behaviour assumptions in light of past experience and considering changes in the loyalty schemes, including changes to customer redemption offerings. - Re-performance: With the application of our Data Analytics techniques, reconciling the Avios activity back to the operational systems and investigating material variances. - Tests of detail: On a sample basis, testing the value of an Avios derived by the Group to defer revenues when Avios are initially issued. Agreeing the balance sheet reconciliation to income statement movements, issuances and redemption data and the closing deferred revenue position. - Tests of detail: For the most significant Avios Issuance Partners (including credit card issuers), comparing the amount of Avios issued per the Group's accounting records with the amounts as per confirmations that we obtained directly from the Partners. - Assessing transparency: Assessing the Group's disclosures in respect of revenue, including over the key judgements and estimation uncertainty and the associated sensitivity disclosures.

<table>
<tr><th colspan="2">Accounting for aircraft maintenance, restoration and handback costs (liabilities of €2,400 million; 2021: €1,832 million)

See note 26 to the financial statements, refer further to accounting policy and financial disclosures</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Processing errors

Maintenance provisions are determined via complex calculations which use budgeted cost rates and an estimated timetable of required checks. There are a number of individually judgements and assumptions to be made when calculating the provision and associated asset balances.

The key assumptions used include: expected future utilisation patterns of the aircraft; expected maintenance intervals and costs (future rates) of the maintenance at the time it is estimated to occur and discount rate applied to the future liability.

Changes in these assumptions could result in significant adjustments to the level of provision and associated asset balances recognised.

The effect of these matters is that, as part of our risk assessment, we determined that aircraft maintenance, restoration and handback provision obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements, and possibly many times that amount, which is the reason why we have considered it a key matter of our audit. The financial statements disclose the sensitivity estimated by the Group.</td><td>Our procedures included:

- Assessing principles: Determining whether the recognition of maintenance provisions and capitalised maintenance assets are in accordance with IAS 37 requirements, lease obligations and industry practice.

- Re-performance: Assessing the maintenance model for mathematical accuracy by performing a recalculation of the year end provision held.

- Tests of detail: Inspecting lease agreements and maintenance contracts on a sample basis for significant return obligations and checking that those lease obligations were included in the maintenance model. Agreeing budgeted and contracted rates on a sample basis to supporting documentation.

- Re-performance: Assessing the maintenance prepayment calculation for each type of engine and performing a recalculation of the year-end balance based on the latest forecast for expected forecast flying hours and contracted rates.

- Assessing consistency: Critically assessing the forecast future flying hours assumption underpinning provisions calculations, against the Board approved forecasts and changes in the future fleet plans.

- Historical comparisons: Assessing whether past estimates have been historically accurate by comparing actual cost to previously recognised provisions.

- Assumptions assessment: Assessing the future utilisation assumptions in light of past experience and considering changes in fleet utilisation, including the grounding of aircraft for extended periods of time.

- Assessing transparency: Assessing the Group's disclosures in relation to the key judgements around the accounting for aircraft maintenance, restoration and handback costs.</td></tr>
</table>

Passenger and cargo revenue recognition (€21,073 million; 2021: €7,508 million) See note 5 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Processing errors Passenger and cargo revenues are made up of a high volume, low value number of transactions. They are recorded via a highly automated, but complex, transactional process including third party booking management systems as well as operational data such as when a flight has flown thus triggering the revenue recognition point. Passenger revenues include tickets containing multiple flights, booking classes and a variety of surcharges and taxes which vary by route. Revenue accuracy depends on correctly applying the relevant inputs and rules. Due to limited judgement and estimation involved, passenger and cargo revenues are not at a high risk of significant misstatement. However, due to materiality in the context of the Group financial statements, this is considered to be one of the areas where significant audit effort was spent.	Our procedures include: - Assessing principles: Assessing Group's revenue recognition policy by reference to the accounting standards Passenger revenue (€19,458m (2021: €5,835m)): - Control operation: Testing the design and implementation, and the operating effectiveness of General IT Controls over the key revenue accounting systems considering appropriate configuration and prevention of unauthorised access and changes. Testing design and implementation, and the operating effectiveness of manual and automated controls underpinning the recognition of revenue. - Testing application: Using our Revenue Data Analytics programme to recreate the revenue flow through the accounting systems for the key revenue accounts and assess whether the entries pass through the expected stages and accounts. - Tests of detail: Testing revenue journals to determine whether they are recorded based on our understanding of the revenue process. Testing revenue transactions on a sample basis by re-calculating the appropriate fare rules and verifying flight flown status. - Tests of detail: Testing revenue by tracing a sample of passenger events, such as bookings, departures, voucher issuances and cancellations, back to the revenue data. - Tests of detail: Testing year end trade receivables to cash received post year end. Testing on a sample basis for flights departing close to the year end whether revenue was recorded in the correct period. - Historical comparisons: For passenger breakage revenue, we have evaluated the Group's accounting policy, assessed the methodology applied and challenged key assumptions by comparing against the Group's airlines' past experiences. - Tests of details: Testing on a sample basis vouchers and refunds issued during the year to assess whether such transactions have been appropriately recognised. - Outsourcing controls: Inspecting the third-party Service Organisation Control reports to determine whether General IT controls over certain passenger revenue systems operated effectively during the year. Cargo revenue (€1,615m (2021: €1,673m)): - Tests of detail: Testing, on a sample basis, cargo revenue transactions to external support and cash received.

Other Information: Consolidated Management Report

Other information solely comprises the 2022 consolidated management report, the preparation of which is the responsibility of the Parent's Director s' and which does not form an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not encompass the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated management report with the consolidated financial statements, based on knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements. Also, assess and report on whether the content and presentation of this part of the consolidated management report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated management report is consistent with that disclosed in the consolidated financial statements for 2022, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Compliance Committee's Responsibility for the Consolidated Financial statements

The Parent's Directors are responsible for the preparation of the accompanying consolidated financial statements in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's Audit and Compliance Committee is responsible for overseeing the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's Audit and Compliance Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit and Compliance Committee of the Parent, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters.

We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of International Consolidated Airlines Group S.A. and its subsidiaries for 2022 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated financial statements for the aforementioned year and the XBRL files tagged by the Parent, which will form part of the annual financial report.

The Directors of International Consolidated Airlines Group S.A. are responsible for the presentation of the 2022 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated financial statements included in the aforementioned digital files fully corresponds to the consolidated financial statements we have audited, and whether the consolidated financial statements and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated financial statements, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Compliance Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Compliance Committee dated 1 March 2023.

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 8 September 2020 for a period of 3 years, from the year ended 31 December 2021.

Review of the Corporate Governance Statement

We have nothing to report in respect of our requirement to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

Bernardo Rücker-Embden
On the Spanish Official Register of Auditors ("ROAC") with nº 18.836

1 March 2023

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated financial statements
for the year ended
December 31, 2022

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

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

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2022

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2021

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

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG (hereinafter the 'Company') is a Spanish company registered in Madrid and was incorporated on December 17, 2009. The registered address of IAG is El Caserío, Zona industrial 2, Camino de La Muñoza s/n, 28042, Madrid, Spain. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. A list of the subsidiaries of the Group is included in the Group investments section.

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

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including the €825 million convertible bond due 2028, derivative financial instruments and other equity investments that are measured at fair value. The notes to the financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

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

Going concern

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

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

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

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

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

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

Consolidation

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

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

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

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

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

All intragroup account balances, including intragroup profits, are eliminated in preparing the consolidated financial statements.

Unconsolidated structured entities

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

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

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

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

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

Segmental reporting

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

Foreign currency translation

a Functional and presentation currency

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

2 Significant accounting policies continued

b Transactions and balances

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

c Group companies

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

Property, plant and equipment

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

a Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or right of use ('ROU') assets are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and up to 5 per cent residual value for shorthaul aircraft and between 23 and 29 years (depending on aircraft) and up to 5 per cent residual value for longhaul aircraft.

Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rates. Where the lease includes a purchase option, at the discretion of the Group, where it is expected that the purchase option will be exercised, the associated right of use asset is depreciated using the aforementioned depreciation rates to reflect the reasonably certain life of the aircraft, irrespective of the lease term.

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

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

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

b Other property, plant and equipment

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

c Capitalisation of interest on progress payments

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

d Liquidated damages

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

e Leases

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

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified tangible asset for a period in exchange for consideration. The Group has elected not to apply such consideration where the contract relates to an intangible asset, such as for landing rights or IT software, in which case payments associated with the contract are expensed as incurred.

Leases are recognised as a ROU asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

Right of use assets

At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs, such as the removal of airline-specific branding and configuration, to return the asset to its original condition, for which a corresponding amount is recognised within Provisions. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and payments to be made under reasonably certain extension options.

Aircraft lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. If the interest rate implicit in the lease cannot be determined, the Group entity's incremental borrowing rate is used.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the Income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

Amounts excluded from recognition as lease liabilities

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in the Income statement. Short-term leases are leases with a lease term of 12 months or less, that do not contain a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-assessed and adjusted against the ROU asset. Extension options are included in a number of aircraft, property and equipment leases across the Group and are reflected in the lease payments where the Group is reasonably certain that it will exercise the option. The Group is also exposed to variable lease payments based on usage or revenue generated over a defined period. Such variable lease payments are expensed to the Income statement as incurred.

Sale and leaseback transactions

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. The principal criterion for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred; and if no such repurchase option exists, then a sale is deemed to have occurred. The following defines the accounting for such transactions:

- if a sale is determined to have occurred, then the associated asset is de-recognised and a ROU asset and lease liability are recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counter-party to the transaction; and
- where a sale is determined to have not occurred, the asset is retained on the balance sheet within Property, plant and equipment and an Asset financed liability recognised equal to the financing proceeds.

Cash flow presentation – lease liabilities

Lease payments are presented as follows in the Consolidated cash flow statement:

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

Cash flow presentation – asset financed liabilities

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

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

2 Significant accounting policies continued

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

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

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

Intangible assets

a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purpose of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Established customer loyalty programmes that are expected to be used indefinitely are not amortised but assessed annually for impairment.

d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside of the UK and the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the UK and the EU are not amortised, as regulations provide that these landing rights are perpetual.

e Contract-based intangibles

Contract based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to ten years.

g Emissions allowances

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

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

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

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

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

a Property, plant and equipment, including Right of use assets

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

b Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised. Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Financial instruments

a Financial assets and liabilities

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

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

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

Long term borrowings

Long-term borrowings are recorded at amortised cost, including lease liabilities which contain interest rate swaps that are closely related to the underlying financing and as such are not accounted for as an embedded derivative.

Convertible debt

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

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

2 Significant accounting policies continued

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

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

Other equity investments

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

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques.

Interest-bearing deposits

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

Impairment of financial assets

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

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

b Cash and cash equivalents

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

c Derivative and non-derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap derivatives, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and forward contracts) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. They are classified as financial instruments through the Income statement. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The time value of options is excluded from the designated hedging instrument and accounted for as a cost of hedging. Movements in the time value of options are recognised in Other comprehensive income until the underlying transaction affects the Income statement.

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

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

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

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

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity.

d Cash flow hedges

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

Hedge effectiveness

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

Sources of ineffectiveness include the following:

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

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

Reclassification adjustments

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

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

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

2 Significant accounting policies continued

e Interest rate benchmark reform

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

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

Hedge accounting

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

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

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

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

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

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

Long-term borrowings and lease liabilities

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

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

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

Employee benefit plans

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds, net of the relevant taxes, from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising IAS 19 gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

b Severance obligations

Severance obligations are recognised when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises a provision for severance payments when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing severance payments as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel held in storage facilities.

Share-based payments

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

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated and where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

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

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

2 Significant accounting policies continued

Revenue recognition

Passenger revenue

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided.

Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as Deferred revenue on ticket sales in current liabilities until either the customer has flown or, for flexible tickets, when unused ticket revenue is recognised or the ticket expires unused.

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

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

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

The Group considers whether it is an agent or a principal in relation to passenger transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. The Group acts as an agent where (i) it collects various taxes, duties and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

Cargo revenue

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

Other revenue

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

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

Customer loyalty programmes

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

Avios issuance

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

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

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

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

Brand and marketing activities
For both air and non-air partners, the Group licenses the Avios and the airline brands for certain activities, such as the creation of co-branded credit cards. In addition, the Group has certain contractual arrangements whereby it commits to provide marketing services to the members of the loyalty schemes on behalf of those partners. For the provision of both brand and marketing services, the partner receives benefits incremental to the issuance of Avios. The Group estimates the standalone selling price of the brand and marketing performance obligations, using valuation techniques, by reference to the amount that a third party would be prepared to pay in an arm's length transaction for access to comparable brands for the period over which they use the brand. For brand services, as the Group considers that the partner has the right to use the brand, revenue is recognised as the brand service is provided and not over time. For marketing performance obligations, revenue is recognised as the marketing activities occur based on when the partner receives the benefit of those services.

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

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

Other considerations
The Group considers whether it is an agent or a principal in relation to the loyalty services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. In particular, the Group acts as an agent where customers redeem their Avios on interline partner flights outside of the Group, where the fees payable to the interline partner are presented net against the associated release of the Deferred revenue from ticket sales.

Exceptional items

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

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

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

Further information is given in the Alternative performance measures section.

Government grants

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

Critical accounting estimates, assumptions and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

2 Significant accounting policies continued

Estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a Employee benefit obligations, employee leaving indemnities, other employee related restructuring

At December 31, 2022 the Group recognised €2,334 million in respect of employee benefit assets (2021: €1,775 million) and €217 million in respect of employee benefit obligations (2021: €285 million). Further information on employee benefit obligations is disclosed in note 32.

The cost of employee benefit obligations, employee leaving indemnities and other employee-related provisions is determined using the valuation requirements of IAS 19. These valuations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 32. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and total comprehensive income. The sensitivity to changes in pension assumptions is disclosed in note 32.

Under the Group's Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) defined benefit schemes, increases to pensions are based on the annual Government Pension Increase (Review) Orders, which since 2011 have been based on the Consumer Prices Index (CPI). Additionally, in APS there is provision for the Trustee to pay increases up to the level of the Retail Prices Index (RPI), subject to certain affordability tests. Historically market expectations for RPI could be derived by comparing the prices of UK Government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices.

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

b Revenue recognition

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

Passenger revenue

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

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

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

Customer loyalty schemes

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

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

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

c Income taxes

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

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. Where the Group determines that it is more likely than not that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability based on either: the Group's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability-weighted average approach.

The Group recognises deferred tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management uses judgement, including the consideration of past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability.

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

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

d Impairment of non-financial assets

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

Goodwill and intangible assets with indefinite economic lives are tested, as part of the cash-generating units to which they relate, for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which use a weighted average multi-scenario discounted cash flow model, which are then compared to the carrying amount of the associated cash-generating unit.

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

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

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

e Engineering and other aircraft costs

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

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

Judgements

a Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans and historical experience regarding the extension of leases. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 14.

2 Significant accounting policies continued

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

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

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

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

New standards, amendments and interpretations

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

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

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

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

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

3 Significant changes and transactions in the current reporting period

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

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

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

4 Impact of climate change on financial reporting

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

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

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

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

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

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

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

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

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

a Long-term fleet plans and useful economic lives

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

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

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

4 Impact of climate change on financial reporting continued

b Impairment testing of the Group's cash generating units

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

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

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

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

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

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

c Valuation of employee benefit scheme assets

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

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

d Recoverability of deferred tax assets

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

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

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

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

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

5 Segment information

a Business segments

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

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

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

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

5 Segment information continued

For the year to December 31, 2022

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

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

For the year to December 31, 2021

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

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

b Geographical analysis

Revenue by area of original sale

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

Assets by area

December 31, 2022

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

December 31, 2021

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

6 Expenses by nature

Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

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

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

Cost of inventories:

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

7 Auditor's remuneration

The fees for the year to December 31, 2022, for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, KPMG Auditores S.L., and by companies belonging to KPMG's network, were as follows:

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

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

8 Employee costs and numbers

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

1 Other employee costs include allowances and accommodation for crew.

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

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

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

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

9 Finance costs, income and other non-operating charges

a Finance costs

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

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

b Finance income

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

c Net change in fair value of financial instruments

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

d Net financing credit/(charge) relating to pensions

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

e Other non-operating charges

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

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

10 Tax

a Tax credits/(charges)

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

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

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

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

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

b Current tax asset/(liability)

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

c Deferred tax asset/(liability)

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

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

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

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

d Reconciliation of the total tax charge in the Income statement

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

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

1 The expected tax credit is calculated by aggregating the expected tax (charges)/credits arising in each company in the Group and changes each year as tax rates and profit mix change. The 2022 corporate tax rates for the Group's main countries of operation are Spain 25% (2021: 25%), the UK 19% (2021: 19%) and Ireland 12.5% (2021: 12.5%).

10 Tax continued

e Payroll-related taxes and UK Air Passenger Duty

The Group was also subject to other taxes paid during the year which are as follows:

€ million	2022	2021
Payroll related taxes	**522**	310
UK Air Passenger Duty	**722**	204
	1,244	514

f Factors that may affect future tax charges

Unrecognised deductible temporary differences and losses

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

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

Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €823 million (2021: €617 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal to a material extent.

Tax rate changes

On March 3, 2021 the UK Chancellor of the Exchequer announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On May 24, 2021 the Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a credit of €17 million (2021: €78 million credit) is recorded in the Income statement and a charge of €10 million (2021: €61 million credit) is recorded in Other comprehensive income.

On October 8, 2021 Ireland announced that it would increase the rate of corporation tax for certain multinational businesses to 15 per cent with effect from 2023. This expected tax rate change has not been reflected in these results because it has not yet been substantively enacted. The effect of the proposed rate change is not expected to be material over the period of the management approved business plan.

Tax policy developments

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

g Tax-related contingent liabilities

The Group has certain contingent liabilities that could be reliably estimated, across all taxes, at December 31, 2022 amounting to €110 million (December 31, 2021: €106 million). No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liabilities are the following:

Merger gain

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

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

The Company disputes the technical merits of the assessment and ruling of the TEAC, both in terms of whether a gain arose and in terms of the quantum of any gain. The Company believes that it has strong arguments to support its appeals. The Company does not consider it appropriate to make a provision for these amounts and accordingly has classified this matter as a contingent liability.

IAG Loyalty VAT

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

11 Earnings per share

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

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

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

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

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

12 Dividends

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

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

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

13 Property, plant and equipment

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

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

Net book values				
December 31, 2022	**16,317**	**1,630**	**399**	**18,346**
December 31, 2021	15,116	1,652	393	17,161

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

The net book value of property comprises:

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

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

14 Leases

a Amounts recognised in the Consolidated balance sheet

Property, plant and equipment includes the following amounts relating to right of use assets:

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

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

14 Leases continued

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

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

b Amounts recognised in the Consolidated income statement

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

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

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

c Amounts recognised in the Consolidated cash flow statement

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

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

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

d Maturity profile of the lease liabilities

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

e Extension options

The Group has certain leases which contain extension options exercisable by the Group prior to the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options.

The Group is exposed to future cash outflows (on an undiscounted basis) at December 31, 2022, for which no amount has been recognised, for potential extension options of €945 million (2021: €795 million) due to it not being reasonably certain that these leases will be extended.

f Lessor accounting

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

Finance leases

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

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

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

15 Capital expenditure commitments

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

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

1 Capital commitments exclude options to purchase additional aircraft.

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

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

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

16 Non-current assets held for sale

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

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

17 Intangible assets and impairment review

a Intangible assets

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

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

b Impairment review

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

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

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

17 Intangible assets and impairment review continued

Basis for calculating recoverable amount

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

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

Key assumptions

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

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

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

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

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

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

The long-term growth rate is calculated for each CGU, considering a number of data points: (i) industry publications; (ii) forecast weighted average exposure in each primary market using gross domestic product (GDP); and (iii) internal analysis regarding the long-term changes in consumer preferences and the effects on demand from the increased costs to the Group of climate change. The calculation of the long-term growth rate utilises a Base Case and a Downside Case growth rate, which is then weighted on the same basis as the cash flows detailed above of 70 per cent to the Base Case and 30 per cent to the Downside Case. The terminal value cash flows and long-term growth rate incorporate the impacts of climate change insofar as they can be determined (note 4). The airlines' network plans are reviewed annually as part of the three-year business plan preparation and reflect management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is derived from both market data and industry gearing levels derived from comparable companies. CGU-specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

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

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

Summary of results

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

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

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

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

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

18 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2022 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly do not differ from the proportion of ordinary shares held. There have been no significant changes in ownership interests of subsidiaries during the year.

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

b Investments in associates and joint ventures

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

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

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

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

At December 31, 2022 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both December 31, 2022 and December 31, 2021 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

19 Other equity investments

Other equity investments include the following:

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

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

Investment in Air Europa Holdings

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

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

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

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

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

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

20 Trade and other receivables

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

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

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

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

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

December 31, 2022

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

December 31, 2021

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

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

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

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are for periods up to three months and earn interest based on the floating deposit rates.

At December 31, 2022 the Group had no outstanding bank overdrafts (2021: €nil).

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

At December 31, 2022 Aer Lingus held €33 million of restricted cash (2021: €35 million) within interest-bearing deposits maturing after more than three months to be used for employee-related obligations.

a Net debt

Movements in net debt were as follows:

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

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

22 Trade and other payables

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

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

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

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

Average payment days to suppliers – Spanish Group companies

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

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

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

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

23 Deferred revenue on ticket sales

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

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

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

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

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios. Avios are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. While Avios do not have an expiry date and can be redeemed at any time in the future, a customer's membership account is closed if there is a period of 36 months of inactivity in terms of both issuances and redemptions. Revenue may therefore be recognised at any time in the future.

Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period, however, with the significant disruption caused by the COVID-19 pandemic during 2020 and 2021, the Group extended the expiry period up to 24 months after the planned travel date, depending on the operating company. During the course of 2022 with the disruption caused by the COVID-19 pandemic significantly reduced, flexible fare tickets now typically expire within 12 months after the planned travel date. In addition, the significant disruption caused by the COVID-19 pandemic led to a number of flight cancellations during both 2020 and 2021, which entitled the customer to either a refund or the issuance of a voucher for future redemption.

24 Other long-term liabilities

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

25 Long-term borrowings

a Total borrowings

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

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

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

b Bank and other loans

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

1 On February 22, 2021, British Airways entered into a floating rate five-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5 year term loan Export Development Guarantee Facility of €1.1 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The further facility had not been drawn as at December 31, 2022. The loan contains a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.
2 On April 30, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. The loans are repayable from 2023 to 2026. The ICO in Spain guarantees 70 per cent of the value of loans. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.
3 On March 25, 2021, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1.2 billion, €500 million due March 25, 2025 and €700 million due March 25, 2029. The bonds bear a fixed rate of interest of 2.75 per cent and 3.75 per cent per annum, payable in arrears, respectively. The bonds were issued at 100 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
4 A senior unsecured bond convertible into ordinary shares of IAG was issued by the Group on May 11, 2021; €825 million fixed rate 1.125 per cent raising net proceeds of €818 million and due in 2028. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 244,850,715 options at inception and at December 31, 2022 and 2021 to convert into ordinary shares of IAG. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG. See further details below.
5 In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds bear a fixed rate of interest of 0.5 per cent and 1.5 per cent per annum annually payable in arrears, respectively. The bonds were issued at 99.417 per cent and 98.803 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
6 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 2.1 and 3.6 per cent. The loans are repayable between 2024 and 2027.

7 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.38 to 2.86 per cent. The loan is repayable between 2023 and 2026.
8 Total of €200 million fixed rate unsecured bonds between 3.75 to 4.93 per cent coupon repayable between 2023 and 2027.
9 On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. On March 27, 2021, Aer Lingus entered into a further floating rate financing agreement with the ISIF for an additional €75 million. On March 4, 2022, Aer Lingus entered into a financing arrangement with ISIF, which subsequently extinguished the existing €150 million of facilities and replaced them with a €350 million facility that matures in March 2025. On December 13, 2022, Aer Lingus early repaid €100 million of the ISIF facility, with the €100 million being available to draw again over the tenor of the facility. The facility is secured on specific landing rights. At December 31, 2022, €300 million of this facility remained undrawn.
10 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear nil interest and are repayable between 2023 and 2028.
11 Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group held an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group redeemed the bond at maturity in November 2022 with no conversion into ordinary shares.
12 Fixed rate Chinese yuan mortgage loans, secured on specific aircraft assets of the Group were repaid in the fourth quarter of 2022.

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

Details of the 2028 convertible bond

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

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

Transactions with unconsolidated entities

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

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

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

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

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

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

25 Long-term borrowings continued

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

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

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

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

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

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

26 Provisions

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

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

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under lease. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Such costs are capitalised within ROU assets. The provision is long-term in nature, typically covering the leased asset term, which for aircraft is up to 12 years.

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

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

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

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

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan implemented prior to 2022, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 3.2 per cent. The payments related to this provision will continue over the next 7 years.

At December 31, 2022, €185 million of this provision related to collective redundancy programmes (2021: €270 million).

Employee leaving indemnities and other employee related provisions

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

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

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

Legal claims and contractual disputes provisions

Legal claims and contractual disputes provisions include:

- amounts for multi-party claims from groups of employees on a number of matters related to their employment, including claims for additional holiday pay and for age discrimination;
- amounts related to ongoing contractual disputes arising from the Group's operations; and
- amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

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

ETS provisions

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

27 Financial risk management objectives and policies

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

a Fuel price risk

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

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

2022			2021		
Increase/(decrease) in fuel price per cent	**Effect on result before tax € million**	**Effect on equity € million**	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
45	**-**	**1,402**	30	-	834
(45)	**-**	**(1,200)**	(30)	-	(520)

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

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

27 Financial risk management objectives and policies continued

b Foreign currency risk

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

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

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million
2022	**20**	**904**	**1,299**	**20**	**(20)**	**241**	**20**	**(58)**	**(70)**
	(20)	**(922)**	**(1,161)**	**(20)**	**18**	**(241)**	**(20)**	**58**	**70**
2021	10	255	523	10	(10)	134	10	(17)	(41)
	(10)	(260)	(481)	(10)	10	(134)	(10)	17	41

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

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

c Interest rate risk

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

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and sterling interest rates, based on expectations regarding forward rate movements, on the result before tax and equity[1]. The sensitivity analysis has been performed on interest rate derivatives (both those designated in hedge relationships and those not designated in hedge relationships) at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to December 31, 2022 and 2021.

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2022	**150**	**–**	**6**	**150**	**5**	**17**	**150**	**(35)**	**–**
	(150)	**–**	**(7)**	**(150)**	**(4)**	**(17)**	**(150)**	**35**	**–**
2021	50	–	–	50	3	10	50	(2)	–
	(50)	–	–	(50)	(3)	(9)	(50)	2	–

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

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

d Credit risk

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

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

e Counterparty risk

The Group is exposed to the non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

The financial assets recognised in the financial statements, net of impairment losses (if any), represent the Group's maximum exposure to credit risk, without taking into account any guarantees in place or other credit enhancements.

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

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

f Liquidity risk

The Group invests cash in interest-bearing accounts, time deposits and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom to readily generate cash inflows required to manage liquidity risk. The Group has also committed revolving credit facilities.

At December 31, 2022 the Group had undrawn overdraft facilities of €53 million (2021: €53 million).

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

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

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

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

27 Financial risk management objectives and policies continued

The following table analyses the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

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

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

g Offsetting financial assets and liabilities

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

December 31, 2022

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

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

December 31, 2021

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

h Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

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

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

i Managing interest rate benchmark reform and associated risks

Overview

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

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

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

27 Financial risk management objectives and policies continued

Derivative and non-derivative financial instruments and hedge accounting

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

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

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

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

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

28 Financial instruments

a Financial assets and liabilities by category

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

December 31, 2022

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

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

December 31, 2021

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

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

b Fair value of financial assets and financial liabilities

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

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

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

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

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

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

28 Financial instruments continued

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

The fair value of cash and cash equivalents, other current interest-bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying value largely due to the short-term maturities of these instruments.

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

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

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

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

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

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

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

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

c Level 3 financial assets reconciliation

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

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

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

d Hedges

Cash flow hedges

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

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

The amounts included in equity are summarised below:

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

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

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

28 Financial instruments continued

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

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

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

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

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

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

1 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within non-operating items.
2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

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

1 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within non-operating items.
2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

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

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

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

29 Share capital, share premium and treasury shares

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

a Treasury shares

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

30 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at an option price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. Since 2015, awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. All awards since 2015 have three independent performance measures with equal weighting: Total Shareholder Return (TSR) relative to the STOXX Europe 600 Travel and Leisure Index (for 2020 awards) or MSCI European Transportation Index (for prior to 2020 awards), earnings per share, and Return on Invested Capital.

b IAG Restricted Share Plan

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

c IAG Full Potential Incentive Plan

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

d IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

e Share-based payment schemes summary

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

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

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

31 Other reserves and non-controlling interests

For the year to December 31, 2022

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

31 Other reserves and non-controlling interests continued

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

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the amounts on hedging instruments in cash flow hedges that are determined to be effective hedges. The amounts at December 31, 2022 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €11 million credit and €56 million credit, respectively.
2 The cost of hedging reserve records, amongst others, changes on the time value of options.
3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.
4 At December 31, 2021 the equity portion of convertible bond reserve represented the equity portion of the €500 million fixed rate 0.625 per cent convertible bond that matured in 2022. During 2022 the Group redeemed the €500 million convertible bond with no conversion into ordinary shares. On redemption, an amount of €62 million was transferred to Retained earnings.
5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).
6 Capital reserves include a Redeemed capital reserve of €70 million (2021: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2021: €797 million) associated with a reduction in the nominal value of the Company's share capital (note 29).

32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 26).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2022 were €251 million (2021: €200 million).

Defined benefit schemes

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members.

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

NAPS has been closed to new members since 2003 and closed to future accrual since 2018. Following closure, members' deferred pensions are increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI).

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, certain aspects of the business of the two schemes are common. APS and NAPS have developed certain joint working groups that are attended by the Trustee Board members of each scheme although each Trustee Board reaches its decisions independently. There are sub committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

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

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

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

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

Other plans

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

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

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

32 Employee benefit obligations continued

Risk associated with the defined benefit schemes

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

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

a Cash payments and funding arrangements

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

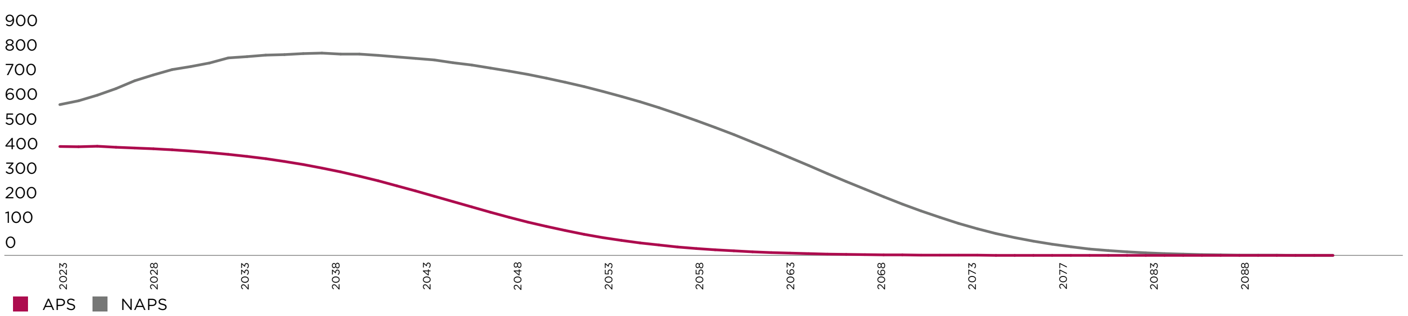
Future funding arrangements

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

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

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

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



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

Deficit contributions

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

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

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

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

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

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

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

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

b Employee benefit scheme amounts recognised in the financial statements

i Amounts recognised on the Balance sheet

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

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

1 Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At December 31, 2022, such assets were €320 million (2021: €391 million) with a corresponding amount recorded in the scheme liabilities.
2 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.
3 The net deferred tax asset recognised on the net employee benefit asset (2021: asset) was €54 million at December 31, 2022 (2021: €62 million). The defined benefit obligation includes €21 million (2021: €25 million) arising from unfunded plans.

32 Employee benefit obligations continued

ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

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

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

iii Amounts recognised in the Statement of other comprehensive income

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

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

c Fair value of scheme assets

i Investment strategies

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger-based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange, longevity and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

Along with existing contracts with Rothesay Life (as detailed in note 32c(iii)), APS is 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at March 31, 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index basis).

The strategic benchmark for asset allocations differentiates between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2022, the benchmark for NAPS was 31 per cent (2021: 37 per cent) in return seeking assets and 69 per cent (2021: 63 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and their investment managers to work within. APS no longer has a 'strategic benchmark' as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at December 31, 2022 was 1 per cent (2021: 1 per cent) in return seeking assets and 99 per cent (2021: 99 per cent) in liability matching investments. NAPS uses Liability Driven Investments (LDIs) to effectively hedge volatility in the scheme liabilities. This is achieved through direct bond holdings as opposed to the use of derivatives and as such leverage is low. Accordingly, as at December 31, 2022, NAPS has not been required to raise additional cash or liquidate existing assets in order to fund derivative positions.

ii Movement in scheme assets

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

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

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

iii Composition of scheme assets

Scheme assets held by the Group at December 31 comprise:

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

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

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

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

32 Employee benefit obligations continued

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

- insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at March 31, 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension only benefits, who were alive on October 1, 2018. Benefits coming into payment for retirements after March 31, 2018 are not covered. The contract covers benefits payable from October 1, 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future.

iv Effect of the asset ceiling

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

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

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

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

d Present value of scheme liabilities

i Movement in scheme liabilities

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

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

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

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

ii Scheme liability assumptions

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

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

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.
2 Rate of increase in pensionable pay, which reflects inflationary increases, is assumed to be in line with increases in RPI.
3 It has been assumed that the rate of increase of pensions in payment, which reflects inflationary increases, will be in line with CPI for NAPS and RPI for APS as at December 31, 2022.
4 The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.25 per cent grading down to 5.00 per cent over five years (2021: 6.00 per cent to 5.00 per cent over five years).

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

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

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

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

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

iii Sensitivity analysis

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

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

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

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

33 Contingent liabilities

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

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

34 Government grants and assistance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

35 Related party transactions

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

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

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

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

During the year to December 31, 2022 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €2 million (2021: €6 million) in relation to the costs of the Pension Protection Fund levy.

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

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

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

For the year to December 31, 2022, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2021: €nil).

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies. At December 31, 2022, the only significant shareholder of the Group was Qatar Airways.

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

35 Related party transactions continued

Board of Directors and Management Committee remuneration

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

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

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

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

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

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

36 Post balance sheet events

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

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

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

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

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. These measures are not defined under International Financial Reporting Standards (IFRS), should be considered in addition to IFRS measurements, may differ to definitions given by regulatory bodies applicable to the Group and may differ to similarly titled measures presented by other companies. They are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'.

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

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

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

a Profit/(loss) after tax before exceptional items

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

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

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

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

The rationale for each exceptional item is given below.

1 Partial reversal of historical fine

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

2 Impairment reversal of fleet and associated assets

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

The exceptional impairment reversal of €21 million, recorded in 2021, includes an amount of €14 million relating to the reversal of aircraft impairment and an amount of €7 million relating to the reversal of engine impairment. The aircraft impairment reversal relates to four Airbus A320 aircraft in Vueling, previously permanently stood down in the fourth quarter of 2020, being stood up in the third quarter of 2021. The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. Of the exceptional impairment reversal, €8 million was recorded within Property, plant and equipment relating to owned aircraft and €12 million was recorded within Right of use assets relating to leased aircraft. The exceptional impairment reversal is recorded within Depreciation, amortisation and impairment in the Income statement.

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

In the year to December 31, 2021:

3 Discontinuation of hedge accounting

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

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

4 Restructuring costs

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

5 Engineering and other aircraft costs

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

6 Air Europa Holdings termination agreement

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

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

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

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

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

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

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

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

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

c Airline non-fuel costs per ASK

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

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

d Levered free cash flow (KPI)

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

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

e Net debt to EBITDA before exceptional items (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA before exceptional items to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom against internal and external security analyst and investor benchmarks. During 2022 the Group has amended the name of the APM to clarify that the EBITDA element is before exceptional items, however the determination of the calculation of the APM has not changed.

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

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

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

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

f Return on invested capital (KPI)

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

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

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

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

g Results on a constant currency basis

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

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

Foreign exchange rates

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

h Liquidity

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

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

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

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

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA Euroflyer Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways Holdings B.V. Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Call centre	England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
Avios Group (AGL) Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Management of airline loyalty programmes	England	86%[1]

Iberia

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

Aer Lingus

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Aer Lingus (Ireland) Limited Dublin Airport, Dublin	Provision of human resources support to fellow group companies	Republic of Ireland	100%
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin	Trustee	Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, IM1 4LZ	Dormant	Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%[3]
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus (UK) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Airline operations	Northern Ireland	100%
ALG Trustee Limited 33-37 Athol Street, Douglas, IM1 1LB	Trustee	Isle of Man	100%
Dirnan Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Santain Developments Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

IAG Loyalty

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

IAG Cargo

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

Vueling

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

LEVEL

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
FLYLEVEL UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
Openskies SASU 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%

International Consolidated Airlines Group, S.A.

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%[4]
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100%
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Inflight eCommerce platform	Republic of Ireland	100%
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100%
IAG GBS Poland sp z.o.o.* Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%[2]
Veloz Holdco, S.L.U. Carrer de Catalunya 83 Viladecans, Barcelona 08840	Holding company	Spain	100%

* Principal subsidiaries

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

2 The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

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

4 The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, are held by a trust established for the purposes of implementing the British Airways nationality structure.

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Jose Martí Airport, Havana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 1 ½, Jose Martí Airport, Havana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Dunwoody Airline Services Limited Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	England	40%
Serpista, S.A. Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Inloyalty by Travel Club, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Viajes Ame, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
DeepAir Solutions Limited Flat 10, 28 Cranley Gardens, London, SW7 3DD	England	23%
LanzaJet 520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015	USA	16.7%

Joint ventures

Name and address	Country of incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de O'Donnell 12, Madrid, 28009	Spain	50.5%

Other equity investments

The Group's principal other equity investments are as follows:

Name and address	Country of Incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Air Europa Holdings S.L.[1] Carretera Arenal - Llucmajor, km 21.5 Llucmajor, 07620	Spain	20%	EUR	24	–
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	73	2
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	208	–
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	–	–
i6 Group Limited Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4%	GBP	4	(1)
NAYAKJV1, S.L. C/ d'Osona, 2, El Prat de Llobregat, 08820	Spain	5%	EUR	–	–
Monese Limited Eagle House 163 City Road, London, EC1V 1NR	England	4.8%	GBP	18	(28)

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated management report
for the year ended
December 31, 2022

We deliver for our stakeholders and society

Who we are

We are an international airline group, with leading airlines in Spain, the UK and Ireland, and a series of best-in-class non-airline businesses within our central platform that drive efficiency and create additional sources of revenue for IAG. Our purpose in the world is to connect people, businesses and countries, and we hold **innovation**, **commitment**, **care for people**, **responsibility**, **pragmatism**, **execution**, **ambition** and **resilience** as key values that enable us to fulfil our purpose.

We have a portfolio of world-class brands and operations

Airline operating companies

Non-airline businesses and central platform

IAG Loyalty

avios

IAG Cargo

IAG GBS

IAG Tech

For more information see the operating companies' sections

Our stakeholders

IAG has the aim to be a force for good where we operate and, in doing so, create value for all our stakeholders. This starts with fostering a culture that makes our employees feel valued, focusing on diversity and inclusion and providing our employees with options to develop within the Group. Our employees play a critical role in delivering the service our customers expect, which is in turn the main driver of the Group's ability to create value for all our stakeholders. Our shareholders, lenders and other financial stakeholders, and the broader capital markets are also essential in supporting us in the delivery of our purpose, business plans and strategy. In addition to our employees, customers, lenders and shareholders, collaboration with the broader industry, including our suppliers and regulators, is key to ensuring that we maintain the high standards our customers expect and that policy makers understand the impact of their decisions on our businesses and customers.

For more information see the Stakeholder engagement section

Customers

Employees

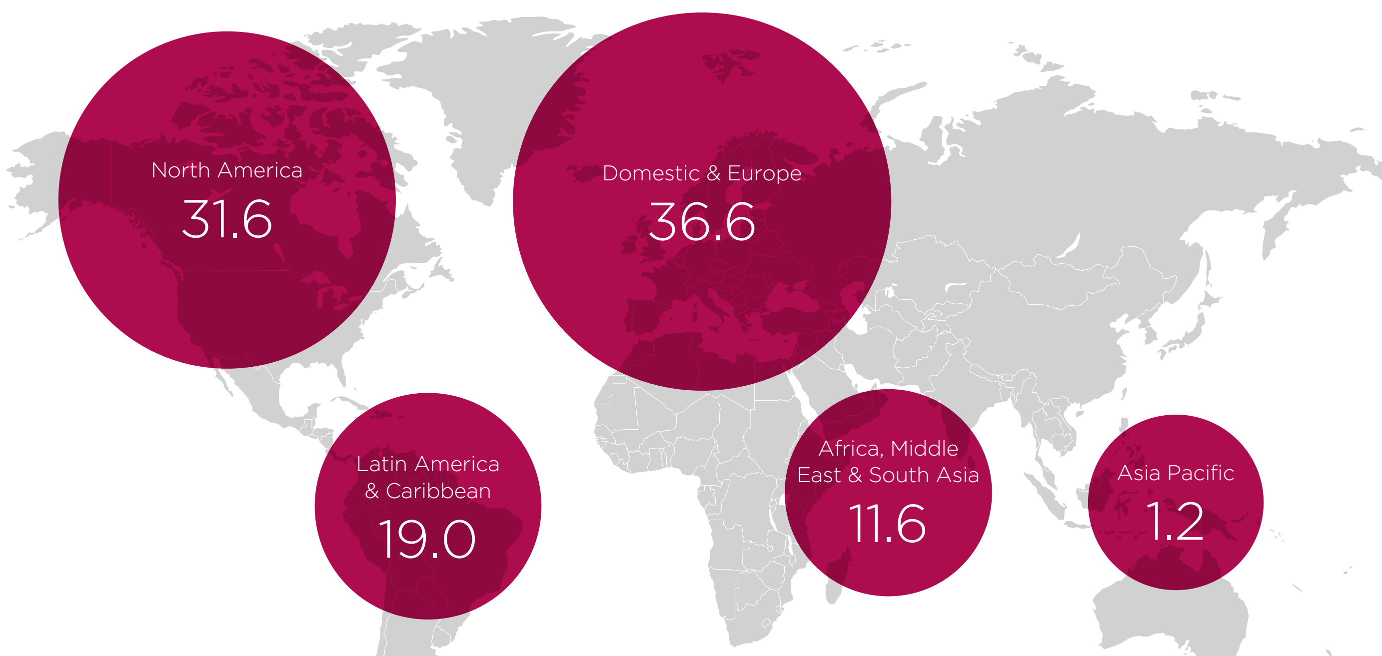
Suppliers

Shareholders, lenders and other financial stakeholders

Governments and regulators

Where we operate

ASKs (% of IAG 2022 network)



Total fleet

558

Total employees

66,044

We are committed to sustainable aviation

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

For more information see the Sustainability section

Our purpose is fulfilled with a unique model

We were formed with a model based around consolidation, synergy capture, leadership in our core markets and financial performance.

Our operating model

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

Principles

Operating companies' execution and accountability

Light structure at the centre for central functions and intra-Group coordination

Central execution only where it provides additional value

Corporate parent

Sets long-term strategy for the Group

Defines portfolio, M&A and partnerships

Sets targets, coordinates transformation plans across IAG and oversees performance

Allocates capital and secures funding

Drives ESG agenda for the Group

Manages investor relations

Facilitates best practice sharing

Defines, drives and monitors response to external shocks

Airline operating companies

Define and execute commercial strategy, network strategy and planning

Ensure operational efficiency

Define product strategy for target customer segments

Deep understanding of customer and competitive environment

Standalone profit centres and independent credit identities

Individual brands, cultural identities and management teams

Central platform

Provides common services and allow the Group's operations to benefit from scale and world-class expertise

For more information see the operating companies' pages

The Group has a unique business model within the airline industry, based on a light structure at the centre, agile, empowered and focused airline operating companies accountable for their results, and a central platform providing a competitive advantage to our airlines through scale and world-class expertise.

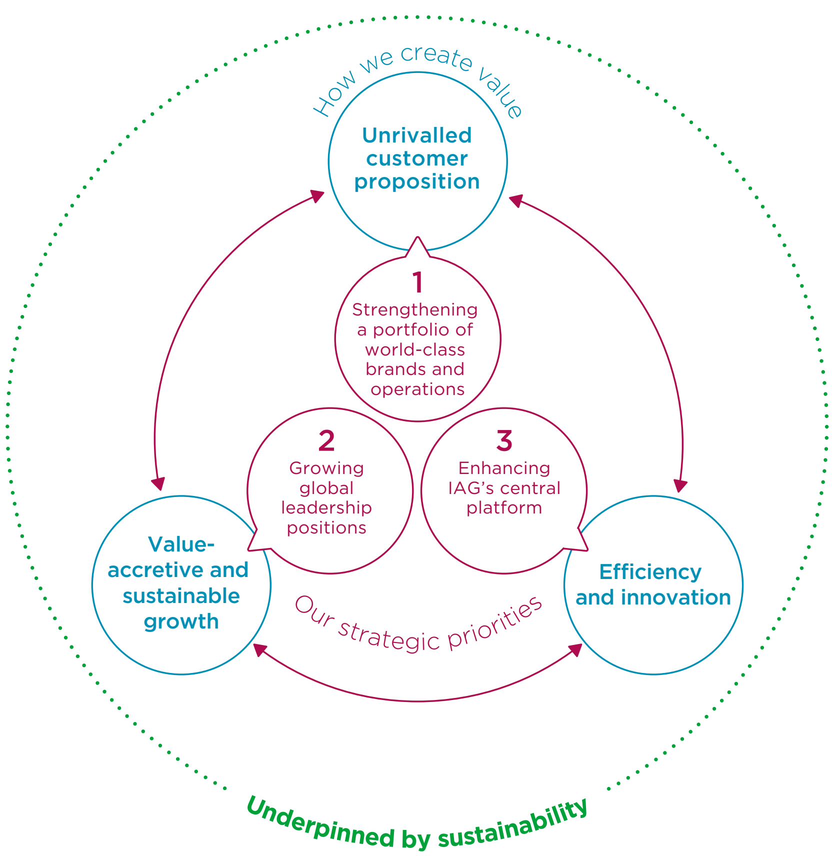
IAG, as the parent company, actively engages and works collaboratively with its portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies and value to the Group. Its independence from the operating companies enables IAG to implement a long-term strategy for the Group that is aligned with our purpose and values, as well as set performance targets for the operating companies, track their progress and efficiently allocate capital within the Group. Our model also allows the Group to more effectively take part in industry consolidation, with IAG ensuring inorganic options are aligned with our strategy and providing a central platform to the benefit of new operating companies joining the Group.

The operating companies, with their different brand identities and customised business models, are in turn empowered to execute their strategies and are fully accountable for their financial results. The Group's structure allows our brands to focus their efforts on their addressable markets, customer proposition, cultural identities, commercial strategy and their industrial relations, while its scale supports innovation and investment in new products and services to enhance our operating companies' customer experience.

The airline portfolio sits on the Group's central platform, which drives efficiency and simplicity across the operating companies whilst creating additional sources of revenues for IAG. The IAG central platform allows the Group to be at the forefront of innovation and sustainability in the airline industry, supporting and scaling top emerging technologies in travel and aviation.

Our strategic priorities to create sustainable value

Our strategic priorities



How we create value

Unrivalled customer proposition

- Ensure our operating companies collectively deliver an unrivalled proposition able to fulfil customers' needs across the full spectrum of travel occasions
- Lead industry consolidation and develop organic options to differentiate the Group from its competitors and ensure customer demands are met
- Deepen customer-centricity to win a disproportionate share in each customer segment

Value-accretive and sustainable growth

- Pursue value-accretive organic and inorganic growth to reinforce existing or pursue new leadership positions in our priority markets
- Attract and develop the best people in the industry
- Set the industry standard for environmental and societal stewardship, whilst always prioritising the safety and security of our customers and employees

Efficiency and innovation

- Reduce costs and improve efficiency by leveraging Group scale and synergy opportunities
- Engage in Group-wide innovation and digital mindset to enhance productivity and best serve our customers
- Promote a culture of high operational efficiency throughout our portfolio of operating companies, and leverage the platform to drive synergies and reduce costs

Tracking our performance

We use a combination of financial and non-financial metrics to measure the performance and progress of our strategy:

Financial KPIs: see the Key performance indicators section

Employees: see the Sustainability section

Customer NPS: see the Key performance indicators section

Environment: see the Sustainability section

Strengthening a portfolio of world-class brands and operations

Strategic priority

1. Strengthening a portfolio of world-class brands and operations

How we create value

Unrivalled customer proposition

Our performance

Our activity in 2022

Following the reopening of many international markets during the second half of 2021, 2022 has been characterised by strong economic volatility, with high inflation levels across western nations fuelled by the war in Ukraine and supply chain disruptions after the pandemic. The Group's portfolio of brands has continued to support local communities in 2022, with British Airways, Iberia, Vueling and IAG Cargo partnering with Project Hope and other charities to send 125 tonnes of humanitarian aid to Ukraine. IAG Cargo, alongside its sister company British Airways, also offered the free transportation of 34 tonnes of vital emergency aid to Pakistan, in the wake of a devastating flood crisis.

Over 2022, air travel has seen a rapid recovery from 2021 levels, which together with supply chain and resource limitations has led to operational issues across many airlines and airports around the world, leading to frequent passenger disruption. Within our airline portfolio, Iberia and Vueling were able to successfully manage recovery, with operational performance returning to close to 2019 levels by the end of the year. British Airways had exposure to some operational challenges during the first half of 2022, due to staff shortages, COVID-19 check requirements and terminal capacity limitations at London Heathrow linked, among other reasons, to an airport-imposed daily passenger cap during the summer. However, progress has been made throughout the year on building operational resilience at British Airways, with accelerated recruitment and a more agile and coordinated approach to capacity planning in collaboration with London Heathrow airport, leading to an improved punctuality. Our other operating companies have also improved their disruption management processes. Iberia, for example, continued to improve its digital capabilities for passengers that have been disrupted by cancellations or delays.

Digitalisation plays a key role in how our airlines have improved customer experience in 2022. During the year, Vueling launched facial recognition at self-bag drop and for security access and aircraft boarding, and tested self-service kiosks at London Gatwick airport. Iberia partnered with Trip.com group to implement a shopping engine solution for the New Distribution Capability air ticket sales channel, offering travellers additional fare and ancillary options on Iberia's long and shorthaul flights. Our brands also continued to improve the customer experience by enhancing our product across all stages of the journey. For example, Iberia enhanced its North and South American lounges while extending the opening times in its North American ones; Aer Lingus introduced the Airbus A320neo into its fleet, providing passengers with an enhanced seat product on shorthaul, whilst British Airways continued to roll-out its Club Suite product into its longhaul fleet and restored the 'Full Club Suite' meal service. Catering has also been improved, with Aer Lingus refreshing its longhaul business cabin food offering and British Airways refreshing its catering in all longhaul cabins and Club Europe on shorthaul flights. Additionally, British Airways and Iberia co-located all flights at New York, JFK with American Airlines at Terminal 8 from December, which will considerably enhance the journey for passengers transferring to an American Airlines flight.

IAG Loyalty continued to enhance its offering to customers during 2022, for instance, relaunching the British Airways prepaid Mastercard and launching an Avios purchase subscription model in British Airways and a co-branded credit card with Barclays.

Our priorities for 2023

The Group will ensure our businesses can deliver an unrivalled customer proposition that adapts to meet changing customer expectations in the context of air travel recovery after the COVID-19 pandemic. IAG will remain competitive in its priority customer demand spaces by continuing to evolve the operating companies' products and services to best deliver against the needs of their customers. As an example, Iberia expects to start introducing new business cabin suites with sliding doors on its Airbus A350 fleet from December 2023. We will also focus on further improving operational resilience at British Airways and a strong emphasis will continue to be placed on digitalisation across the Group, including further customer-focused improvements to the digital experience.

Strategic priority

2. Growing global leadership positions

How we create value

Value-accretive and sustainable growth

Our performance

Our activity in 2022

In 2022, as airlines across the world rapidly ramped up capacity, the Group put a special emphasis on maintaining our existing leadership positions in our home cities of London, Madrid, Barcelona and Dublin, and our priority markets. We will continue exploring value-creating organic growth and consolidation opportunities where they make sense.

With a strong demand recovery during the year, Vueling, Aer Lingus and Iberia managed to restore capacity relatively quickly, reaching higher than or close to 2019 capacity levels in the last quarter of the year, whilst British Airways' recovery was slightly slower in 2022 as a consequence of operational challenges faced by the airline. Despite ongoing restrictions limiting our recovery in regions like Asia, our operating companies managed to also capitalise on a strong yield environment and drive an even faster revenue recovery. In this context, our airlines have been able to capture new strategic growth opportunities organically. For example, British Airways resumed its operations to key global cities, such as Tokyo and Hong Kong, as travel restrictions lifted or softened, whilst Vueling set up a new base at London Gatwick airport where the low-cost airline's Spanish network doubled in the summer with five additional routes. British Airways also launched its Gatwick-based, low-cost Euroflyer subsidiary in March, with 35 initial destinations on offer that increased with the relaunch of three winter seasonal destinations. Aer Lingus, in turn, announced the launch of new routes to Cleveland and Hartford in the US for summer 2023.

IAG's operating companies have continued to strengthen their relationships with our partners this year. Aer Lingus progressed with its integration into the Atlantic Joint Business, launching a new codeshare agreement with American Airlines at the beginning of the year to give customers more choice between Europe and North America. The Group also continued to expand its relationship with Qatar Airways, with the expansion of the Joint Business with British Airways creating the world's largest airline joint business in terms of countries covered.

The Joint Business now covers a total of 185 destinations across 60 countries, offering more access for customers between destinations in Europe, Africa, Asia, Oceania and the Middle East, and facilitating seamless connection trips via London and Doha. Additionally, IAG Loyalty and Qatar Airways also launched a partnership early in the year, with the Doha-based airline adopting Avios as its new rewards currency for Privilege Club members, increasing Avios' global reach, further enhancing customer choice and creating the conditions to expand the airlines' frequent flyer programmes through additional partnerships.

In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. 2022 saw IAG acquire a 20 per cent equity in the airline, with the ambition to acquire the remaining 80 per cent subject to an agreement with Globalia and regulatory approval from competition authorities.

Our priorities for 2023

During 2023, the Group will aim to maintain and bolster its leadership positions in its home cities and priority markets, and to create further value from our partnerships. We aim to continue to build back the frequencies and relaunch routes to destinations we stopped serving during the pandemic, including recovery in our Asian flying. One of our key objectives will be to continue advancing the integration of Aer Lingus into the Atlantic Joint Business and the expansion of our Qatar Airways Joint Business and loyalty partnership. In addition, the Group will continue to leverage its other joint businesses, alliances and partnerships and, where appropriate, form new joint businesses or participate in the industry's consolidation by entering into value-accretive merger and acquisition (M&A) deals.

Strategic priority

3. Enhancing IAG's central platform

How we create value

Efficiency and innovation

Our performance

Our activity in 2022

This year has been one of volatility across the global economy. Pandemic-related effects, high inflation, increased staff costs and unfavourable exchange rate evolution against the US dollar have all impacted our businesses, increasing fuel prices and putting pressure on supplier costs. In spite of this, our companies have demonstrated resilience, continuing to advance with their transformation plans to ensure we remain efficient for the future, and leveraging our non-flying segments and businesses to generate additional revenue.

IAG Loyalty has continued to show a very strong contribution to the Group. Our loyalty business accelerated its customer engagement, with more newly enrolled customers this year than in 2019 and stronger remuneration from our American Express partnership and British Airways co-brand account acquisitions. Apart from the expansion with Qatar Airways to increase Avios' global reach, IAG Loyalty continued to expand its partnership portfolio, launching its largest Avios promotion ever in October with the Barclaycard Avios Plus Mastercard offer. Other non-air partnerships launched by IAG Loyalty during the year include the ones with Uber and Reward Gateway. Additionally, IAG Loyalty launched its brand new venture 'The Wine Flyer', an online wine delivery business that will give customers the possibility to collect Avios on their wine buying.

IAG Cargo had another strong year in 2022, experiencing ongoing demand for its services. In spite of passenger travel returning and cargo transport progressively shifting back to scheduled airline flights, the business delivered strong revenues and contribution to the Group throughout the year, with transformation efforts positively impacting the business. Performance was also supported by a strong yield environment in 2022, which is however expected to moderate, along with global air cargo volumes, in 2023.

Iberia Maintenance, our third-party Maintenance, Repair and Overhaul (MRO) and engine services division has also contributed additional asset-light revenues to the Group. In October, Iberia Maintenance obtained a licence from Pratt & Whitney to provide engineering and maintenance services for the GTF engines, which power the Airbus A320neo aircraft family. This strategic step allows Iberia Maintenance to consolidate its position as a shorthaul engine service provider, with licences covering the main Airbus and Boeing shorthaul platforms. Additionally, the division won strategic contracts during the year such as with Qatar Airways for its V2500 engines, with Volotea for its C-checks and with Vueling for airframes, engines and parts.

Our IAG GBS segment has also been key in managing our more than 13,000 suppliers, ensuring a secure, sustainable and efficient supply chain, and delivering efficiencies across the Group that have been key in mitigating sector-wide inflation. Additionally, the segment has played a key role in supporting IAG in its aspiration to achieve Scope 3 net zero emissions by 2050. IAG Tech, in turn, continued its focus on enhancing new technology capabilities across the Group, including improving disruption and self-service management solutions for customers and increasing efficiency through process automation.

Another key focus during 2022 has been to drive innovation across the Group. Following our Hangar 51 accelerator programme, British Airways and Iberia started a collaboration with the start-up CHOOOSE, focused on corporate sustainability insights and helping the airlines to provide customers with options to offset their flight emissions. Another example of innovation was the additional investment the Group made in July in ZeroAvia, a company that works in shorthaul hydrogen-electric options for the industry. This investment followed a previous investment from British Airways.

Our priorities for 2023

During 2023, IAG will continue to focus on delivering the transformation plans for its different business segments and accelerate our operating companies' digital transformation plans, which will ensure the Group remains in an efficient shape for the future. Additionally, the Group will ensure our non-airline businesses continue to capture available opportunities and bring additional sources of revenues and cost synergies and efficiencies to our airlines and the Group. Our central functions will continue to support IAG Loyalty in growing organically and inorganically, including through partnerships or the launch of new potential value-accretive ventures. The Group will also collaborate with Iberia Maintenance to establish itself as a best-in-class shorthaul engine service provider and with IAG Cargo to maintain its strong revenues and high contribution to the Group. Crucially, IAG will continue to invest in our IT infrastructure and cyber security to ensure we reduce commercial and operational risk at our operating companies.

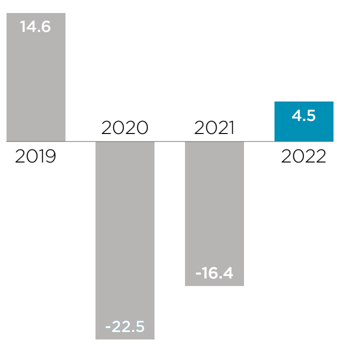
Tracking the Group's performance

We use key performance indicators (KPIs) to assess and to monitor the Group's performance. We evaluate opportunities based on the strategic objectives of the Group and use the KPIs to identify and generate sustainable value for our shareholders. Our financial metrics are before exceptional items to allow comparability between periods.

RoIC (%)[1,2]

A R

2



Definition and purpose

Return on Invested Capital (RoIC) is defined as EBITDA before exceptional items, less adjusted fleet depreciation, other depreciation and software amortisation, divided by average invested capital. We use 12-month rolling RoIC to assess how well the Group generates returns in relation to the capital invested in the business, together with its ability to fund growth and to pay dividends.

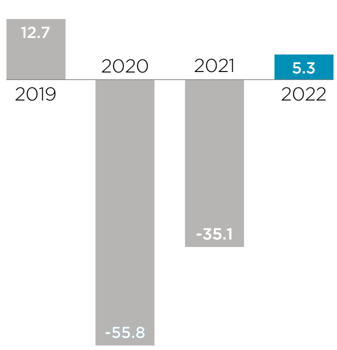
Performance

The Group's RoIC rose by 20.9 points to 4.5 per cent, returning to positive levels reflecting the Group's significantly improved operating performance, with EBITDA before exceptional items of €3.3 billion. Invested capital was higher by 2.4 per cent, reflecting aircraft deliveries and investment in customer product and IT. The weighted average age of fleet was higher at 11.3 years versus 10.6 years in 2021, reflecting the net impact of the ageing of the existing fleet, aircraft withdrawn from service and 27 new aircraft delivered in 2022.

Operating margin (%)[1,2]

A

2



Definition and purpose

Operating margin is the operating result before exceptional items as a percentage of revenue. We use this indicator to measure the efficiency and profitability of our business and the financial performance of the individual operating companies within the Group.

Performance

The Group's operating margin before exceptional items was 5.3 per cent driven by the Group's operating profit before exceptional items of €1.2 billion in the period. Total revenue was up €14.6 billion to €23.1 billion, reflecting passenger capacity at 78.0 per cent of 2019, versus 36.1 per cent the previous year, with stronger yields driven by demand recovery. Cargo revenue was flat versus prior year at €1.6 billion, despite the significant reduction in cargo-only flights with the resumption in the passenger schedule. The Group's non-passenger businesses, such as IAG Loyalty, Iberia Maintenance, Iberia Handling and British Airways Holidays, all produced positive performances.

1 For further detail refer to the Alternative performance measures section of the financial statements.
2 The 2019 and 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.

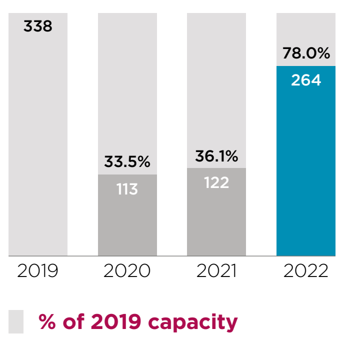
Key

A Alternative performance measure

R Measure linked to remuneration of Management Committee

1 2 3 Link to our strategic objectives

Capacity
(ASKs millions)



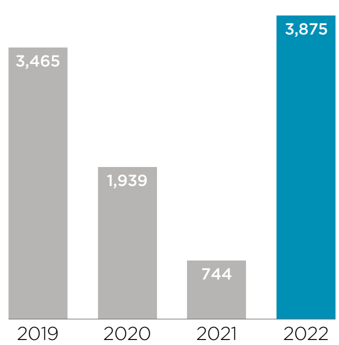
Definition and purpose

Capacity in the airline industry is measured in Available Seat Kilometres (ASKs) which is the number of seats available for sale multiplied by the distance flown.

Performance

IAG was able to significantly increase capacity during the year, as COVID-19 restrictions were lifted, with a strong pent-up demand for travel. Overall for the year passenger capacity was at 78.0 per cent of 2019, increasing from 65.1 per cent in quarter 1 to 86.6 per cent in quarter 4. Load factors reached 81.8 per cent, again increasing across the year, from 72.2 per cent in quarter 1 to 83.2 per cent in quarter 4. Shorthaul capacity restoration was ahead of longhaul, with most longhaul regions substantially restored by quarter 4, but with the Asia Pacific region lagging others, due to continued COVID-19 restrictions in certain countries.

Gross CAPEX
(€m)[2]



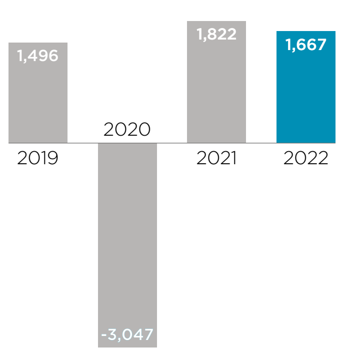
Definition and purpose

Gross capex (capital expenditure) is the total investment in fleet, customer product, IT, ETS allowances and infrastructure (including leased right of use assets) before any proceeds from the sale of property, plant and equipment. We track the planned capital expenditure through our business planning cycle to ensure it is in line with achieving our other financial targets.

Performance

Gross capex for 2022 was €3.9 billion. Fleet and fleet-related capex represented 81 per cent of the total capital expenditure and included final delivery payments related to 25 aircraft, together with pre-delivery payments and maintenance spend. The higher capex reflects prior-year agreements with Boeing and Airbus to defer deliveries and pre-delivery payments from 2020 and 2021 to 2022. Other spend included customer product, property and IT investments, together with ETS allowances. In addition, the Group took delivery of two aircraft on direct leases, which do not result in capital expenditure.

Levered free cash flow (€m)[1]



Definition and purpose

Levered free cash flow is the cash generated in the year including movements in borrowings and before returns to shareholders. It is used, in conjunction with leverage (measured as net debt to EBITDA before exceptional items), to measure the underlying cash generation of the business.

Performance

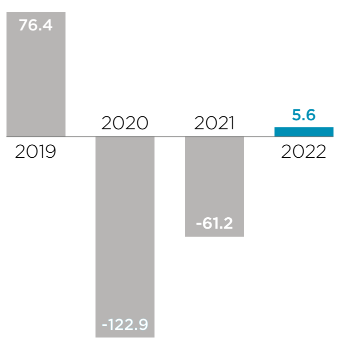
The Group's levered free cash flow for 2022 was €1.7 billion. The reduction versus the prior year is predominately due to lower borrowings in 2022, with no new non-aircraft debt drawn in 2022, versus €4.4 billion in 2021. Gross capex was also higher, although the impact was offset by strong operating cashflows of €4.8 billion, linked to EBITDA and booking intakes for travel in 2023.

Adjusted EPS

(€ cents)[1 3]

A R

3



Definition and purpose

Adjusted Earnings Per Share (EPS) represents the diluted earnings for the year before exceptional items attributable to ordinary shareholders.

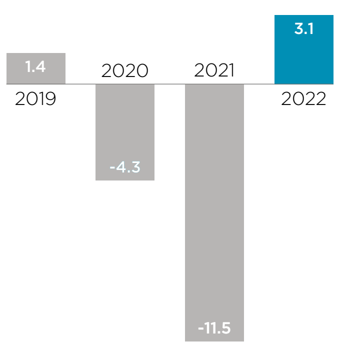
Performance

Adjusted earnings per share turned positive to 5.6 € cents from an adjusted loss per share of 61.2 € cents in 2021, as the result of earnings after tax before exceptional items improving significantly in line with the restoration of capacity and the Group's trading performance. The effect of the assumed conversion of the IAG €500 million convertible bond 2022 (up until the repayment date), IAG €825 million convertible bond 2028 and outstanding employee share schemes is dilutive for the year, compared to being antidilutive in the prior year and therefore not included in the diluted earnings per share calculation for 2021.

Net debt to EBITDA before exceptional items[1 3]

A

3



Definition and purpose

Net debt to EBITDA before exceptional items (leverage) is calculated as long-term borrowings (both current and non-current), less cash, cash equivalents and other current interest-bearing deposits at December 31, which is divided by EBITDA before exceptional items[4] for the year. IAG uses this measure to monitor leverage, to assess financial headroom.

Performance

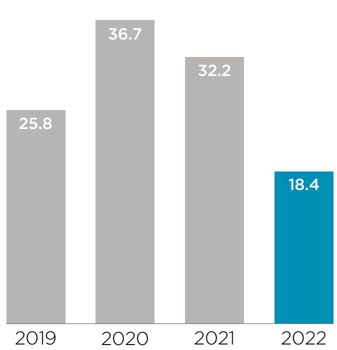
The Group's leverage was 3.1 times compared to a negative leverage of 11.5 times in 2021, driven by EBITDA before exceptional items of €3.3 billion on net debt lower by €1.3 billion. Gross debt rose by €0.4 billion, including an adverse currency impact of €0.5 billion due to the strengthening of the US dollar. During the year, the Group repaid its €500 million convertible bond and €100 million of a debt facility from the Ireland Strategic Investment Fund.

Net Promoter Score

(NPS)

R

1



Definition and purpose

At IAG a transactional NPS is measured: customers respond about their likelihood of recommending an IAG operating carrier no more than seven days after taking a flight. Including NPS targets in the Group's employee bonus scheme has driven a stronger focus on improving the customer experience which, together with customer advocacy, drives competitive advantage, leading to faster organic growth.

Performance

In 2022, IAG's NPS decreased 13.8 points versus 2021. The quick ramp up of air travel demand, a lack of staff to manage these volumes at airports as well as in some of our airlines, and operational issues negatively impacted our NPS. To mitigate this impact our airlines reduced their schedules to increase stability, undertook a vast recruitment process and re-trained colleagues to support where necessary. Positive impacts to the NPS came from enhancements to the customer proposition, particularly those made to the catering and on-board experience. This led to an increase of the Group NPS during the final quarter of the year.

Key

A Alternative performance measure

R Measure linked to remuneration of Management Committee

1 2 3 Link to our strategic objectives

1 For further detail refer to the Alternative performance measures section of the financial statements.
2 Gross CAPEX is defined as Acquisition of property, plant and equipment and intangible assets.
3 The 2019 and 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.
4 See Section e of the Alternative performance measures.

Connecting with our stakeholders

Our key stakeholders

We believe that IAG thrives in the long-term when the interests of different stakeholders are appropriately balanced so that they all share in our success. It is therefore important that we fully understand all stakeholders' priorities, expectations and concerns.

Our long-term commitment to sustainability and corporate social responsibility is embedded in all we do at Group and operating company level, from our interactions with our customers through to employees and shareholders, so we do not identify our communities or the environment as a distinct stakeholder group. Our aim is to be a force for good in the communities in which we operate and, in doing so, create value for all our stakeholders. More detailed information is provided in the operating companies and sustainability sections of this report.

An overview of the relevance for IAG's business model and strategy of these key stakeholders, and the key topics of interest during the reporting period are summarised in the following table. In addition, on the following pages, we include a more detailed analysis of each stakeholder and its relationship with IAG.

Customers

How we engage

- Daily "Voice of Customer" survey to collect feedback on their experience
- Brand surveys (to understand needs and expectations)
- Channels to raise claims and make suggestions
- Contact Centre services and digital channels[1]
- Corporate websites, email and social media accounts
- On-board and airport colleagues

Key topics/interests during 2022

- COVID-19 travel restrictions and requirements
- Customer service and personalisation capabilities, particularly when there is disruption
- Airports' challenges, including congestion, staff shortages, and baggage issues
- Digitalisation of customer journey
- Flexibility measures, such as our "Book with Confidence" policy
- Expansion of our partnerships
- Sustainability

Employees

How we engage

- Operating companies' communication channels adapted to their cultures and profiles (formal and informal channels, including employee forums, internal social networks, local cascade meetings, newsletters, workshops, engagement surveys)
- Each operating company engagement surveys, at least annually, across full workforce[2]
- Employee-led network groups
- Collective bargaining arrangements
- European Works Council (EWC)[3]

Key topics/interests during 2022

- Future plans including modernisation of our fleet
- Recruitment, resourcing and capacity
- Fair reward, cost-of-living crisis, pay conditions
- Terms and conditions including flexible working practices
- Safety and well-being, including specific COVID-19 measures (where applicable)
- Building the right culture including diversity, equity and inclusion
- Training and career development
- Corporate purpose and impact on the world
- Sustainability

1 In 2022, a key focus has been developing new digital channels and enhancing existing ones, such as meta-chat bots in our websites or WhatsApp 24/7, for customers to raise queries in an accessible and relevant way, which will also help us to ensure that our contact centre agents are focused on the most complex cases.
2 In 2021 IAG undertook an Organisational Health Survey with managers across the Group to benchmark our working practices against world-class companies. In 2022 this survey has been extended to all colleagues with over 22,000 colleagues sharing their views. These surveys have helped management teams to refresh their people strategies and to adapt processes and policies to best support colleagues.
3 The EWC brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG completed an election and appointment process for the new Select Committee and Chair in early 2022, and the transition was completed in May.

Shareholders, lenders and other financial stakeholders

How we engage

- Calls and online and in-person meetings
- Formal meetings held every year (Annual General Meeting and four quarterly results briefings)
- Investor conferences and roadshows
- Contacts with equity, credit and ESG research analysts
- Regular interactions with credit analysts, global banks, debt investors and credit rating agencies.
- Interactions with aircraft operating lessors
- Mailbox for institutional and individual shareholders

Key topics/interests during 2022

- Progress of demand recovery and plans to restore capacity after removal of Government travel restrictions
- Recovery from operational ramp-up challenges
- Outlook for unit cost with the recovery of capacity, higher fuel prices and increasing inflation and the ability to pass these on
- Negotiations with employee groups concerning pay, cost-of-living, productivity, competitiveness and financial performance
- Cash flows, funding sources, financial leverage and liquidity
- Known capital spending and debt repayment commitments
- Short- and medium-term outlook for operating profitability
- Impacts on consumer and business demand of a potential global economic recession, especially in Europe
- Environmental, social and governance performance, including climate change initiatives.
- M&A and industry consolidation including Air Europa

Suppliers

How we engage

- Customary procurement processes, and pre-established periodic senior business reviews
- Industry conferences
- Supplier workshops

Key topics/interests during 2022

- Global inflationary challenges
- Airport capacity and resources
- Fair engagement with suppliers
- Compliance with regulations
- Global supply chain issues
- Responsible and robust supply chain
- Sustainability, with a focus on delivering upon the Group's Scope 3 commitments

Governments and regulators

How we engage

- Regular one-to-one meetings and interviews
- Contacts through our various industry associations (Asociación de Líneas Aéreas (ALA) in Spain, Airlines UK, IATA and A4E)
- Participation in the International Civil Aviation Organisation (ICAO)

Key topics/interests during 2022

- Safety and security, including COVID-19 related measures
- Impacts of conflict, especially the war in Ukraine
- Consumer rights
- Sustainability, including climate change
- Diversity and inclusion
- International relations including air service agreements
- Infrastructure regulation including airspace modernisation, airport charges and slot allocation policy

Customers

Rebuild from COVID-19 pandemic

IAG's NPS in 2022 decreased 7.4 pts versus the 2019 reported figure. Following two years of turbulence as a result of the COVID-19 pandemic which severely impacted the aviation industry, in 2022 we continued to focus on the recovery and transformation of our businesses. This rebuild phase was an extremely challenging period. Disruption in its many forms had the biggest impact on our 2022 NPS. The quick ramp up of air travel demand resulted in huge volumes of passengers going back to travel, and a lack of staff to manage this demand. This, together with remaining COVID-19 sickness levels among staff, generated some operational issues including long queues at security and check-in desks as well as an increase in mishandled baggage issues or flight cancellations, some of them without adequate notification to the customer.

Despite all the above-mentioned challenges, our airlines have made relentless efforts to mitigate these through various actions such as reducing schedules to provide otherwise compromised stability and certainty for customers, re-training office-based colleagues to enable them to help at the airport or improving communications to disrupted passengers through new channels to assist customers, and, in the particular case of British Airways, speeding up the biggest recruitment drive in the airline's history. Additionally, our airlines have continued their commitments to invest and enhance on our customers' experience, by re-introducing their full catering propositions and developing entirely new ones, upgrading content on our in-flight entertainment platform through new partnerships or enabling in-seat order solutions for our customers.

Results from engagement with our customers

In response to the feedback received, and based on the tracking of key performance metrics, our operating companies have launched different initiatives to address our customers' needs. Throughout the year, our airlines have made tremendous efforts to enhance their customer propositions through:

- **Driving forward customer transformation and digitalisation initiatives some of these include:** the launch of the first meta-chat bot to allow customers to raise issues that are relevant to them; implementation of a LiveChat on one of our airline's websites to quickly address simpler queries and ensure agents focus on the more complex ones; introduced more automation in our customer engagement centres; rolled out an i-coupon solution for customers to use at the airport when there is disruption; developed a new online functionality to enable customers to report and track mishandled baggage through some of our airlines' websites; rolled out new kiosks for check-in and bag drop at London Gatwick and other European airports; trialled new biometric technology for domestic and international flights to speed up the experience and remove friction from airport travel; trialled a virtual queue system for customers to use during disruption.
- **Improving the food and drink proposition**: some of our airlines re-introduced their full catering proposition, while others developed an entirely new one for their longhaul cabins (premium and non-premium). Other culinary improvements included the introduction of enhanced menus across all cabins and new in-seat order alternatives for customers.
- **Starting customer first training**: developing and starting to deliver training for cabin crew and all other front-line staff to ensure service received by our customers is aligned to each Group airline's purpose, values, mission and vision.
- **Other product and service improvements:** include the continuation of on-board WiFi roll-out and development of a new on-board free text messaging solution, the roll-out of a "report my bag" functionality in one of our airlines websites, the content upgrade on our in-flight entertainment with new partnerships (e.g., Paramount Plus), increase of our contact centre teams to provide a better customer care service as the airlines faced industry-wide challenges, or the continuation of the business Club Suite roll-out.
- **Co-locating our New York operations:** alongside American Airlines to enhance the customer proposition with our Atlantic Joint Business and **one**world alliance partner, offering our customers easy onward connections to 30+ destinations in the US and Caribbean.
- **Supporting our customers and front-line colleagues during the disruption peaks**: office-based colleagues at our different airlines have supported our front-line operational colleagues with different tasks including checking-in customers, marshalling them to aircraft from remote stands, or repatriation of mishandled baggage.
- **Environmental, social, and governance**: IAG continues to develop more environmentally sustainable products and services for customers. For example, all airlines now have online platforms enabling customers to mitigate the environmental impact of their flights, and IAG Cargo sold sustainable aviation fuel to the cargo customer Kuehne + Nagel. Other services help customers to mitigate the environmental impact of their meals or contribute to wider sustainability goals.

Employees

Rebuild from COVID-19 pandemic

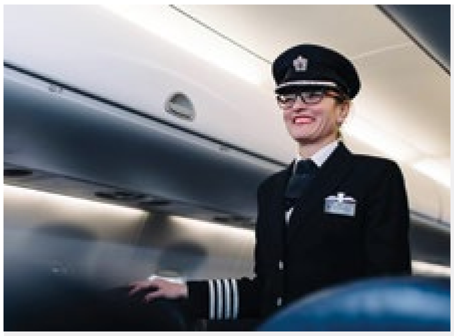
The commitment, resilience, flexibility and support of our employees has been fundamental to our ability to navigate through the unprecedented challenges of the last few years. Throughout the pandemic, we have had to react to changing regulations and travel restrictions and implement changes to policies and ways of working, often at short notice, and we have relied on our colleagues to keep our customers and each other safe, and to continue to deliver the best customer experience possible.

During 2022, as restrictions eased, we have continued to ensure colleagues remained safe and supported, and to enable them to manage the different and changing regulations and working practices required in the countries in which we operate.

The pace with which restrictions have been removed, and the surge in demand we have experienced across all markets, has placed additional challenges on colleagues, as IAG and the broader industry built up resources and capacity. At times, this has placed additional demands and challenges on colleagues, and we are incredibly grateful for their continued commitment and support.

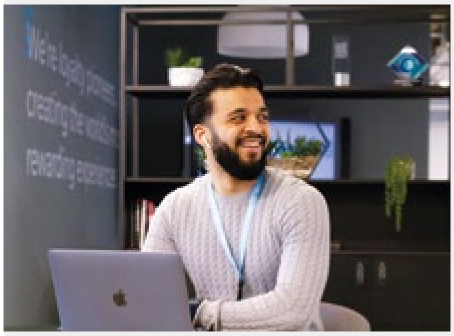
In 2022 we have seen around an additional 17,400 colleagues join our business, and thousands more have applied and will join in the months ahead. We are delighted by the high volume and quality of applicants applying and joining the Group. Ensuring we can on-board and train new colleagues effectively and obtain the required security clearance has been a major focus in 2022, so that they can be deployed operationally to support the increasing demand.

At IAG, we hold innovation, commitment, care for people, responsibility, pragmatism, execution, ambition and resilience as key values that enable us to fulfil our purpose; colleagues have consistently demonstrated these values in responding to the various challenges that they have been faced with across the year.



Crew Swaps

In 2020 British Airways Crew Swap facility was switched off as part of a broader review of working practices and the introduction of new terms and conditions, combined with IT issues in managing the facility. Following feedback from crew about the importance of this feature in terms of balancing work and personal lives and being trusted and empowered to make changes that work for them, this feature has been re-introduced. It enables the business to continue to serve customers, whilst providing more flexibility and choice to colleagues.



IAG Loyalty

In response to feedback from contact centre teams seeking greater flexibility (particularly from those with caring responsibilities), IAG Loyalty implemented a new system, Availability Point, enabling colleagues to add preferred shift options five to nine weeks out, with the planning team generating schedules and confirming shifts at four weeks. This allows people to build shifts around their lives and has been extremely positively received and a key to retaining talent and to attract more candidates.

Catering

As offices have reopened during the pandemic, we have continued to look to provide the right working environment and facilities, and to balance this with the changing working patterns for colleagues, often with lower building occupancy than pre-pandemic. Based on feedback from colleagues in our Waterside office in London Heathrow, we have opened ‘street food’ stalls and a new ‘salad bar’ to provide a range of hot and cold snacks, with a variety of options across the week. This change included the introduction of more casual seating, providing colleagues with space to connect and work in a more informal setting.

Iberia

Iberia has introduced new tools to support colleagues with career development including the Aircraft Maintenance Technician career path system, AQCESS, and the launch of IBTalent, an intranet portal for managers and specialists to develop their careers and access tailored training.

We recognise the critical role that colleagues continue to play in the recovery and transformation of IAG and are constantly looking at how we support them and to create a diverse and inclusive culture. In 2022, we refreshed our Equality, Diversity and Inclusion Policy, building on the diversity strategy and framework that was established in 2021. We are proud of the progress we have made to make IAG more diverse and inclusive but know we have further to go to achieve our ambition. We continue to focus on our ambition as the composition of our workforce changes.

IAG's unique operating model continues to provide fantastic opportunities for career development and progression, and our strengthened approach to talent management and succession planning is enabling us to fill the majority of our roles with talent from across the business.

Results from the engagement with our employees

We use a range of channels to understand what matters to our colleagues and to help us improve our people policies. Each operating company runs regular engagement surveys, and across IAG we conduct an organisational health survey to better understand colleagues' experiences and perceptions.

We continue to evolve our channels for communication and information, to improve advocacy and engagement and ensure information is available on a range of employee-related issues.

Feedback from these channels have highlighted that resourcing and operational challenges, flexibility and choice, development and careers and fair pay remain the most important issues for colleagues.

Shareholders, lenders and other financial stakeholders

We held two shareholders' meetings in 2022, our annual general meeting on June 16, and an extraordinary meeting on October 26, to approve fleet orders. Both meetings were hybrid, allowing for in person attendance and to participate remotely through the electronic meeting platform arranged for such purpose. Shareholders were invited to submit questions before or at the meeting, all of which were addressed. In addition, any requests for information, clarifications or questions made in writing and the written replies provided were posted on the company's website unless the information requested was already available on the company's website. Both meetings were also webcast live on the IAG website.

In conjunction with the Investor Relations team, IAG's Chairman, the Remuneration Committee Chair, as well as the Group's Chief Executive and Chief Financial Officer have engaged on many occasions with shareholders, equity investors and lenders.

The Chief Executive and the Chief Financial Officer hosted two in-person roadshows following the full-year and half-year results in March and September. These roadshows took place over a period of five days in March and five days in September and covered investors in Germany, Spain, the United Kingdom and United States. In addition, they also held virtual meetings with a number of our key institutional investors and the Investor Relations team attended numerous investor meetings and broker conferences for investors throughout the year.

The discussions in these meetings were wide-ranging on a number of strategic, financial, operational and ESG topics. In March, the main focus of investors concerned the prospects and plans for a recovery from the Omicron variant of COVID-19, the implications of the Russian invasion of Ukraine on demand and fuel prices and IAG's relatively high level of financial leverage, despite a high level of liquidity. The focus of investor discussions subsequently shifted to the operational ramp-up challenges, especially in the UK, the strength of pent-up demand, rising inflation and cost-of-living issues and implications for collective bargaining agreements.

Environmental, social, and governance

ESG continues to be an area of focus for engagement with investors. The Investor Relations team has an ongoing dialogue with ESG research analysts and has hosted several meetings for the Group Head of Sustainability with key shareholders and institutional investors. In May, for the first time, the Group Chief Executive hosted an ESG Investor Day, which was an in-person event, for analysts, investors and other financial stakeholders. The focus of the day was of IAG's progress on climate change and people developments. This was the first ESG-specific event hosted by a major European airline. The feedback from several shareholders and investors is that IAG is leading other European and global airlines in terms of focus on climate change issues and climate change-related targets and disclosures.

The Chairman hosted a combined in-person and virtual roadshow with six key shareholders in April and May to discuss a range of ESG matters, in particular on climate change, diversity, remuneration policy and Board governance matters, as well as the recovery from the pandemic and strategic issues.

The former and current Chair of the Remuneration Committee consulted with our main shareholders and proxy advisers during the year on remuneration policy issues. A first consultation process took place prior to our annual shareholders' meeting on a proposal to amend our policy to increase the quantum on the Restricted Share Plan for IAG Chief Executive. Based on the feedback received, the Board decided to reduce the initially proposed increase of 175 per cent to 150 per cent. Although the votes cast against the proposed amendment were below the 20 per cent threshold, the new Chair of the Remuneration Committee wrote to several major shareholders and proxy advisors, and held various meetings in December and January this year to follow up on concerns raised in relation to this proposal. Further detail is provided in the Directors' Remuneration Report.

Suppliers

Extraordinary shareholders meeting for the acquisition of aircraft

We held a shareholders' meeting on October 26, 2022 to propose the approval of the acquisition of 50 Boeing 737 family aircraft and 37 Airbus A320neo family aircraft. Given the size of the proposed transactions, these purchases constitute a Class 1 Transaction under the UK Listing Rules and were therefore subject to the approval of IAG's shareholders. The circular published by the Company in relation to these transactions provided shareholders with information about the proposed agreements, the background to and reasons for the proposed acquisitions and the reasons why the directors believe that these acquisitions are in the best interests of shareholders. Further details of this Board decision from a stakeholder perspective point of view are provided as part of the section 172 statement included in the corporate governance report.

Global supply chain challenges

The Russian invasion of Ukraine and the impact of COVID-19 on certain markets have impacted the global supply chains in many of IAG's key supplier groups.

In the case of aircraft and engine manufacturers, access to raw materials such as titanium and certain sub-components including semiconductors has slowed the delivery of key components required in the manufacture and Maintenance, Repair and Overhaul (MRO) of aircraft and engines. It is also the case that many of our suppliers reduced the size of their skilled workforces during the slow-down experienced during COVID-19 and have struggled to build either manufacturing output or MRO capacity to pre-pandemic levels.

This, together with the same difficulties from other key manufacturers, has led to delays in the delivery of aircraft to IAG and has slowed down MRO activities on our existing fleet impacting their availability. IAG has worked closely with our suppliers to understand and mitigate this impact and where this has not been possible, fleets have been re-planned to extend existing aircraft for a short period to fill gaps left by delayed deliveries.

Results from the engagement with our suppliers

In 2021, IAG led the industry by becoming the first airline group worldwide to extend its net zero commitment to Scope 3 (supply chain) emissions by 2050, and a 20 per cent reduction by 2030, relative to 2019. Since that ambitious target was set, IAG Global Business Services (IAG GBS) has started to engage with, support and monitor suppliers to ensure all products and services provided to IAG are on a path to net zero.

The IAG GBS Group procurement team leads the Supply Chain Sustainability Programme by delivering across four key areas:

- The Supplier Code of Conduct
- Independent risk screening and Sustainability Assessments
- Corporate Social Responsibility (CSR) audits
- Embedding sustainability as standard in the procurement process

The Supplier Code of Conduct clarifies the standards of behaviour expected from all 13,000 suppliers working with any part of our business across every category and emphasises the importance and requirements of our sustainability journey. It has already been issued to the existing supply chain and integrated into the new supplier onboarding process.

In 2022, IAG GBS has embedded sustainability aspects into the day-to-day operation of the organisation, by establishing an enhanced training programme for procurement employees, further building and driving sustainability awareness and performance. In addition, all IAG GBS employees have sustainability targets embedded as part of their performance objectives.

EcoVadis, a market-leading provider of business sustainability ratings, has continued to partner with IAG GBS to support the Group's supply chain sustainability roadmap, including environment, labour and human rights, and ethics.

Together with EcoVadis, we assess suppliers using a holistic Environmental, Social and Governance (ESG) scorecard. This provides valuable insights to identify opportunities to improve sustainability performance, which gives IAG, and its suppliers, a baseline for improvements across ESG. We want to work with suppliers who share our vision and are committed to joining IAG on our journey to net zero.

Additionally, once assessed, suppliers receive a scorecard that can be used with their other customers. This benefits wider industry supply chains on their journey to sustainability.

As a minimum, all suppliers undergo annual screening for any legal, social, environmental and financial risks. The procurement and compliance teams assess any suppliers identified as having potentially higher levels of risk and implement mitigation plans where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In addition, the supply of certain narrow-bodied aircraft has been limited by the inability of aircraft and engine manufacturers to recover to pre-pandemic capacity. IAG has taken important steps to secure access to new aircraft that will be required in the 2020s and has the option of delivery positions to secure access to narrow-bodied and wide-bodied aircraft to protect the future requirements of IAG.

IAG's long-term commitments with key engine suppliers have limited the impact of these supply chain challenges on the MRO operations of the Group's airlines.

Environmental impact

A key feature of IAG achieving its environmental and social targets is access to more fuel-efficient aircraft with lower carbon emissions, reduced community noise, and improved local air quality through reduced Nitrogen oxides emissions. To achieve this, IAG has secured access to the efficient aircraft it requires.

IAG's fleet and environment teams have engaged in detailed discussions with the major aircraft manufacturers to understand and inform their future product developments to ensure we are well-placed to take advantage of new technology and to stress the role of these suppliers in supporting the delivery of our environmental targets.

IAG has also engaged with key suppliers to understand the emissions in their own supply chains to understand and influence the related Scope 3 emissions from their manufacturing activities.

Governments and regulators

Rebuild from COVID-19 pandemic and global challenges

The COVID-19 pandemic meant that regulators and national governments took a different but also closer involvement than ever before in the operation of airlines as travel restrictions were imposed and specific aspects of air travel regulated. In turn, requirements for information about passengers or measures on the handling of customers on-board, e.g. the need to wear masks, became more common.

Although COVID-19 related impacts have largely become easily manageable, final restrictions in the UK and Spain were only lifted in March and September respectively this year. Additional requirements remain in place in many jurisdictions whereby vaccinated status is a standard in many countries to allow unrestricted entry. This leaves a legacy of continued need for careful engagement with both regulators and customers to facilitate information sharing and ongoing monitoring of standards around the world.

In some markets, particularly in Asia, requirements over crew movement and testing, intended to manage the spread of the virus, are still severe enough to have delayed IAG operating companies resuming services. In such cases ongoing engagement with national governments and regulators by IAG government affairs and local operating company teams continues in order to understand, comply with, and where appropriate influence the lifting of the most onerous rules.

IAG observes that the close government control of the industry exerted during the pandemic led to increased scrutiny of the sector and demands for information on operational matters as consumer demand was allowed to return. The unforeseeable difficulties in recruiting staff after the pandemic, fast enough to provide planned service levels, caused significant disruption in major western aviation markets and was a particular source of interest to governments, which sought detailed information on resilience planning. IAG has supported operating companies in providing consistent inputs as required.

The tragedy of the war in the Ukraine surpasses all airline interests but the impact of Russia's invasion has also been to generate further challenges commercially and operationally. Russian airspace is closed to UK and EU carriers resulting in considerably longer flight times for services to Asia. Among other impacts this adds complexity to rostering and congestion in the airspace of countries providing alternative routes, all of which necessitates further contact with regulators and policy makers.

Results from the engagement with government and regulators

The first aim of engaging with policy makers, and often with sector-specific regulators, is to increase understanding of the potential impacts of policy measures and of the benefits of IAG's proposed positions.IAG has done so directly and through inputs to its trade associations on a range of topics. In many cases successes are measured in the effect of mitigating or preventing potentially adverse regulations and in building trust and positive relationships to support our specific arguments.

Sustainability

In 2022 the IAG government affairs team led a programme of engagement with officials and parliamentarians in the institutions of the European Union addressing the EU's Fit for 55 policy. This included discussions with the cabinets of European Commissioners in several directorates, Members of the European Parliament from Spain and Ireland and other Member States and (working with other airlines and trade associations) directly with the Transport Commissioner.From these direct meetings we have been able to explain the Group's leadership in this field and canvass support for our positions.

In the UK, IAG's sustainability team has engaged regularly with the Government directly and through trade associations, in particular to support the Group's policy on SAF. This included providing senior level representation working groups of the government's cross departmental Jet Zero Council on SAF and through the British Airways' Chief Executive's membership of the Jet Zero Council itself. During the year, the UK adopted two key measures that IAG had promoted when the Government declared in July a mandate for 10 per cent SAF by 2030 (in line with IAG's own target); and in December stated a commitment of £165 million support for the planning and production of five SAF plants in the country.

More widely, ICAO's adoption of its Long-term Global Aspirational Goal (LTAG) on net-zero carbon emissions by 2050 was a success for the whole airline industry. As a leader in the sustainability field, IAG played its part in industry working groups contributing to the UK, US and other government positions in support of the proposals.

Customer service and resilience

Frequent engagement was required in 2022 on customer service and resilience matters following the removal of travel restrictions and the subsequent challenges in meeting fast-returning demand. IAG and its operating companies engaged closely to ensure policy makers understood the interconnected nature of aviation operations and to campaign for intervention to be directed fairly and in a constructive way. In the UK this resulted in positive relationships with officials in relevant Government departments during a summer of disruption for the whole industry. British Airways also provided evidence to two parliamentary select committee hearings to increase the level of knowledge of the industry and explain the approach to maintaining resilience and customer service for the airline.

Slot policy

The impacts of the pandemic continued to be felt in the issue of airport slot allocation and the need for regulatory relief from the usual slot usage rules that require airlines to operate each slot 80 per cent of the time to retain it in the following year.IAG representatives played a key part in the development of an agreed industry position on relief, with airports and slot coordinators, to support temporary requests for waivers that were granted in the EU and the UK.IAG is also engaging with the European Commission in its on-going review of the Slot Regulation that was launched in September.

Airport charges

IAG and its operating companies made the case for strong regulation of monopoly providers of airport services so that reasonable levels of charges are set. In Spain airline contributions to the discussion helped secure a decision by the regulator to keep charges flat until 2026 and a specific decrease in charges for 2022 of 3.17 per cent. The UK CAA, having allowed charges to increase by over 50 per cent in setting an interim price cap for 2022, subsequently extended to 2023 at the same rate, recognised airline arguments in reaching its welcome Final Proposals that require Heathrow Airport to reduce its overall yield per passenger by a rate of RPI 5.75 per cent over the remaining three years of the regulatory period.

Market access

IAG continues to support individual operating companies in securing market access. This included attendance at or contribution to international air service agreement talks to support IAG operating company positions. IAG also provides ongoing support to British Airways in securing operating permits and code-share expansion to deliver market access and revenue benefits, all of which activities require close engagement with governments and their negotiators.

Building back our financial strength

Nicholas Cadbury
Chief Financial Officer

> "I look forward to working with the team to return the Group to historical levels of profit and to continue to strengthen the balance sheet."

In my first year at IAG it has been very encouraging to see the Group return to profitability, whilst continuing to focus on its investment needs, balance sheet and strong liquidity.

Return to profit

In 2022, our markets opened up steadily through the year, particularly from the second quarter onwards. The Group turned profitable at the operating level from the second quarter, delivering an operating profit before exceptional items for the year of €1,225 million, versus an operating loss before exceptional items of €2,970 million in 2021.

The Group focused on deploying capacity to those areas of strongest demand, with routes flying west from Europe to North America and South America performing particularly well. There was also strong demand for European travel in the summer period.

The recovery has evolved differently across the Group, in line with government and operating restrictions and demand, with Spanish markets being ahead of Ireland and the UK. The industry has experienced resourcing and operational constraints as capacity has been restored and these were notably seen at London Heathrow. Despite these challenges, colleagues at each operating company have focused on rebuilding operations market by market.

Whilst the Group has felt the impact of considerably higher fuel prices and inflation it has also focused on optimising load factors and yields, with passenger unit revenues higher than 2019, particularly in the second half of the year. The recovery in leisure traffic has been ahead of business and the premium leisure segment has performed very well.

The strength seen in the second half of 2022 has not abated in early 2023 and although business travel is recovering slowly, there continues to be strong demand across the leisure segment. The Group remains focused on taking actions to offset as much of the impact of high global inflation and fuel prices as it can through its transformation programmes.

Balancing investment and debt

The Group continues to make important investments in its aircraft fleets, customer products and services, IT infrastructure and sustainability. In 2022 the Group took delivery of 27 new aircraft, as aircraft deferred in 2020 and 2021 started to be delivered. The Group also placed orders for a total of 109 shorthaul aircraft from Airbus and Boeing, which will allow it to replace older aircraft with more fuel-efficient modern technology, with fuel savings of up to 20 per cent.

Whilst investment in the business is key, we have also been focusing on our balance sheet and levels of debt. The Group raised additional debt and boosted liquidity during the most impactful period of COVID-19 in 2020 and also raised €2.7 billion of equity in 2020. In 2022 no additional debt for general corporate purposes was drawn and the Group repaid €600 million of non-aircraft debt. As profitability improves, IAG is targeting a reduction in debt and leverage, which will allow the Group to return to its previous leverage target, based on net debt to EBITDA before exceptional items, in the medium-term. We are also monitoring carefully the mix of our net debt between total borrowings and cash, to ensure sufficient liquidity to offset economic uncertainty whilst managing interest expense and metrics based on gross debt.

Cash generation and liquidity

The year 2022 saw strong cash generation, with Net cash flows from operating activities of €4,835 million, driven by the operating profit and significant working capital inflows, as the airlines' schedules were restored and average yields increased, leading to higher forward bookings for travel in 2023.

The Group successfully sourced regular, long-term financing arrangements for all of its 27 aircraft deliveries in 2022, with financing for five of these to be drawn in 2023.

At the end of 2022, the Group had Cash, cash equivalents and interest-bearing deposits of €9,599 million, with committed and undrawn aircraft and general facilities leading to Total liquidity of €13,999 million, an increase of €2,013 million from December 2021. This position will stand us in good stead to repay near-term debt maturities and face future risks, such as refinancing, inflation and interest rates.

It is a great privilege to join IAG, and I look forward to working with the team to return the Group to historical levels of profit and to continue to strengthen the balance sheet.

Nicholas Cadbury
Chief Financial Officer

IAG capacity

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

Proportion of 2019 passenger capacity operated by quarter

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

Capacity operated as a percentage of 2019 by quarter by region

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

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

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

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

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

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

IAG regional capacity

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

Domestic and Europe

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

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

North America

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

Latin America and Caribbean (LACAR)

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

Africa, Middle East and South Asia (AMESA)

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

Asia Pacific

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

Basis of Preparation

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

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

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

Summary

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

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

Profit/(loss) for the year

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

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

Summary of exceptional items

The Group uses Alternative Performance Measures (APMs) to analyse the underlying results of the business excluding exceptional items, which are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance.

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

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

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

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

See the Alternative Performance Measures section for further information.

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

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

Revenue

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

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

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

Passenger revenue

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

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

Cargo revenue

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

Other revenue

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

Operating costs

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

Employee costs

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

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

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

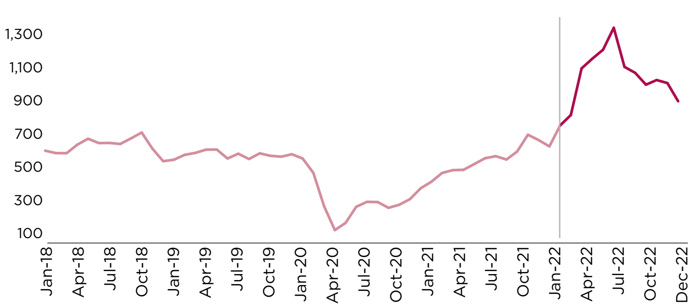
Fuel, oil and emissions costs

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

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

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

Jet fuel price trend ($ per metric tonne)



Fuel hedging

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

Fuel consumption

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

See Sustainability section for further information.

Supplier costs

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

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

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

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

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

Ownership costs

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

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

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

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

Aircraft fleet

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

Number of fleet

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

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

Exchange rate impact

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily British Airways and IAG Loyalty. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group typically generates a surplus in most currencies in which it does business, except the US dollar, for which capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. The Group hedges its economic exposure from transacting in foreign currencies but does not hedge the translation impact of reporting in euro.

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

Exchange rate impact before exceptional items

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

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

The exchange rates of the Group were as follows:

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

Total net non-operating costs

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

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

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

Tax

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

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

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

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

On March 3, 2021 the UK Chancellor of the Exchequer announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On May 24, 2021 the Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a credit of €17 million (2021: €78 million credit) is recorded in the Income statement and a charge of €10 million (2021: €61 million credit) is recorded in Other comprehensive income.

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

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

Operating profit and loss performance of operating companies

Statutory	British Airways £ million 2022	Higher/ (lower) vly	Aer Lingus € million 2022	Higher/ (lower) vly	Iberia € million 2022	Higher/ (lower) vly	Vueling € million 2022	Higher/ (lower) vly
Passenger revenue	9,215	6,894	1,679	1,372	4,042	2,318	2,584	1,573
Cargo revenue	1,060	(37)	80	15	347	(47)	-	-
Other revenue	755	474	10	6	1,122	456	14	9
Total revenue	**11,030**	7,331	**1,769**	1,393	**5,511**	2,727	**2,598**	1,582
Fuel, oil costs and emissions charges	2,929	2,099	539	450	1,313	794	739	541
Employee costs	2,100	629	393	213	1,161	438	370	170
Supplier costs	4,595	2,407	646	341	2,284	872	1,088	464
Ownership costs[1]	1,084	105	146	6	371	21	206	(21)
Operating profit	**322**	2,091	**45**	383	**382**	602	**195**	428
Operating margin	*2.9%*	*50.7 pts*	*2.6%*	*92.6 pts*	*6.9%*	*14.8 pts*	*7.5%*	*30.5 pts*

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

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

Review by operating company

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

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

Operating profit/(loss) before exceptional items

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

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

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

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

Capital expenditure

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

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

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

Aircraft orders

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

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

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

See Aircraft fleet section for further information.

Capital commitments

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

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

Working capital

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

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

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

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

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

Funding and debt

IAG's long-term objectives when managing capital are: to safeguard the Group's ability to continue as a going concern and its long-term viability; to maintain an optimal capital structure in order to reduce the cost of capital; and to provide sustainable returns to shareholders. In November 2018, S&P and Moody's assigned IAG with a long-term investment-grade credit rating with a stable outlook; IAG's credit ratings remained investment-grade up until the outbreak of COVID-19. The impact of COVID-19 on the Group and wider airline industry led to ratings falling by three notches for S&P and two notches for Moody's. The Group's current ratings (at February 23, 2023) are: S&P: BB, Moody's: Ba2.

Debt and capital

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

See Alternative Performance Measures section for calculation.

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

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

Net debt

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

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

Cash

Cash, cash equivalents and interest-bearing deposits

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

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

Debt

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

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

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

Maturity profile of Bank and other loans

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

1 Includes the €825 million IAG 2028 convertible bond.

Equity

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

Liquidity facilities

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

The Group also exercised a one-year extension to the availability of its $1,755 million (€1,654 million) Revolving Credit Facility (RCF), which now has committed availability until March 2025. The facility was originally agreed and executed with a syndicate of banks in 2021, with availability for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of whom has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and/or take-off and landing rights at London Heathrow or London Gatwick airports. This facility was undrawn at December 31, 2022.

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

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

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

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

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

Dividends

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

Liquidity and cash flow

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

Cash flow

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

Condensed cash flow summary

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

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

Cash flows from operating activities

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

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

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

See note 32 to the financial statements Employee benefit obligations for further information.

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

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

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

Cash flows from investing activities

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

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

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

Cash flows from financing activities

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

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

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

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

Positive engagement to support recovery

Engagement context

IAG continued to face considerable uncertainty in the political and regulatory environment during 2022, not least because travel restrictions designed to limit the spread of COVID-19 remained in place around the world to varying degrees. Throughout the year, therefore, IAG engaged with policy makers to understand and manage changes to travel rules, as well as to explain the benefits of a return to normal travel. We encouraged focus on key issues, in particular sustainability, where policy intervention can provide mutual benefit to customers and all stakeholders in wider society as well as to IAG itself.

The impacts of the pandemic in 2022 have been felt not just in the practical implications of travel restrictions but in impacts on other specific areas of aviation policy and in the approach of regulators. The pace of political change in the UK, with its wider impacts on business, has also required monitoring and re-engagement with new ministerial teams.

IAG aims to make the case for the economic and social benefits of aviation through connecting people and businesses, facilitating trade and enabling positive international relationships. To do so, the Group directs its engagement largely towards governments and regulators in the countries of its operating airlines and with the institutions of the European Union, working closely with our trade association Airlines 4 Europe. We have also contributed to supra-national policy fora such as ICAO (through IATA) and directly with governments in key world markets to support market access or manage doing business issues for our operating companies.

COVID-19

Travel restrictions

The removal of travel restrictions has been a staged process through the year, with changes at irregular intervals. For example, while the European Commission advised on March 1 that all EU countries should essentially allow all travel by those with an approved vaccination, a variety of requirements existed across the EU through 2022. While travel to Spain in the summer season was enabled, full entry restrictions were not lifted until September.

Ireland saw the removal of requirements for passenger locator forms and proof of vaccination for inbound travel to Ireland on March 6. This was followed by the withdrawal of the Irish Government's Aviation Protocol covering remaining COVID-19-related restrictions on May 16.

In the UK, all travel requirements were lifted on March 18 with the UK Government explicitly recognising the importance of travel to the country by removing them in time for the busy Easter holidays.

The requirement for travellers to be vaccinated against the disease remains a standard one in many key markets, including the US. The necessary customer communications have been embedded in IAG's operating companies but variations in the details of rules around the world continue to mean monitoring of changes is needed.

In some countries, largely in Asia, restrictions on travel still present significant barriers to resuming normal operations. In these cases, where there are complex requirements on airlines, IAG and its operating companies continue to engage, both directly and through their relevant national regulators, with the relevant authorities to simplify and lift legacy rules.

Other impacts in 2022

Although the safety-critical and strategic nature of international aviation has always meant there is a role for government and regulators in the sector, IAG observes that one legacy of the pandemic is the tendency for governments to seek to be more closely involved in the operation of the aviation industry than before. In the UK this has resulted in increased scrutiny and demands for information. IAG has worked with British Airways and its other operating companies to reduce the associated administrative burden through positive and regular engagement.

During 2022, demand returned largely as IAG had anticipated but, in contrast, the very significantly increased time that it took to provide resources to meet that demand could not have been foreseen and presented a serious challenge to all parts of the aviation system. Airlines, airports, ground handlers and air navigation service providers in different parts of the world saw considerable operational difficulties, resulting in delays and flight cancellations in the spring and early summer as restrictions were lifted. Airlines reduced capacity to lower the risk of short-notice impacts on customers and airports and in the case of London Heathrow and Amsterdam Schiphol, even imposed caps on passenger numbers.

IAG engaged with governments to highlight the real causes for shortages. In the UK, where the impact was felt most severely, these causes included a smaller pool of labour from which to recruit but also that the time to complete security references tripled. Variations in employment patterns, with applicants having more jobs due to the instability in the employment market, meant that very many more checks with previous employers were required and applicants often had to wait over three months for roles to be confirmed.

IAG and British Airways were also able to provide governments with a clear picture of the knock-on effects in the industry where, for example, lack of air traffic controllers in parts of Europe can cause delays at UK airports.

War in Ukraine

The impact on the aviation industry of Russian's invasion of Ukraine in February is not to be compared with the human tragedy of the war but there are significant impacts on airline operations by preventing European and UK airlines from accessing Russian airspace. IAG has engaged with its government stakeholders to keep them apprised of the impacts on both operations and on other policy areas.

Sustainability

IAG has continued to champion the cause of sustainable aviation and to share its plans for reducing carbon emissions as the industry recovers. To explain and promote its sustainability position, the Group and its individual companies have engaged with representatives of the institutions of the EU and governments of Spain, Ireland and the UK.

IAG welcomes the EU Green Deal and its objectives, with which the Group is aligned, as a powerful package for change. Accelerating the pace of decarbonisation will, however, require support from all stakeholders in the industry and the involvement of all national governments and European institutions. In this regard, a targeted design of the elements of the package, together with that of other relevant EU aviation regulations, is key to ensuring the sector's ability to invest in reducing its carbon footprint.

IAG has made clear in its advocacy that the Group does not support the removal of the current jet fuel tax exemption. This is not a solution for decarbonisation but will reduce the sector's ability to invest in more effective measures with a significant impact for citizens and the economy. Instead, we are firmly of the view that policy should focus on increasing the use of SAF and market-based measures such as the EU ETS and ICAO's Carbon Offsetting and Reduction Scheme (CORSIA).

IAG contends that increasing the use of SAF, which reduces lifecycle CO_2 emissions by 70 per cent, provides the primary near-term opportunity to drive down industry emissions. In April 2021, IAG became the first European airline group to commit to fulfilling 10 per cent of its fuel needs with SAF by 2030 and the Group supports a 10 per cent mandate for SAF for 2030 for all flights within the EU. We call for a global SAF commitment covering all international flights through ICAO. We also encourage the EU and its Member States to include a package of investment incentives to enable scaled-up production of SAF alongside the blending mandate requirement that the Green Deal introduces.

In engaging with UK policy makers, we promote the same public policy levers. We are encouraged that the UK government confirmed its commitment of £165 million to its Advanced Fuels Fund, established to support planning and production of five SAF plants in the country. In December the first £82 million of the fund was awarded to five projects, including three with which IAG is partnering. IAG also welcomed the UK's declaration in July of a mandate for 10 per cent SAF by 2030 (in line with IAG's own target) and we encourage the government to pass the necessary legislation as soon as possible.

Throughout 2022, IAG has promoted a further policy step necessary to progress towards net zero. In conjunction with industry partners, we advocate adopting a price stability mechanism in the UK for SAF. The successful development of the offshore wind sector in the UK was due to the introduction of Contracts for Difference and IAG recommends this tool should be adopted for SAF to reduce the risk for investors and so boost investment in new technology.

On the international stage IAG has long been an advocate for and contributor to the design of CORSIA. We welcomed the October commitment by ICAO to a Long-Term Aspirational Goal for international aviation of net zero carbon emissions by 2050. The Group believes the EU Green Deal must work alongside global measures, not duplicate them, and that the EU ETS should apply to intra-EU flights and CORSIA to extra-EU flights. Applying both systems to flights between EU Member States risks undermining support for CORSIA outside Europe. Similarly, we encourage the use of emissions trading system revenues (in the EU and UK) for investment in carbon reduction measures, as originally envisaged at the creation of the ETS.

Slot allocation

Regulations introduced to restrict air services during the pandemic meant that some aviation policies that are essential in normal circumstances were not effective or appropriate for crisis conditions. Rules that govern the allocation of slots at airports with scarce capacity provide a good example since low demand made them unnecessary.

Although the capacity of the sector was restored to a considerable degree in 2022, there was still need for global regulatory relief from the elements of slot rules that require airlines to operate 80 per cent of any one slot in order to retain it in the following year. The continued relief granted this year recognised that there were divergent recovery rates worldwide and continuing COVID-19 restrictions in some regions. IAG worked with IATA to advocate the adoption of industry-agreed relief measures, as developed jointly with airports and slot coordinators. These guiding principles recognised the value to consumers of allowing temporary waivers from, or more flexible application of, 'use it or lose it' rules so as to maintain long-established airline networks for future seasons.

The UK, the EU and other jurisdictions sensibly adopted a range of alleviation measures, but the patchwork of market-based approaches adopted worldwide introduced further inconsistencies and complexity to the sector during the recovery phase. Such waivers have been gradually lifted so that from summer 23 the industry is effectively returning to pre-COVID-19 rules. IAG continued to support the use of the proven and effective global policies and procedures set out in the IATA Worldwide Airport Slot Guidelines both while the need for waivers remains but also in the long-term. Through 2022 we continued to advocate this internationally agreed system as a way to provide certainty for investors and consumers as well as to maintain global networks and to introduce competition and is engaging with the European Commission in its on-going review of the Slot Regulation that launched in September.

Infrastructure charges

The effective and fair regulation of airport and air navigation service charges, set at a reasonable level, continued to be an important regulatory issue in 2022 with consultations in each of IAG's home markets.

IAG and British Airways made detailed representations to the UK CAA in response to its consultation on the price cap for Heathrow Airport's charges. Having allowed Heathrow Airport Limited (HAL) to increase charges by over 50 per cent in setting an interim price cap for 2022, subsequently extended to 2023 at the same rate, the CAA's Final Proposals required the airport to reduce its overall yield per passenger by RPI -5.75 per cent over the remaining three years of the regulatory period. This will return charges to roughly the same level in 2026 as they are in 2022. IAG considers that the 2022 and 2023 interim price cap is too high but welcomes the overall position the CAA has adopted with the trend of reducing charges. We continue to provide information to the regulator as we await confirmation of the final position, expected in at the end of the first quarter of 2023. IAG also continues to advocate the need for greater transparency of HAL's capital plans and regulatory asset base in future regulatory reviews.

In Spain, Iberia and Vueling, together with IATA, participated in the consultation process on airport charges to minimise cost increases, and secured a decision by the regulator to keep charges flat until 2026 with a specific decrease in charges for 2022 of -3.17 per cent. In Ireland, Aer Lingus engaged with the Commission for Aviation Regulation which is conducting its third interim review of the 2019 regulatory decision. In December, IAG responded to the UK CAA's consultation on an increase to NATS En Route Limited's (NERL) charges, which initially proposed an increase of up to 27 per cent.

Market access

IAG continues to support individual operating companies in securing market access, expanding partnerships with other airlines and enabling operations on new routes. This included attendance at, or contribution to, talks on international air service agreement talks and other bilateral discussions, as well as support for new Group initiatives, such as the creation of British Airways Euroflyer subsidiary at London Gatwick Airport.

We’re continuing to build a better British Airways

BRITISH AIRWAYS

“We’re focused on our recovery and transformation to ensure we continue to be the airline of choice for our customers.”

Sean Doyle
Chairman and Chief Executive Officer of British Airways

2.7%
Operating margin before exceptional items
54.1 pts vly

-29.7%
ASK change
vs 2019

89.1 gCO_2/pkm
Emissions intensity
-12.3% vly

Business overview

Following two years of turbulence, in 2022 we continued to focus on our recovery and the transformation of our business. This was an extremely challenging period as we sought to bring our grounded aircraft back into service, recruit and re-train colleagues, and ramp up our schedule.

Disruption events throughout the year caused by factors including adverse weather and systems issues, alongside resourcing and capacity restrictions, significantly impacted operations at times. Despite these challenges, we are building a more robust operational performance, with a renewed focus on punctuality, and continue to invest in our transformation, the customer experience and our BA Better World sustainability programme.

Our people

We know our people are key to our success and we’re incredibly grateful for their dedication, commitment and hard work during a very challenging year to ensure we could deliver for our customers. We’re focused on rebuilding pride and trust with our colleagues and creating a more colleague-centric culture, by recognising their contributions to our business through our enhanced recognition programme, creating a high-performing culture that makes colleagues feel valued and empowered to do the right thing for our customers.

Diversity and inclusion are a key part of our strategy and this year we outlined new gender and diversity targets, for at least 12 per cent of our leaders to be from ethnically diverse backgrounds by 2025, rising to 14 per cent by 2030. We’ve also committed to increase the representation of women in senior roles, with a target of 40 per cent by 2025. To supercharge our ambitions, we launched a reverse mentoring programme for senior management from across the airline and committed to 100 per cent open recruitment for all roles.

As well as investing in our people by unveiling a new, modern uniform designed by Savile Row tailoring expert Ozwald Boateng, we’ve also updated our uniform guidelines, allowing our people to express more of their personalities at work, which we know they appreciate.

Throughout the year we’ve built more constructive relationships with the trade unions that represent our people, enhanced our staff travel and family leave policies, and our recent employee survey results show we are making good progress.

Our customers

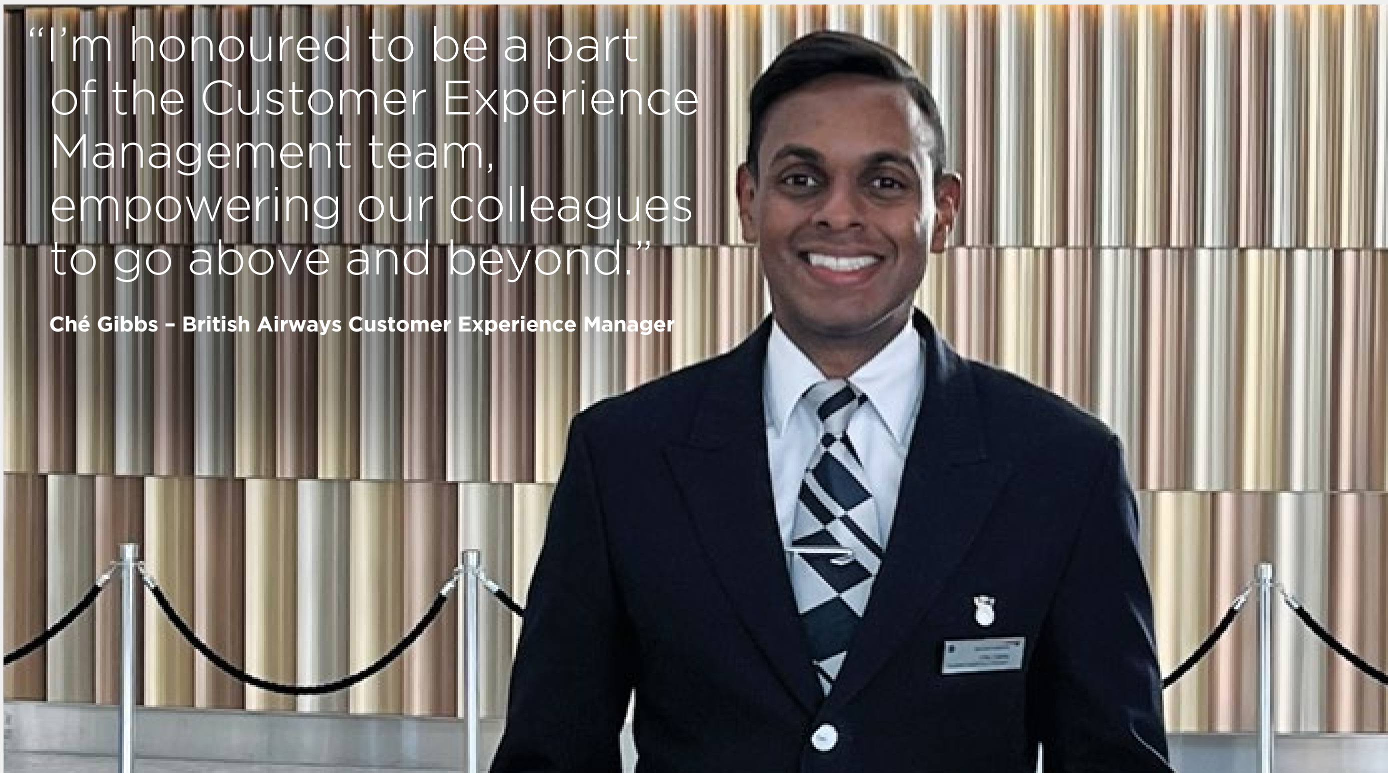
We continued to invest for our customers and remain focused on improving our Net Promoter Score. In 2022, we took delivery of 10 new fuel-efficient aircraft and continue to fit our Club Suite onto our Heathrow longhaul fleet. We’ve unveiled new menus across all cabins and reintroduced our full catering proposition in Club World.

We’ve also ramped up our transformation programme, which includes innovations across every part of our business. The 57 initiatives currently underway range from introducing electric vehicles into our operation as part of our goal to achieve net zero by 2050, to biometric trials on select international flights departing from Heathrow to improve our operational efficiency and enhance the customer proposition.

As travel restrictions eased, we restarted popular routes such as Sydney and Hong Kong, helping customers to reconnect with their loved ones again. In 2022, we launched new routes from Heathrow to Nuremberg and Portland and announced new services from Heathrow to Cincinnati and Florence, and Gatwick to Aruba and Georgetown in 2023.

Our planet

We remain fully committed to reducing the impact flying has on our planet, and sustainability has continued to be front and centre of our business strategy.



"I'm honoured to be a part of the Customer Experience Management team, empowering our colleagues to go above and beyond."

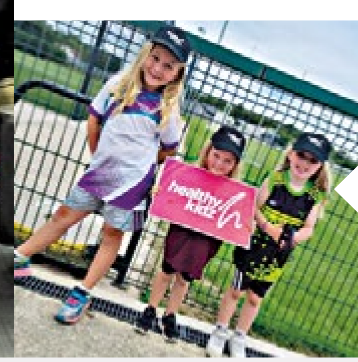
Ché Gibbs – British Airways Customer Experience Manager

British Airways responds to Pakistan's emergency appeal

As Pakistan battled devastating flooding during the summer, British Airways flew an aircraft full of vital aid and medical supplies to the country and redirected 100 per cent of its on-board donations to the Disaster Emergency Committee's appeal, raising more than £176,800.

Driving diversity through reverse mentoring

We know that diverse teams create the best results. British Airways launched its reverse mentoring programme enabling senior leaders to be mentored by a colleague from a different background. This has provided key insights, understanding and learnings to help deliver a more inclusive culture.



BA Better World Community Fund launched

In March, British Airways launched its BA Better World Community Fund, enabling it to offer vital financial support to a diverse range of charities, in areas that align with the themes of its sustainability programme: people, planet and responsible business.

In March, we took delivery of the first batch of SAF produced by Phillips 66 Limited, making us the first airline to start using SAF produced on a commercial scale in the UK. This step forward means all British Airways-operated flights departing from Heathrow now fly with a small amount of SAF. We also launched our new carbon offsetting and sustainable fuels online platform, CO_2llaborate, to provide corporate, leisure and colleague customers with even more choice and control in addressing their carbon footprint.

Looking forward

We've made a strong recovery from the pandemic, and although we have much further to go to reduce our debt burden, we are continuing to invest in the customer experience through this exciting period of transformation, ensuring we consider our environmental impact at every step along the way, and work together with our colleagues, to create a better British Airways for everyone.

Recovering capacity and returning to profit

IBERIA

"In 2022, Iberia has returned to profitability and the swift re-installation of our network has allowed us to capture the strong demand recovery in our main markets, offsetting the impact of fuel cost increases and inflation."

Javier Sánchez-Prieto
Chairman and Chief Executive Officer of Iberia

6.9%
Operating margin before exceptional items
15.3 pts vly

-12.9%
ASK change
vs 2019

71.7 gCO_2/pkm
Emissions intensity
-11.6% vly

Business overview

In 2022, we continued to recover capacity, up to 87 per cent of 2019, combined with a strong operational performance. During this year we received seven new Airbus A350-900s, six Airbus A320neos and two Airbus A321neos; we opened new US routes, Washington and Dallas; and reached 100 per cent of 2019 capacity in our core Latin American & Caribbean market.

Iberia Express celebrated its tenth anniversary. Since 2012, more than 44 million passengers have trusted the company, which has been able to position itself among the top four operators at Madrid-Barajas airport. After overcoming two difficult years for the aviation sector as a result of the global pandemic, this year Iberia Express has exceeded its capacity in 2019 in some markets such as the Balearic and Canary Islands, ending the year with 24 aircraft.

Maintenance and Airport services remain positive contributors, with both on the path to recovering to 2019 activity levels.

During 2022, we also renewed our collective bargaining agreements for pilots, cabin crew and ground staff, a key step towards building the future of Iberia together with our employees.

Our people

During this complex year we have maintained our commitment to connect Spain with the rest of the world, and all this has been possible thanks to the effort of our people. They are the pillars that hold the company together especially during challenging times. Being together is what makes us stronger.

In February, we managed to bring back all the staff we had before the pandemic and during the summer season we began recruiting additional cabin crew, ground staff and pilots.

In September, we began negotiating agreements with all staff representatives, and in just four months, in the midst of a climate of great labour unrest across Europe, we succeeded in reaching agreements with pilots, ground staff and cabin crew representatives.

Our cultural change project is supporting diversity in aviation (attracting women into technical careers), offering greater flexible working practices, and also recognising and rewarding people in Iberia who best embody the company's internal values.

We have also designed a specific plan for each group based on the findings of the Organisational Health Index (OHI) survey.

Our customers

During a challenging summer across European airports, in 2022 Iberia and Iberia Express were the most punctual airline and the most punctual low-cost carrier in Europe, respectively.

We deployed a new in-flight service on short, medium, and longhaul flights. Our customers now enjoy a high-value gastronomic proposition, new amenities, a wide range of entertainment, and a more interactive experience with cabin crew.

In 2022, we also introduced free on-board WiFi, and a new pre-ordering service for short and medium haul customers, that improves service and reduces food waste.

We have again maintained Iberia Plus customers´ status levels until March 2023. From December 2022, they will earn increased benefits from a more transparent and fairer award system.

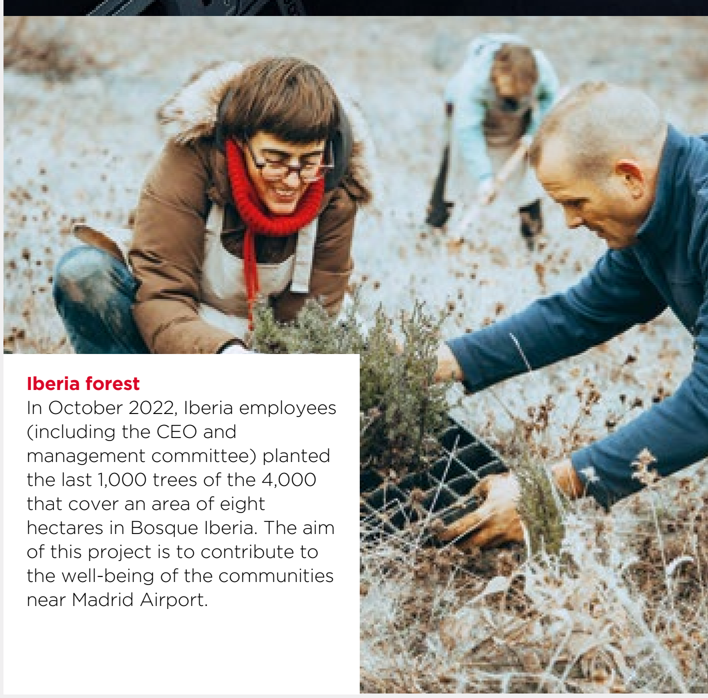
Our planet

Coinciding with Iberia's 95th anniversary, we have named our purpose: 'From Spain, we generate prosperity by connecting people with the world.' We have also deployed a four-pillar sustainability strategy:

The first pillar is supporting the green transition of the aviation sector, which includes all fleet renewal initiatives, operational efficiency, and the use of SAF. In June, in collaboration with REPSOL, we operated our first transatlantic flights (to Washington, Dallas, and San Francisco) using a mix of SAF. We have also signed an agreement with the Spanish global energy company CEPSA to develop SAF and entered a New Fuel Sales Agreement with Gevo for six million gallons of SAF for five years.

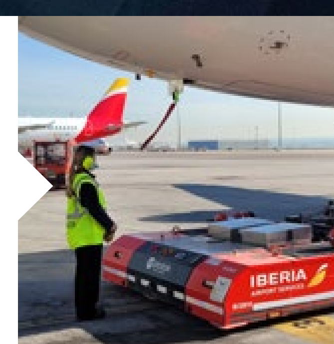
“The pandemic put Iberia’s cadet programme on hold and when I was called to enrol, I couldn’t believe it.”

Belén Alegre – Iberia Airbus A320 pilot



Iberia forest
In October 2022, Iberia employees (including the CEO and management committee) planted the last 1,000 trees of the 4,000 that cover an area of eight hectares in Bosque Iberia. The aim of this project is to contribute to the well-being of the communities near Madrid Airport.

Commitment to innovation and sustainability
Iberia Airport Services (IBAS) has introduced electric remote-controlled push-back tractors at Madrid and Barcelona airports. IBAS is the first handling operator in the world to use these pushback tractors with CRJ aircraft, showing its clear commitment to innovation and sustainability.



Experience and competitiveness
Iberia Maintenance has received authorisation from Pratt & Whitney to service the GTF PW1100G-JM engine, powering the Airbus A320neo family. The Iberia Engine Shop is one of a select number of shops authorised worldwide to overhaul and maintain this engine model, demonstrating its high level of experience and competitiveness.

The second is creating a more sustainable travel experience for customers. We are doing this through the digitalisation of services, the elimination of plastics on-board, the development of the waste management system, and carbon offsetting. We have launched platforms, where customers and corporate clients can offset their flight emissions and contribute to conserving ecosystems in Guatemala and Peru.

The third is the team’s participation in community and volunteering initiatives. Last October, more than 200 employees finished planting the Iberia Forest: 4,000 trees at a location near the airport.

In 2023, we will introduce a fourth pillar, focusing on aviation’s social impact through connectivity.

Looking forward

In 2023, we will continue building our capacity through new aircraft deliveries and deploy a new Premium cabin in our new Airbus A350s to improve our customer experience.

We acknowledge some macroeconomic uncertainty is ahead and will continue to improve our efficiency while monitoring costs and selectively investing in innovating and becoming greener.

Transforming while emerging from the crisis

vueling

"Vueling proudly returned to profitability in 2022, while surpassing pre-pandemic capacity levels from the second quarter onwards. At the same time, we continued implementing our ambitious transformation plan at pace."

Marco Sansavini
Chairman and Chief Executive Officer of Vueling

7.2%
Operating margin before exceptional items
33.0 pts vly

-1.8%
ASK change
vs 2019

83.3 gCO_2/pkm
Emissions intensity
-11.8% vly

Business overview

Following two years of pandemic-related losses, 2022 marked a return to profitability and pre-pandemic capacity, underpinned by several factors.

Firstly, there was a solid recovery of traffic due to pent-up demand, following the virtual elimination of pandemic-related travel restrictions to the geographies that Vueling serves.

Secondly, we maintained constant operational flexibility and readiness. As demand recovered, we were able to ramp up quickly to pre-pandemic capacity levels, thereby strengthening our leadership positions in our core domestic and international markets.

Thirdly and most importantly, our transformation plan produced tangible results. This transformation is unlocking Vueling's full potential by creating value for all stakeholders, creating a profitable and resilient airline for shareholders, with engaged and empowered employees, loved by our target customers, and with a meaningful impact on society. Ancillary revenues and load factors reached our highest ever levels whilst recent expansions at Paris Orly and London Gatwick performed above expectations. Our new line maintenance unit, Yellow Technic by Nayak, and our new open-books contract with Iberia Airport Services mitigated cost pressures. Changes to our operational and network designs enabled higher aircraft utilisation and fleet and supplier negotiations drove a reduction in ownership and supplier costs.

Our people

Above all, our achievements reflect the exceptional work of our people: cabin crew, pilots and office staff.

Their dedication is at the heart of Vueling's success. Thanks to agreements reached with Vueling labour representatives, we were able to fully maintain employment levels. This has been key for our people and for supporting a rapid, full recovery of our operation when travel restrictions were lifted.

Our transformation plan delivered several people-centric improvements in 2022, including a new and expanded internal training platform and upgraded talent acquisition and onboarding models.

Perhaps most visibly, we moved to a new, larger headquarters building that allowed us to combine four office locations into one, reducing cost and bringing our people together.

During the year we also engaged in collective labour agreement negotiations. In the fourth quarter these negotiations led to industrial action being called by one of our cabin crew unions in Spain, and we worked diligently to minimise the impact on our customers.

Our customers

We are steadfastly committed to our customers, so much so that 'Make it customer-oriented' is one of our six values.

As always, one of the most important things we can do for our customers is deliver a reliable, on-time operation, and in 2022 we were the fourth most on-time airline in Europe according to Cirium with 82.7 per cent of flights arriving within 15 minutes of schedule. This is an improvement of 5.1 percentage points versus 2019, despite a challenging environment at a number of airports this summer.

We have advanced the transformation of our customer experience by further digitalising the Vueling customer journey, championing great service in every human interaction, and increasing consistency.

All of these improvements allowed us to maintain a high Net Promoter Score (NPS) of 22.8 in 2022.

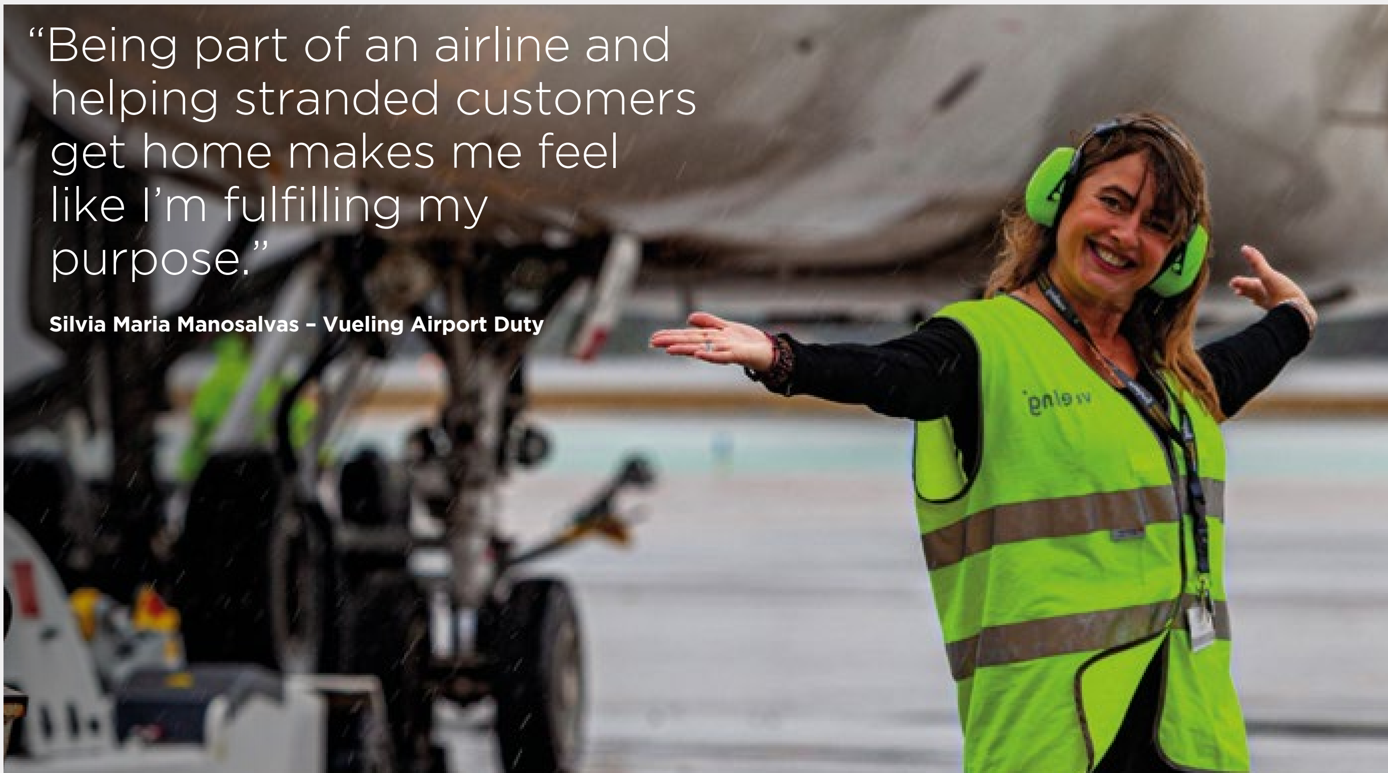
Our planet

During the year we implemented several changes to reduce waste and our carbon footprint. These have included:

The deployment of on-board trolleys that allow cabin crew to separate waste from recyclables during the flight, significantly improving waste segregation and recycling.

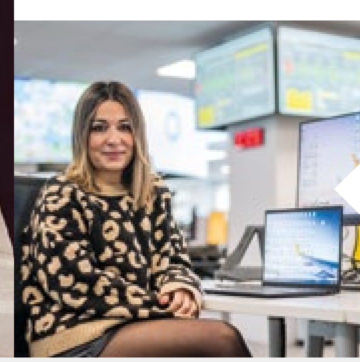
Digitalisation of all flight documents, supporting optimised routes and reduced emissions.

We became the first low-cost carrier to allow customers to purchase Sustainable Aviation Fuel (SAF) during the booking process. We also matched each purchase 'euro-for-euro' and within the first five months, more than 40,000 customers took advantage of this opportunity, reducing carbon emissions by 150 tonnes.



Ukraine rescue operation
Following Russia’s invasion of Ukraine, we were asked by the Spanish embassy to fly several aircraft to repatriate women and children. We utilised the empty legs by fully stocking the aircraft with vital aid and medical supplies for those in need.

Reconnecting loved ones
Thanks to the close collaboration between our teams, we have been able to return operations to 2019 levels by progressively starting new routes as soon as the borders re-opened. We have seen families reconnecting with loved ones.



Going beyond
During Christmas time the operation was particularly complicated with many flights rescheduled. We provided impacted customers not only with accommodation, but also prepared a dinner, a New Year's Eve party and a tour to see the Northern Lights. The customers told us that, despite everything, it was a happy and unforgettable time.

We demonstrated our commitment to a sustainable future by completing the implementation of an environmental management system under ISO 14001 standards. Vueling has thus completed full IATA environmental certification (IEnvA Stage 2), after being the first low-cost carrier to obtain IEnvA Stage 1 certification in 2020.

Looking forward

Despite a notable recovery in 2022, we are aware that challenges lie ahead. The key to Vueling’s competitiveness will lie in continuing our transformation in all its dimensions. In so doing, we can not only withstand these challenges, we can develop Vueling to its full potential.

Looking forward to continued recovery and future growth

Aer Lingus

“The anticipated rebound in peak leisure travel and the associated summer capacity growth underpinned our 2022 profitability.”

Lynne Embleton
Chairman and Chief Executive Officer of Aer Lingus

2.6%
Operating margin before exceptional items
94.7 pts vly

-13.2%
ASK change
vs 2019

85.7 gCO_2/pkm
Emissions intensity
-26.5% vly

Business overview

The impact of the COVID-19 Omicron variant and the prolonged requirement to work from home in Ireland led to a weak start to 2022. However, the robust leisure demand on key sun routes, particularly Spain and Mediterranean destinations led to a strong summer performance. The third quarter’s performance was key to Aer Lingus returning to profitability in 2022.

Aer Lingus’ preparations and recruitment began early. In the summer peak, Aer Lingus operated over 90 per cent of its 2019 capacity level with an overall schedule completion of 98 per cent, better than most network operators. In addition, our punctuality outperformed our key competitors in the Dublin hub throughout 2022.

As aviation began to recover, the industry, experienced resource shortages at key airports affecting terminal facilities, security screening, baggage and airport passenger services. The challenges for Aer Lingus were compounded by a system outage in September which had a significant impact on our customers. We recovered our operations within hours, rebooked passengers where possible and increased resources to expedite processing of customer claims.

2022 marked the first full year of transatlantic operations at our new Manchester base and also the start of operations with our regional franchise partner Emerald Airlines, the latter greatly increasing connectivity between the UK and Ireland and providing strong flows of connecting passengers onto our transatlantic network.

Our people

Over the last two years our people have gone above and beyond in their roles to deliver for customers and this year our teams endured a challenging summer as the industry resumed operations at scale.

We introduced new policies to better support families and refreshed facilities to provide a better working environment for many of our teams. We also made a once-off payment of €1,700 to all employees (excluding members of our executive management committee) in the context of the challenges faced in the recovery of the business and the inflationary pressures facing our employees.

Our people are key to our success and to this end we launched the Purpose, Vision, Mission and Values to guide the delivery of our strategy and our transformation plan and to unlock the full potential of Aer Lingus.

Our customers

Customer satisfaction has remained high with Aer Lingus’ on-board service and in 2022 we improved the in-flight proposition with new aircraft and better longhaul business cabin catering. We also made a number of technology improvements for payment functionality and mobile check-in. Further investment in the digital customer experience is a core pillar of our transformation plan.

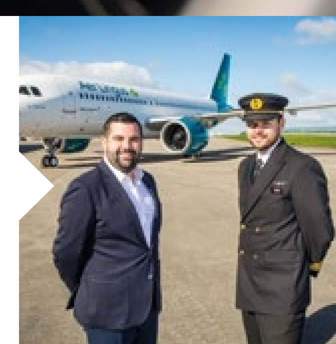
Our planet

In 2022, Aer Lingus continued to make good progress on our sustainability journey. We signed two SAF offtake agreements commencing from 2025. From 2026, 50 per cent of our fuel on flights from California will be SAF.

We secured two Airbus A320neo aircraft which are significantly more fuel efficient than the aircraft they replaced, while we also launched recycling on-board flights, becoming the first airline segregating waste flying into Ireland.

"I'm proud to be part of the Maintenance team working to ensure customers have a safe journey."

Casey O'Hanlon – Aer Lingus Apprentice Engineer



First Airbus A320neo arrives in Dublin
Accelerating sustainability is a key pillar in our transformation plan and taking delivery of two Airbus A320neo aircraft this year was key to our journey. The new-generation aircraft deliver up to 20 per cent reduction in fuel burn and CO_2 emissions and close to 50 per cent reduction in noise footprint.

Rebuilding our network
This summer our people went above and beyond to help deliver 90 per cent of our 2019 schedule. Working together, we delivered a strong summer at Aer Lingus, completing 98 per cent of our planned schedule for June and July and 99 per cent for August.

Celebrating diversity
Diversity and inclusion is celebrated through our Proud Flies network. The initiative works to build an inclusive, open LGBTQ+ allies community where employees feel they can bring their whole selves to work. As part of this, Aer Lingus has been a proud sponsor of the Dublin Pride Festival since 2018, as the official airline partner.

Looking forward

The return to profitability in 2022 was welcome as we repair the damage of the COVID-19 pandemic. While there is much to build on, recovery in business travel lags that of leisure and the economic and geopolitical forces causing higher oil prices, exchange rate fluctuation and rising interest rates continue to increase the cost base of airlines.

During 2023, our strategy to build our Dublin hub will be supported by network expansion across the North Atlantic and further developments with our airline partners. Aer Lingus' sponsorship of the opening game of the US College Football Series, which is played in Ireland, also serves to further strengthen our brand in the US market.

Growing our North America Leadership is just one of the six key pillars in our transformation plan which, along with accelerating sustainability and developing our digital customer experience, reflect the continued innovation, collaboration and progress that we look forward to in 2023.

Our strongest year ever

IAG Loyalty

"Our loyalty business had its best year ever in 2022. We expect to continue to achieve significant growth in 2023, focusing on our customers and on the IAG airlines."

Adam Daniels
Chairman and Chief Executive Officer of IAG Loyalty

28.4%
Operating margin before exceptional items
-1.5 pts vly

80%
External billed revenue
-7 pts vly

83.1 billion
Total Avios redeemed
+138% vly

Business overview

2022 has been a remarkable year for our business, as we continue to drive deeper engagement with customers through new partnerships and improvements to the Avios proposition. We invested in our technology and business platforms and delivered new products for our customers. Revenue from our external partners was 25 per cent higher than in 2019 and now accounts for 80 per cent of all billed revenue; this percentage is slightly down versus 2021, due to the recovery from the Group's airlines, which is also reflected in the operating margin.

Early in 2022 we launched our new Avios partnership with Qatar Airways and have seen a positive reception and engagement from customers within the British Airways Executive Club and the Qatar Airways Privilege Club. We continue to explore other similar partnerships and in areas where our combined network and loyalty proposition can provide increased relevance to customers.

In the last quarter we launched our first new business within IAG Loyalty. The Wine Flyer is a full retail e-commerce platform enabling us to grow new revenue streams and capabilities, while offering an improved customer value proposition.

We expanded at speed in nearly every area in 2022. One area we would have liked to move faster was in customer experience. Achieving a seamless experience for our customers that adds value at every touchpoint will be a continued focus for us.

The pace we moved at also brought about the additional challenge of building an operational infrastructure that can keep up. We will continue to address this and invest in more effective solutions to ensure sustained growth in a way that will positively affect our customers.

Our people

We have continued to invest in a strong people proposition enabling us to attract stand-out talent to the business. Our employer value proposition has come to life this year, alongside a new set of values co-designed with colleagues to be truly representative of who we are.

We have made exceptional progress on our ambitious people plan, spanning talent development, people experience and culture. We have deployed multiple mechanisms to enable colleagues to play an active part in work and life at IAG Loyalty, from weekly all-colleague meetings, to company-wide agile workshops, to regular channels for new ideas to come to the fore.

Combined with our expertise, this has accelerated our early careers, talent acquisition, colleague retention, equity, diversity and inclusion plans. Our colleague listening indicators continue to be positive, showing our work in this space is effective.

Our customers

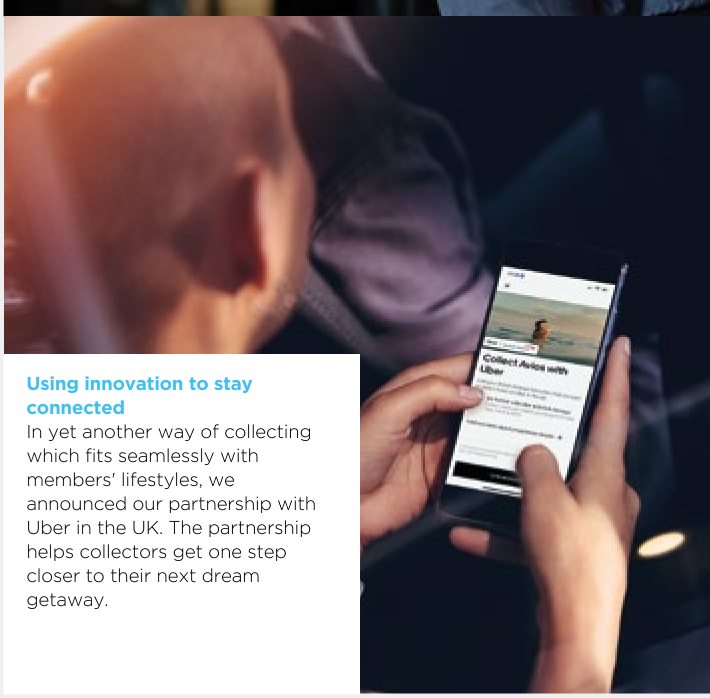
In 2022, 25 per cent more members enrolled into an IAG airline loyalty programme than in 2019, further proving the increased value of loyalty to the customer as well as the Group.

We launched five new partnerships with market-leading brands in 2022, including two new credit cards launched in partnership with Barclaycard, giving members more choice than ever before. Iberia Plus launched a new way for customers to earn Avios, joining Vueling and Aer Lingus in a "spend-based earn" model. The British Airways Executive Club announced that it will also be making this change to its programme in 2023. The new model is a fairer and more transparent way of rewarding our members and we expect that we will be awarding more Avios with this change.

Our partnership with American Express continues to perform very well, with spend on card higher than 2019 levels and a record number of acquisitions for British Airways American Express co-brand credit cards in 2022, 36 per cent higher compared with 2019. We also expanded our current Reward Flight Saver product for British Airways Executive Club members to all routes and cabins for UK and US customers, significantly reducing the amount of cash needed to redeem.

"We've achieved incredible things in 2022, it has all been made possible by our brilliant people."

Helen Miller – IAG Loyalty, Chief People Officer

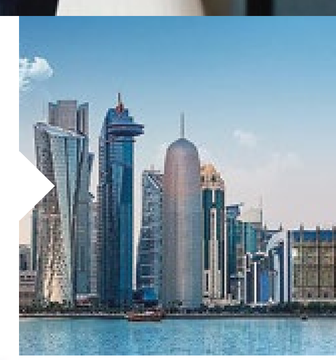


Using innovation to stay connected

In yet another way of collecting which fits seamlessly with members' lifestyles, we announced our partnership with Uber in the UK. The partnership helps collectors get one step closer to their next dream getaway.

Qatar Airways adopts Avios

Members can now collect and spend Avios in even more countries around the world, as Qatar Airways adopted Avios in a landmark partnership this year. It's an exciting moment as we extend our leading position in loyalty.



Investing in an inclusive workplace

We are investing in our colleagues to help support and create an equitable, diverse and inclusive organisation. Our women's development programme EmpowHER provides support for both vertical and horizontal career growth. Our Male Allyship programme coaches on advocating change.

Our planet

Supporting British Airways' BA Better World sustainability programme and providing IAG's customers with even more ways to give back, from November 2022 British Airways Executive Club members have been able to donate their Avios to a range of causes supported by the BA Better World Community Fund. IAG Loyalty has pledged up to £200,000 of support to match the value of Avios donations made by members.

British Airways Executive Club members can continue to use their Avios to contribute to verified carbon offset projects on non-domestic shorthaul flights via the Speedbird Cafe.

Looking forward

We will continue to grow our business in 2023 and beyond, by investing in people, technology and improved customer propositions. With more ways to collect and use Avios, we will build further on the uniqueness of the loyalty asset for the IAG airlines and our global brand partners.

Empowering our people, building partnerships, connecting the world

IAG Cargo

"In 2022 we have delivered another strong revenue performance, where we focused on optimising our commercial opportunities, whilst creating the foundations of a culture that prioritises customer needs and makes IAG Cargo a great place to work."

David Shepherd
Managing Director of IAG Cargo

Business overview

It was another positive year for IAG Cargo with operating performance ahead of pre-pandemic levels. The business delivered revenues of €1,615 million in 2022, up 44.6 per cent from 2019, despite the Group's return to passenger-led flying. The network-shape saw a significant increase in transatlantic capacity and a higher utilisation of longhaul aircraft for normal airline operations making cargo-only flying less available.

The conflict in the Ukraine and continuing COVID-19 restrictions in Asia, have led to challenges in viable network options into the Asia-Pacific region. In the first half of the year, severe disruption continued in the sea freight industry, leading to greater demand globally for air freight products, with a subsequent positive impact on yields. In the last quarter of 2022, we saw increased pressure on yields as global supply chains reopened; this was consistent with trends seen in the broader market.

In October, we completed the building of our new premium product facility at Heathrow Airport. This will enable us to expand our existing pharmaceutical capability through state-of-the-art temperature-controlled facilities.

Our people

In 2022, we invested in technology to improve productivity and to support our people in their roles. We launched CoLAB, a global programme, created to listen to and capture the ideas of our people, and we have already successfully turned numerous ideas into reality.

We have invested in learning and development opportunities for our people with the aim of upskilling our workforce and supporting talent retention. A new Leadership course saw 236 managers training to improve their frontline people management skills. We have also provided access to a new online learning platform, available to all colleagues across the business. In addition, we opened a 24/7 gym at our Heathrow campus and launched mental health awareness training, enrolling 59 Mental Health First Aiders.

We have always prided ourselves in supporting the communities in which we operate, so this year we launched 'A day to make a difference', our employer-supported volunteering scheme – where colleagues can request a day of paid leave to give back to society through volunteering.

Our customers

The year saw us continue to focus on enhancing the customer experience, growing our digital presence, and improving our online merchandising.

Operational effectiveness has been given significant attention and we have established a continuous improvement culture to enhance the service we provide to our customers. We invested in new technology, optimising weight and dimensional checks of goods to best utilise capacity.

We established a customer satisfaction programme to listen to the voice of the customer, tracking sentiment across all key touch points from booking to delivery and to promote customer advocacy. Key initiatives taken this year include proactive communication to customers at times of disruption and standardisation of global recovery. This has resulted in a steady increase in NPS over the course of the year.

Our Cargo Live, a live stream series focused on delivering industry insights, continued to be an effective way to communicate with our customers, attracting an audience of over 7,000.

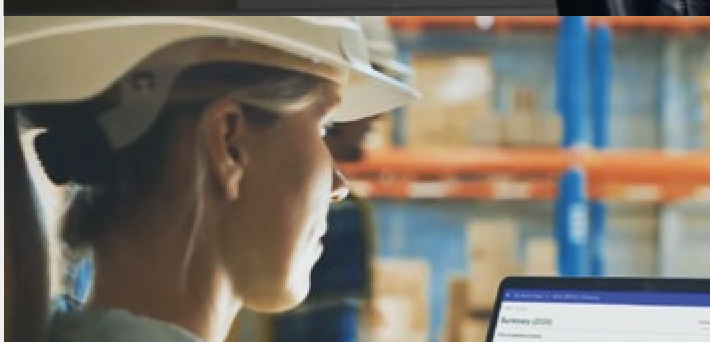
Celebrating its 5th anniversary, IAG Cargo's loyalty programme FORWARD.REWARDS for SMEs increased its membership base by 12 per cent and transactions from small and medium-sized enterprises grew 8 per cent in the year.

Our planet

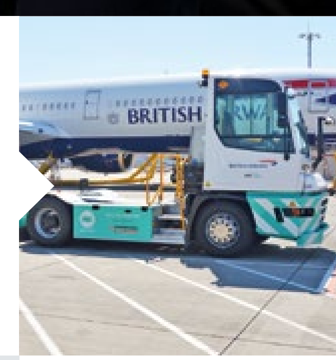
We are committed to making air cargo more sustainable and our customer partnerships are instrumental in driving change. In 2022, we worked alongside long-term partners, Kuehne + Nagel, Bolloré Logistics, and DB Schenker to purchase 12.5 million litres of Sustainable Aviation Fuel reducing their supply chain emissions on a net lifecycle basis by approximately 29,600 tonnes of CO_2.

> "It's an exciting time of transformation for the business, and I am looking forward to working with the senior leadership to unlock the potential of our growing workforce."

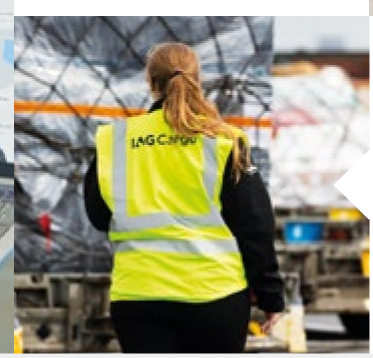
Caroline Andrews – IAG Cargo Chief People Officer



Sustainability in action
IAG Cargo began to trial the first electric Terberg at London Heathrow. By replacing an existing terminal tractor with an electric version, approximately 30 tonnes of CO_2 will be saved per vehicle per year – this is the equivalent of planting over 1,250 trees.



Always looking at ways to improve how we do business
IAG Cargo is delighted to be working with IATA, supporting our customers with innovative digital solutions. Implementing the IATA DG AutoCheck platform will eliminate manual processes to transform and automate dangerous goods acceptance checks whilst increasing safety and operational efficiency.



IAG Cargo's premium offering
IAG Cargo completed its brand-new premium product facility at Heathrow Airport, New Premia, a building twice the size of its current premium facility.

On the ground, we began trialling the first electric cargo Terberg operating airside at London Heathrow, with the ambition to replace all current diesel terminal vehicles in the near future. We have also launched the use of a new sustainable film for wrapping cargo: this solution is 100 per cent recyclable and biodegradable by landfill. This is beneficial on a global scale, where the receiving country of the goods will be able to sustainably dispose of the film.

Air cargo plays a crucial role in supporting crises around the world to deliver aid so desperately needed. In 2022, IAG Cargo worked with several charity partners to donate 159 tonnes of capacity to the Ukraine and Pakistan.

Looking forward

Our vision is clear: to be the first choice for businesses transporting their cargo across the world and to make optimal use of the Group's cargo assets. We are focused on developing an environment of continuous improvement throughout the business, creating sustainable air cargo solutions, leading digitalisation and establishing IAG Cargo as a great place to work.

Consolidating our position in Barcelona

LEVEL

"2022 has been a record year for LEVEL in many respects. This confirms the success of the business model and represents a key contribution to the development of Barcelona's longhaul connectivity."

Fernando Candela
Chief Executive Officer of LEVEL

Business overview

This year we have broken all-time records in terms of passengers carried (6.4 per cent more than in 2019[1]), connecting flights (15 per cent of our total volume) and seats offered (8 per cent more than 2019[1] and triple the number from five years ago). All this while remaining true to our commitment to offering competitive fares. In 2022, we consolidated our position as Barcelona Airport's second-largest operator to the United States and the number one operator to Latin America. Thus, one in four seats between Barcelona and the United States and one in two seats between Barcelona and Latin America were operated by LEVEL.

Moreover, seven of the eight routes we operated in 2022 were routes offered only by LEVEL. With a flight regularity of over 99 per cent, we have demonstrated the resilience to recover to pre-COVID-19 pandemic rates and to do so on time: around 82 per cent of flights have arrived on time at their destination.

Our people

In June we celebrated our fifth anniversary, an important milestone for both our business, and our team. We also moved offices, providing the entire team with new, modern facilities shared with Vueling, which will result in multiple synergies and strengthen IAG's corporate culture. Throughout the year we took part in a number of events to increase our visibility, such as Barcelona Pride in support of our key values of diversity and equality.

Our customers

In 2022, LEVEL once again proved to be an airline that listens to its customers and adapts to their feedback. Through increased digitalisation we continue to adapt our product to the preferences of each individual customer. We have also resumed routes that were in great demand, such as San Francisco and Boston. These routes, together with the restarting of services between Barcelona and Santiago de Chile in October and additional daily flights to Argentina, mean we are offering direct connections to destinations of great importance for Barcelona.

Our planet

We are constantly looking for ways in which we can reduce our environmental impact. To name a couple of examples, the pre-sale platform, used by one in four of our customers, has enabled us to reduce the weight of food cargo by 29 per cent. In addition, we have implemented what is known as the 'H-30'. This consists of recalculating fuel requirements 30 minutes before flight departure, (considering the weather and the final load on-board the flight) to adjust the fuel load to the exact needs of the operation. Doing this has enabled us to reduce the fuel loaded by 2 per cent, which means a reduction of 0.67 per cent of our CO_2 emissions.

Looking forward

We will continue with our strategy and commitment to be where Barcelona needs us to be. We'll continue to support and promote the city, developing alliances and synergies with local partners and providing Barcelona with a solid map of direct connections to South and North America.

1 Comparison against 2019 is for LEVEL Spain and excludes LEVEL France routes (now discontinued).

Transforming for the future

IAG GBS

"In IAG GBS, we continued our journey to become the working capital and data analytics Centre of Excellence for the Group, optimising our unique platform and position to provide valuable insights and analysis and create further synergies."

Zoe Davis
Director of IAG GBS

Overview

In 2022, we continued to deliver on our four transformation pillars (driving further synergies, continuing the in-depth restructure of the Group's cost base, delivering automation and analytics, and proactively monitoring any potential supplier risks to mitigate emerging issues) and were proud to further expand our scope of work into areas such as direct operating cost analysis and supplier sustainability tracking, whilst supporting the operating companies as they recover from the effects of the pandemic.

In the current inflationary environment, our significant role in supporting the delivery of IAG's unit cost targets has become increasingly important as the Group recovers its operations. By leveraging our unique position within the Group, we have driven additional value for the operating companies and their customers, created further synergies, and ensured supply chain continuity in challenging times.

We have also reinforced our focus on automation and innovation by introducing new and improved analytics, chatbots, and process mining tools.

Our people

IAG GBS continues to thrive as a diverse, global organisation with over 36 different nationalities represented in our workforce, and 45 per cent of our senior leadership positions held by women.

In 2022, we have remained focused on keeping our people at the heart of our business, continuing to attract, engage, develop and retain experts to further enhance our high-performing team. We have continued to invest in our Learning Academy, providing multiple development opportunities. All this has been reflected in continually improving workforce engagement results.

We have delivered numerous mental and physical well-being initiatives to support our people, and introduced an equity, diversity and inclusion policy.

We are proud of our people and the way they have supported those in need who have been affected by the war in Ukraine, opening their homes and collecting much-needed goods, providing language courses, and helping with visa applications.

Our customers

Following a comprehensive market review, we have entered into several new partnerships to provide enhanced business process services, data insights and automation. These will offer greater opportunities for IAG GBS to further standardise and increase the level of touchless processing, ultimately providing a more efficient and cost-effective solution for the Group operating companies.

Earlier this year, we were delighted to launch a new self-service portal that allows direct analysis and comparison of supplier cost metrics and performance. The portal will be further enhanced with operational statistics such as unit cost and market intelligence tools, which will further equip the Group Procurement team with the insights and data they need to maximise value for the Group and its customers.

Our planet

IAG GBS plays a vital role in delivering IAG's Scope 3 commitment. Through our Supply Chain Sustainability Programme and partnership with EcoVadis, we liaise with, support and monitor suppliers to ensure the Group is on track to deliver net zero emissions by 2050 for all products and services provided to IAG.

We accelerated the assessment of our supply chain, measuring ESG maturity. This provides valuable insights to identify opportunities to improve our supply chain performance. It also provides a clear ESG baseline and target to drive the sustainability performance of our suppliers. This accepted and recognised methodology means performance can be shared beyond IAG and may contribute to transforming wider industry supply chains.

Looking forward

2023 will see IAG GBS moving towards establishing ourselves as the analytics centre for the Group, using our unique view across IAG to consolidate data and analyse opportunities to provide constructive insights and drive increased value.

Delivering further value to the Group

IAG Tech

"In 2022, we continued to evolve our IT operating model, focusing on establishing agile product teams delivering value to our customers, employees and other stakeholders."

John Gibbs
Chief Information Officer

Overview

During 2022, we experienced some significant outages related to both internally and externally hosted systems. We are working closely with our partners to improve the stability of their systems and in parallel, we continued to modernise the estate which has improved the overall resilience and performance. This includes moving over a third of our IT estate into the cloud.

In addition, we continued to invest significantly in our core customer, commercial, operational and back-office systems alongside our cyber security and infrastructure.

We have continued to attract new talent to our IT teams and develop our existing talent through the IAG Tech academy, which is also focused on driving a Digital First mindset across the whole Group. Over half of all our delivery is now via product teams utilising agile methodologies ensuring we maximise the value to the business of our IT investments.

Our people

We are proud to have won the Best Graduate Employer at the UK Women in Tech Awards earlier in 2022, and we continue to develop the next generation of technology experts through our graduate and apprentice programmes.

We have evolved our IT operating model by increasing the adoption of product teams and development, security and operations (DevSecOps) methodologies to accelerate digital innovation and delivery for our customers.

We further strengthened our technology leadership team as well as recruited technology talent throughout the organisation, resulting in 25 per cent of the IT department being new to the Group in the last two years.

In addition to developing a Digital First culture through our Academy, we now have over 1,000 employees across our Guilds sharing best practice, knowledge, and insights across the Group.

Our customers

We have made significant investments in the modernisation of our customer platforms with new functionality delivering real value to our customers:

- we extended the functionality of our new Global Loyalty Platform, added new partners and migrated our British Airways Executive members onto it;
- we added new functionality to our .com platforms while streamlining the sales and order processes resulting in increased sales of ancillary products and services;
- we modernised our call centre technology including the use of AI (Artificial Intelligence) and ML (Machine Learning) to provide a more responsive and intuitive service; and
- we introduced more efficient disruption management tools.

In addition, significant investment has been made into refreshing devices to ensure Group employees have the right tools to support our customers.

Our planet

We are significantly reducing the carbon footprint and energy costs of our IT estate through the decommissioning of systems and the migration to the cloud. Our Cloud Centre of Excellence ensures that we drive the adoption of cloud capabilities, and that we optimise the use of the cloud.

New operational planning tools are allowing us to further optimise the network and the utilisation of our assets. We have also invested in technology to monitor and significantly improve fuel utilisation.

We are also investing in technology to identify and reduce waste such as pre-flight ordering of food and tools to help customers calculate and offset carbon emissions, such as the carbon mitigation tool.

Looking forward

As a priority, we are continuing to improve our systems and services to provide operational stability and resilience. In parallel, we are continuing to migrate our systems to the cloud, to modernise our customer-facing applications, especially our .com and mobile platforms, and making significant investment in cybersecurity tools, services and capabilities. We will also continue to evolve our IT operating model and the adoption of product and agile ways of working.

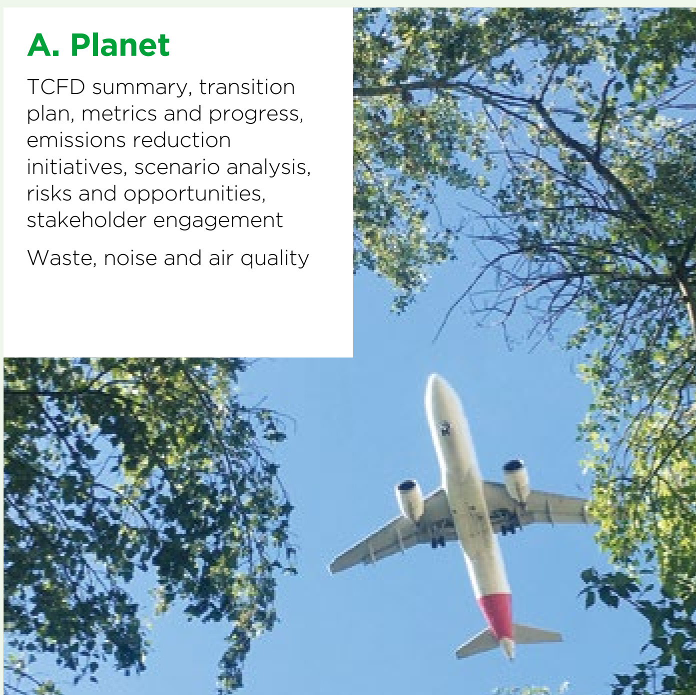
Sustainability supporting our purpose

Contents of this section

A. Planet

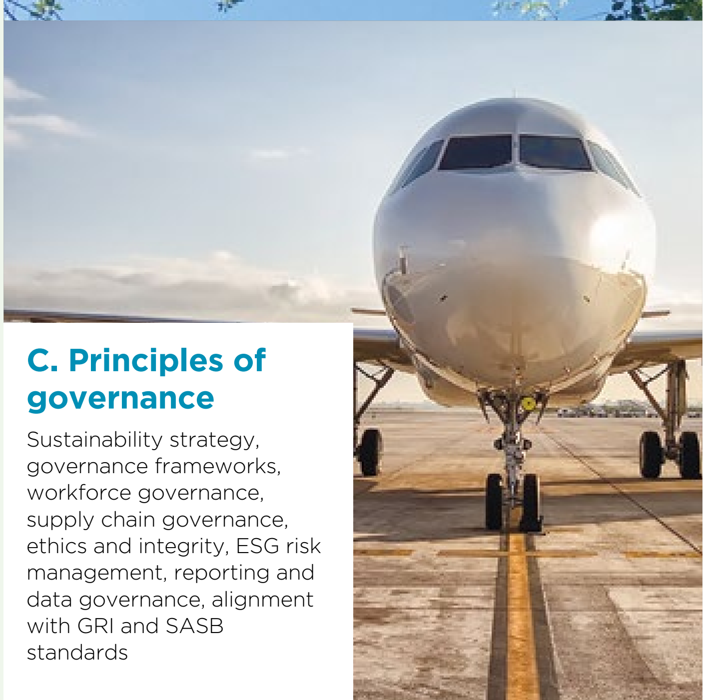
TCFD summary, transition plan, metrics and progress, emissions reduction initiatives, scenario analysis, risks and opportunities, stakeholder engagement

Waste, noise and air quality



B. People and Prosperity

Key metrics, health, safety and well-being, human rights and modern slavery, community engagement and charitable support



C. Principles of governance

Sustainability strategy, governance frameworks, workforce governance, supply chain governance, ethics and integrity, ESG risk management, reporting and data governance, alignment with GRI and SASB standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement (NFIS) which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised) standards.

IAG's most material environmental metric – Scope 1 emissions – receives additional verification each year as part of the EU, Swiss and UK Emissions Trading Schemes (ETS) and international Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), within six months of the issuance of this report. Any material changes are restated in future reports.

Compliance with specific frameworks and standards is listed under relevant section headings and summarised in C.8. While IAG does not align with the Global Reporting Initiative (GRI) Core or GRI Comprehensive standards, it aligns with selected GRI standards based on compliance with Spanish Law 11/2018 and chooses to voluntarily align with other GRI standards on material issues.

Our vision

Is to be the world's leading airline group on sustainability.

Our strategy

Is to pursue nine sustainability leadership KPIs as listed in section C.1.

Our governance

Board-level oversight	IAG Management Committee oversight	Operating company oversight	Cross-Group alignment
Safety, Environment and Corporate Responsibility Audit and Compliance	Chief People, Corporate Affairs and Sustainability Officer (CPCASO)	Management committees oversee tailored sustainability programmes	Group sustainability team updates Group sustainability strategy

Our material issues and initiatives

IAG takes a holistic approach to sustainability[1].

A. Planet

Key material issues

- Reducing our climate impact
- Influencing policy

Key policies

- Environmental Sustainability Policy

Annual initiatives

- Flightpath Net Zero strategy
- Climate-related remuneration
- Policy advocacy for green solutions
- Leadership in trade associations

Key UN Sustainable Development Goals

B. People and prosperity

Key material issues

- Engaging with employees
- Building a diverse, inclusive and equal workplace

Key policies

- Equity, Diversity and Inclusion (EDI) Policy
- Modern slavery and anti-trafficking statement

Annual initiatives

- Organizational Health Index (OHI) surveys
- EDI and engagement initiatives
- Community giving and fundraising
- Developing a social roadmap

Key UN Sustainable Development Goals

C. Principles of governance

Key material issues

- Investing in the future
- Planning for climate-resilient operations
- Working with suppliers

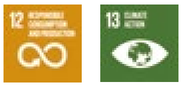
Key policies

- Code of Conduct
- Supplier Code of Conduct
- Anti-bribery and corruption Policy
- Whistleblowing Policy
- Policy on disclosure of corporate information and engagement with shareholders

Annual initiatives

- Accelerator programme and ventures
- Supply Chain Sustainability Programme
- Task Force on Climate-related Financial Disclosures (TCFD) scenario analysis

Key UN Sustainable Development Goals



Targets

2019 Target Baseline

2025

- 11% better carbon efficiency, to 80 gCO_2/pkm
- Comprehensive waste targets
- 10% lower noise per take off vs 2020
- 40% women in senior leadership roles

2030

- 10% Sustainable Aviation Fuel (SAF)
- 20% drop in net Scope 1 emissions, to 22 MT
- 20% drop in net Scope 3 emissions, to 6.6 MT

2050

- Net zero Scope 1, 2, and 3 emissions across our full operations and supply chain.
- Removals for any residual emissions

1 The above pillars align with World Economic Forum 'Measuring Stakeholder Capitalism' report in 2020. 'Running a profitable business' and 'Pleasing our customers' are material issues relevant to Prosperity which are covered in other sections of the NFIS.

Towards more sustainable journeys

Our sustainable products and services for customers help them to reduce their carbon emissions and support wider sustainability goals. We continue to trial new offers.

Pre-flight services at airports

- Renewable electricity in lounges[1]
- Vegan menus in lounges[2,3]
- Pre-ordering meal service to reduce food waste[3]

Ground transport at airports

- Trialling electric buses for passengers[2]
- Electric Mototoks to pull aircraft to runways[2,3]
- Trialling electric trucks[5]
- Renewable electricity to power aircraft on the ground[1]

On-board impacts

- Voluntary offsetting for customers using verified[6] offsets[1]
- Voluntary SAF for customers[2,4]
- Use of IAG-procured SAF[2]
- Vegan food[2,3]
- Recycling on-board[2,3,4]

1 All airlines. 2 British Airways. 3 Iberia. 4 Vueling. 5 IAG Cargo. 6 Gold-standard or Verra-accredited projects to ensure real carbon savings.

Planet highlights

CDP
DISCLOSURE INSIGHT ACTION
A LIST
2022
CLIMATE

A prestigious award for our climate action

250,000 tonnes

of SAF secured for 2030, which is 25 per cent of our target volume

First

alcohol-to-jet SAF plant in the world, the LanzaJet Freedom Pines project, in a signed partnership with IAG

100%

of IAG airline senior executives have climate-related remuneration

12%

annual improvement in carbon efficiency, on track for our 2025 target

People and prosperity highlights

66,044

people employed across the Group in 79 countries

17%

increase in our workforce versus 2021

89%

of staff covered by collective bargaining agreements

34%

women in senior leadership roles

Governance highlights

6

meetings of the Board SECR committee

100%

of suppliers screened for sustainability risks

0

instances of modern slavery identified in our business or supply chain

74%

of suppliers, by spend, completed ESG scorecards

A.1. Planet – climate change

A.1.1. TCFD summary

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidance and first carried out TCFD-aligned scenario analysis in 2018. Descriptions of TCFD recommendations are on the TCFD website.

IAG has applied the TCFD Guidance for All Sectors to the disclosures in this report. Cross-references to relevant sections are below. An internal review of compliance with the 11 core TCFD recommendations identified no material gaps or material changes from last year.

Governance	Strategy	Risk management	Metrics and targets
Disclose the organisation's governance around climate-related risks and opportunities (a, b)	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material (a, b, c)	Disclose how the organisation identifies, assesses and manages climate-related risks (a, b, c)	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material (a, b, c)
Relevant disclosures in this report			
a. See C.2., C.6. b. See A.1.5, C.2., C.6., Risk management and principal risk factors section	a. See A.1.6. b. See A.1.6., C.6., Risk management and principal risk factors section c. See A.1.5.	a. See A.1.5., A.1.6., C.6., Risk management and principal risk factors section b. See above c. See above	a. See A.1.3., A.1.5., Report of Remuneration Committee b. See A.1.3., A.1.6. c. See Sustainability at a Glance, A.1.2., A.1.6.
Current activities			
Board oversight via SECR Committee and Audit and Compliance Committee; multiple layers of robust governance; 2021 materiality assessment still relevant and so not updated	Delivering against Flightpath Net Zero strategy and nine leadership KPIs; sustainability-linked loans for British Airways and Iberia; TCFD-aligned scenario analysis; one- and three-year financial and business plans integrate sustainability aspects; new sustainability contract clause for suppliers	Sustainable aviation risks are treated as a principal risk and regularly reviewed within Enterprise Risk Management (ERM) processes; risk disclosures received an 'A' rating from CDP	Clear metrics and targets for 2025, 2030 and 2050 (see 'At a Glance'); climate-related remuneration for senior executives and managers
Planned future activities			
Review assurance, repeating materiality assessment in 2024	Ramp up of SAF procurement, ongoing scenario analysis, reviewing guidance and evidence on pathways to support 1.5°C transition	More detailed work on risk impacts to 2030 and 2040, actions to maximise climate resilience, and risk mitigation KPIs	Delivery against existing targets, review 2030 targets in line with latest evidence on 1.5°C-aligned transitions

Leading our industry in SAF projects

What is Sustainable Aviation Fuel?

Sustainable Aviation Fuels (SAF) are chemically almost identical to kerosene.

The feedstocks for these fuels – currently waste materials such as used cooking oil, municipal waste or waste wood – absorb CO_2 in their growth cycle before this carbon is recycled into fuel and then consumed in the flight.

There are eight certified pathways to making SAF based on use of specific technologies. These processes are certified to international standards to ensure the fuels are safe to use. SAF can be used in existing aircraft and airport fuelling infrastructure.

IAG also ensures its SAF complies with strict sustainability certification schemes to ensure the feedstocks come from sustainable sources, and that the production processes conserve water and energy and have minimal wider impacts.

Key SAF projects – production dates

2023	2024	2025	2026	2027	2030
LanzaJet Georgia, USA **Neste** Finland; Singapore **Phillips 66** Humber, UK	**aemetis** California, USA	**LanzaTech** South Wales, UK	**Gevo** Minnesota, USA **Velocys** Mississippi, USA **LanzaJet/ NovaPangaea** Teesside, UK	**Velocys** Immingham, UK	

Role in IAG transition plan

SAF is a key solution in IAG's transition plan to net zero (Section A.1.2). It reduces carbon emissions on a greenhouse gas lifecycle basis and typically by 70 per cent or more compared with the fossil jet fuels it replaces.

IAG is on track to deliver a 100-fold increase in its SAF volumes between 2022 and 2030 and expects to use SAF for 70 per cent of total fuel in 2050.

In 2021, the Group set a target of using one million tonnes of SAF a year by 2030, dependent on appropriate government policy support, and this volume will save as much carbon as taking one million cars off the road a year. The Group has now secured 250,000 tonnes of SAF for 2030, committing US$865 million in SAF offtakes and investments.[1]

The Group has also made direct investments in new and innovative SAF production capacity, catalysing the wider development of the SAF market. These investments are typically coupled with SAF purchase agreements, which are critical to the financeability of the new SAF production capacity.

Group airlines will be taking delivery of 7,500 tonnes annually from the Lanzajet Freedom Pines facility once construction is completed towards the end of 2023.

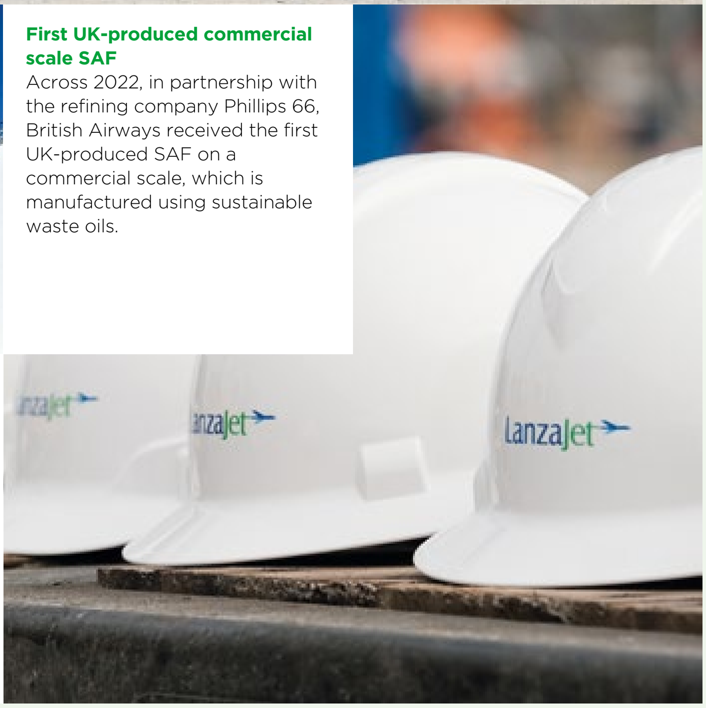
1 Based on an assumed jet fuel price in 2030 of $900 per metric tonne and contracted margins for SAF production.

Planet spotlight: Sustainable Aviation Fuel in 2022

First alcohol-to-jet SAF plant
In October, the LanzaJet Freedom Pines plant in the US (see above) was the first SAF project in the world to receive a grant – of $50 million – from the Breakthrough Energy Catalyst Fund. IAG invested in this plant and will receive offtake when it is operational, which is expected to be the end of 2023.

First UK-produced commercial scale SAF
Across 2022, in partnership with the refining company Phillips 66, British Airways received the first UK-produced SAF on a commercial scale, which is manufactured using sustainable waste oils.

New SAF offers for customers
From June 2022, Vueling offered customers the option to fund SAF use on the day of their flight, via a partnership with Avikor. Over 50,000 passengers contributed, and Vueling matched their contributions, supplying over 50 tonnes of SAF at Barcelona and Madrid airports.



A.1.2. Transition plan

Overview

IAG is targeting net zero emissions by 2050 across its Scope 1, 2, and 3 emissions.

'Net zero' means any residual emissions from IAG operations in 2050, or by the manufacture and transport of goods supplied to the Group, will be mitigated by an equivalent amount of CO_2 removed from the atmosphere via carbon removals.

IAG is on track to deliver its 2025, 2030 and 2050 climate targets (see below) by carrying out emission-reduction initiatives, working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development.

IAG is also driving internal action by using climate-related annual incentives for over 7,400 senior executives and managers.

Key measures to reduce emissions are fleet modernisation, SAF, market-based measures including the UK and EU ETS and CORSIA, and carbon removals.

Less than 10 per cent of the emissions reductions to 2050 are from offsets.

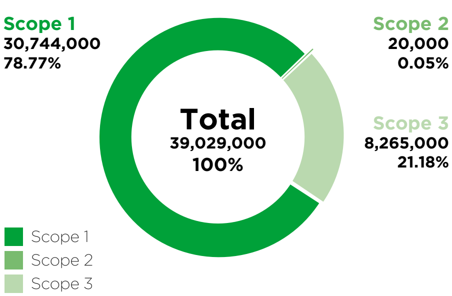
Roadmap to net zero

IAG was the first airline group in the world to commit to net zero emissions and has been publishing its latest roadmap to this goal every year since 2019.

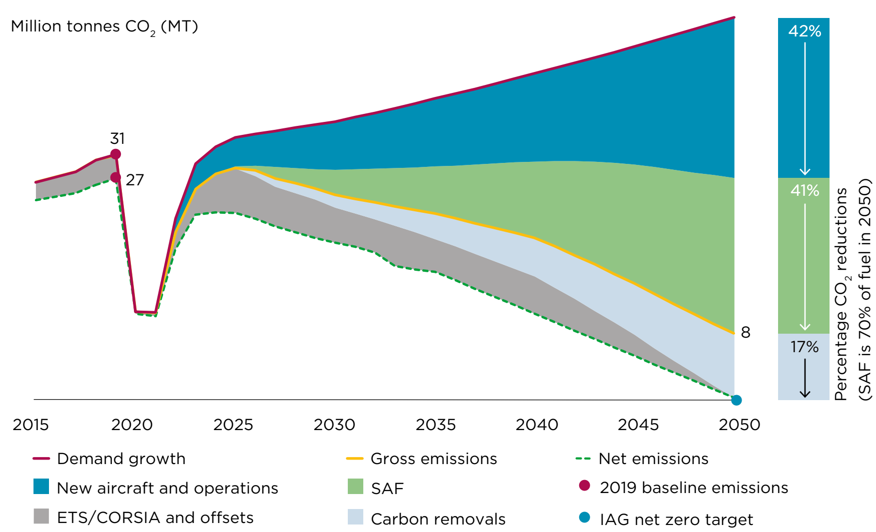
The version below is a core Group scenario which assumes continued policy support for aviation decarbonisation, an overall recovery to 2019 levels of passenger demand by 2024 and annual demand growth aligned with the long-term growth forecasts disclosed in Note 4 and 17 of the Financial Statements.

Key changes versus last year's roadmap are an earlier ramp up of carbon removals, larger net emissions reductions from CORSIA, fuel efficiency gains tapering by 2050, and an increased share of SAF in 2050 to reflect proposed mandates. This roadmap maintains the assumption on hydrogen aircraft in the fleet from 2040 and 5 per cent saving from airspace modernisation by 2050.

2019 Emissions (tonnes CO_2e)



Latest IAG Roadmap to Net Zero



IAG interim targets: 11% improvement in fuel efficiency 2019-2025, 20% drop in net Scope 1 and 3 emissions 2019-30, 10 per cent SAF in 2030, net zero by 2050.

Pillar of carbon roadmap	Delivery plans	Venture investments/key innovation partners
New aircraft and operations	• €13.5 billion investment between 2023-30 for 192 new, efficient aircraft	ZeroAvia (hydrogen aircraft manufacturer) I6 (fuel management software) NAVflight services (flight planning services) Honeywell Forge (fuel efficiency software)
SAF	• US$865 million committed to date on SAF offtake and agreements, based on assumed energy prices	LanzaJet (sustainable fuels producer)
Carbon removals	• Refining the IAG carbon removals roadmap	Heirloom (carbon capture start-up)
Market-based measures and offsets	• Support for the global CORSIA scheme to limit net emissions from aviation • All airlines offer voluntary offsets for customers	CHOOOSE (customer offsetting platform)
Supply chain	• 74% of suppliers by spend have submitted scorecards on ESG performance • New supplier contract clause on sustainability	EcoVadis (business sustainability ratings)

IAG invests in innovation to meet its targets, drive decarbonisation and accelerate wider change towards a more sustainable industry. IAG supports climate technology innovation via its Hangar 51 accelerator, venture capital investments, university collaborations, pilot schemes, supporting applications for grant funding, and research and development consortia. Since 2019, a dedicated sustainability category has been included in the Group accelerator programme Hangar 51.

IAG supports the 1.5°C ambition of the Paris Agreement and continues to review evidence on aviation pathways which support this.

Where possible, IAG will work with relevant stakeholders, including the Science-Based Targets initiative (SBTi) and Transition Pathway Initiative (TPI), to build an understanding of aviation industry pathways to net zero, how these contribute to national and global goals, and how companies and policy makers can drive investment into a green transition.

Future emissions intensity

Delivery of current decarbonisation plans, dependent on appropriate policy support, is expected to enable the following changes versus 2019:

Gross emissions (MT CO_2):

- 2030 – 15 per cent lower
- 2050 – 73 per cent lower

Gross emissions intensity (g CO_2/pkm):

- 2030 – 27 per cent lower
- 2035 – 39 per cent lower
- 2050 – 83 per cent lower

IAG supports the inclusion of carbon removals in industry decarbonisation pathways, and in external assessments of support for the 1.5°C global ambition.

IAG's short- and long-term targets have been independently assessed by TPI as 1.5°C-aligned and it's mid-term target assessed as well-below-2°C-aligned.

The TPI assessment compared the milestones in the 2021 IAG roadmap with an industry-wide pathway modelled by the International Energy Agency (IEA), taking removals commitments into account.

What are carbon removals?

Carbon removals solutions extract CO_2 already in the atmosphere and store it in biological or geological ways.

Four key types are relevant for IAG:

- Nature-Based Solutions (NBS) – include creating new forests and peatland
- BioEnergy Carbon Capture and Storage (BECCS) – capturing biogenic carbon from industrial facilities and storing it in e.g. underground aquifers
- CCS with SAF production – as above and including the use of byproducts which can absorb CO_2
- Direct Air Capture (DAC) – absorbing CO_2 directly from the air using a catalyst

Carbon removals projects differ from carbon avoidance projects, which prevent the future release of CO_2. IAG sees carbon avoidance projects as a key transitional solution en route to full use of removals.

When IAG or operating companies choose to voluntarily invest in carbon avoidance and removal projects, they work in collaboration with key partners, carry out due diligence to select reputable providers and select projects carefully to meet and align with verified quality standards such as Gold Standard and Verified Carbon Standard (VCS).

Within the Group, British Airways started offering removals projects to customers in 2022: mangrove restoration in Pakistan and a biochar project in Oregon, USA.

Role in IAG transition plan

By 2050, IAG will only use carbon removals to mitigate any residual emissions from its operations.

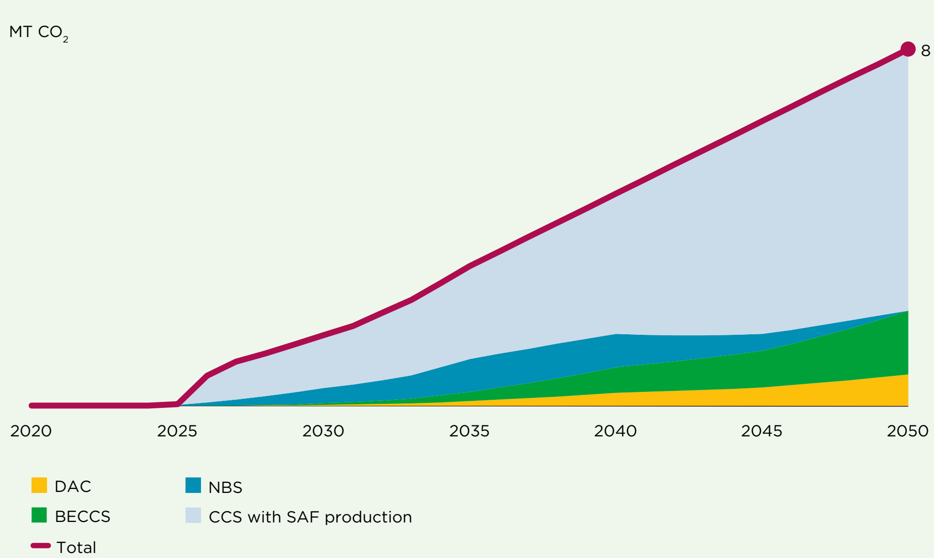
By 2050 it will only work with suppliers who do the same, as part of meeting the Group Scope 3 commitment. It is already encouraging suppliers to transition from offsets to removals as part of a new supplier contract clause which is being rolled out across its supply chain.

Based on the latest roadmap detailed below, the Group expects to use approximately 100 MT of carbon removals between 2022 and 2050 to mitigate Scope 1 emissions and could potentially be removing 2 MT annually in 2030, conditional on clear and globally agreed verification and quality standards for removals, inclusion of removals in ETS schemes, and stable policy support.

IAG expects to use removals to meet an increasing share of its CORSIA obligations between 2024 and 2035, conditional on the above, and supports wider guidance on how to transition to removals such as the Oxford Offsetting Principles.

It continues to advocate for policies that will accelerate global uptake of carbon removals, via the Coalition for Negative Emissions and other trade associations listed in A.1.7., and supports the inclusion of removals in the EU, Swiss and UK ETS.

Illustrative carbon removals ramp up



A.1.3. Metrics and progress

Overview

IAG's transition plan focuses on reducing CO_2 from jet fuel use, as this represents over 99 per cent of Scope 1 emissions. The Group measures its full carbon footprint and tracks multiple metrics each quarter to ensure progress on tackling climate change.

2022 saw strong progress against the key metric of carbon efficiency. With a 12 per cent improvement to 83.5g CO_2/pkm[1], the Group is on track to deliver the 2025 target of 80g CO_2/pkm.

Calculation methodology

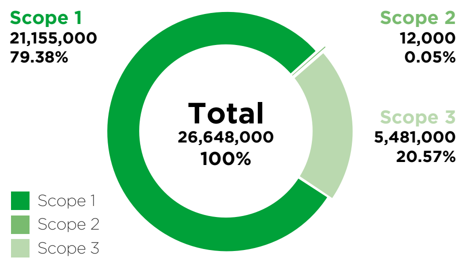
Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report. 2022 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available. Other factors like International Energy Agency emissions factors are used in specific cases as described in the NFIS.

IAG discloses methane (CH_4) and nitrous oxide (N_2O) as Scope 1 non-CO_2 greenhouse gases (GHGs), in line with the UK conversion factors.

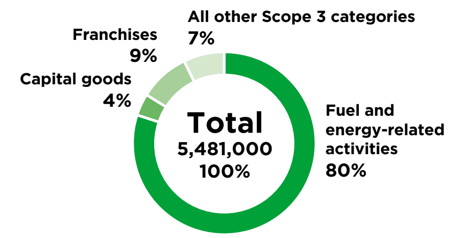
Emissions of CH_4 were 13,072 tonnes in 2022 and N_2O were 198,324 tonnes.

A detailed Scope 3 emissions breakdown is available in the IAG NFIS.

2022 Emissions[2]



Scope 3 emissions[2]



Key carbon footprint metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 1 CO_2e	305-1	MT CO_2e	94%	(31%)	**21.15**	10.92	11.02	30.74*	29.99
Net Scope 1 CO_2e		MT CO_2e	82%	(29%)	**19.13**	10.50	10.85	26.95*	27.22
Scope 2 location-based	305-2	kt CO_2e	30%	(31%)	**51.1**	39.2	48.2	74.6*	70.4
Scope 2 market-based	305-2	kt CO_2e	40%	(40%)	**11.7**	8.4	9.3	19.7*	40.7
Scope 3	305-3	MT CO_2e	65%	(34%)	**5.48**	3.32	3.66*	8.27*	8.79

Key emission reduction metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Flight-only emissions intensity	305-4	gCO_2/pkm	(12%)	(7%)	**83.5**	94.6	106.2	89.8	91.5
GHG reduction initiatives	305-5	ktCO_2e	38%	6%	**82.4**	59.7	17.2	77.4	65.9
Net reduction (ETS[3])		ktCO_2e	720%	(44%)	**1,796**	219	0	3,182	2,634
Net reduction (offset projects)		ktCO_2e	17%	n/a	**229**	196*	168	nr	nr
Fleet age		years	6%	5%	**11.9**	11.2	10.6	11.4	11.3

Other metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 2 emissions intensity	305-4	gCO_2/pkm	(41%)	(8%)	**0.20**	0.34	0.47	0.22*	0.22
Revenue per tonne CO_2e		€/tonne CO_2e	41%	32%	**1,088**	771	705	827	811
Jet fuel	301-1	MT fuel	94%	(31%)	**6.64**	3.42	3.45	9.65	9.41
SAF		kT fuel	338%	n/a	**10.3**	2.4	nr	nr	nr
Electricity	302-1	'000 MWh	13%	(20%)	**213.7**	189.0	200.1	267.7	234.9
Energy	302-1	Mn MWh	93%	(31%)	**81.5**	42.1	41.9	119.7	119.4
Renewable electricity[4]		%	(5pts)	9pts	**81%**	86%	86%	72%	54%
Renewable energy		%	(0.1pts)	0.2pts	**0.4%**	0.5%	0.4%	0.2%	nr

Descriptions and commentary on other metrics is available in the Additional Disclosures section of the IAG NFIS.

Note: 'nr' means 'not reported'. * means restated using the latest data and assumptions.

1 pkm means 'passenger-km'. The passenger-km used for this calculation is 213,376 million, which excludes no-show passengers. The cargo-tonne-km used is 3,712 million, which excludes cargo carried on other airlines or trucks. The jet fuel used excludes fuel for franchises and engine testing.
2 Rounded to the nearest '000 tonnes CO_2e.
3 2020 emissions were below the EU ETS sector cap for aviation so no net reductions were delivered.
4 For completeness, Scope 2 emissions cover electricity use at airports and overseas offices, which are partly outside IAG's operational control.

As part of complying with UK Streamlined Energy and Carbon Reporting regulation, IAG can disclose that 56 per cent of Group energy use was UK energy use, based on Scope 1 emissions and Group electricity use in UK-based offices.

A.1.4. Emissions reduction initiatives

Relevant standards: TR-AL-110a2. GRI 305-5.

Reducing gross and net emissions is a collective effort across the Group. Examples are throughout this report.

By 2030, fleet renewal and SAF programmes will have the biggest impact on reducing gross emissions, and CORSIA will have the biggest impact on reducing net emissions. In addition, other specific initiatives are run within operating airlines.

Here are savings from key initiatives in 2022, rounded to the nearest 10,000 tonnes:

1,580,000
illustrative tonnes of CO_2 saved this year from a more efficient fleet, compared to the 2019 fleet pre-COVID-19

30,000
tonnes of CO_2 saved from SAF purchased this year, five times higher than the saving in 2021

80,000
tonnes of CO_2 saved from operational efficiency initiatives such as reduced use of landing flaps, single-engine taxi-in and reduced weight on-board

230,000
tonnes of CO_2 avoided due to use of certified carbon offset projects, in locations such as Cambodia, Peru, the Congo Basin, Sudan and Malawi

Examples of initiatives across the Group:

Operating company	2022 examples
British Airways	9,980 tonnes of SAF delivered from Phillips 66, saving almost 30,000 tonnes of CO_2
	Rolled out a new fuel efficiency dashboard enabling pilots to better match fuel use to fuel needs
	Trials at airports of an electric bus for passengers and use of hydro-treated vegetable oil (HVO) in ground vehicles
Iberia	Began operation of a 10,000m^2 solar installation to generate 2.7 million renewable kWh annually
	Efficiency initiatives across the whole flight phase including take-off, cruise, approach and landing
Aer Lingus	Welcomed two A320neos to the fleet, which save up to 20 per cent of fuel compared to the aircraft they replace
	More efficient flightpaths out of Dublin airport saved around 1,200 tonnes of CO_2
Vueling	Demonstrated 72% CO_2 saving on a Green Flight between Barcelona and Lyon using SAF and a straighter path
	Moved to a new, more sustainable headquarters, certified to international BREEAM[1] standards
IAG GBS	Rolled out a new supplier contract clause encouraging emissions reductions
IAG Cargo	SAF deals with key cargo customers including Kuehne + Nagel, Bolloré Logistics, DB Schenker and DHL
	Trials including a lease of 40 tractor units running on HVO biofuel, and an electric tractor
IAG Tech	Migration of IT services to Amazon cloud servers, saving energy and CO_2
IAG Loyalty	British Airways Executive Club Members can use Avios points to contribute to verified carbon offset projects

A diverse portfolio of SAF

IAG continues to work with technology developers to establish a range of SAF supply options, including the projects listed below. The Group uplifts jet fuel in multiple locations including the US and Europe and therefore is exploring projects in multiple regions. It is working to support SAF projects which also remove carbon or capture and store it.

IAG has secured 25 per cent of its 2030 target volume of 1 million tonnes.

Key SAF partnerships

Partner	Project name if relevant	Production location	Planned production start
Phillips 66		Humber, UK	In production
Neste		Finland; Singapore	2023
LanzaJet	Freedom Pines	Georgia, USA	End 2023
aemetis	**one**world	California, USA	2024
LanzaTech	Project Dragon	South Wales, UK	2025
Gevo		Minnesota, USA	2026
Velocys[2]	Bayou Fuels	Mississippi, USA	2026
LanzaJet/NovaPangaea[2]	Speedbird	Teesside, UK	2026
Velocys[2]	Altalto	Immingham, UK	2027

1. Building Research Establishment Environmental Assessment Method. 2. Includes carbon capture and storage.

A.1.5. Scenario analysis

Overview

In 2022, IAG carried out multiple and aligned forms of scenario analysis:

- The IAG Sustainability team and the Enterprise Risk Management (ERM) team reviewed all climate-related risks and opportunities and potential impacts to 2024 and 2030. The impacts of material risks are quantified as part of the Company-wide ERM process which receives Board oversight
- Operating airlines modelled compliance-related costs, including from the UK and EU ETS and CORSIA, to 2030
- TCFD-aligned scenario analysis was repeated using a dual timeframe of 2030 and 2040
- Ongoing analysis was carried out on the Flightpath Net Zero strategy to 2050

This scenario work informs strategy, planning, risk management and financial management.

IAG takes a proactive approach to managing climate-related risks and opportunities, and is committed to managing their regulatory, reputational, financial, market and technology aspects.

Applying carbon prices

IAG concurrently applies carbon prices to financial planning and to future scenario analysis.

The fleet team uses updated carbon prices and price forecasts for shorthaul and longhaul fleet purchasing decisions, based on market values and reputable external sources. The Group airlines use carbon prices in financial planning, and flight operations teams and pilots use carbon prices in operational decisions about fuel uptake.

Potential acquisitions include an assessment of exposure to climate-related issues and policy.

For the period 2022-30, UK ETS prices of £75-£150/tonne, EU ETS prices of €67-€130/tonne and CORSIA prices of $11-$21/tonne were used for modelling compliance costs.

EU and UK ETS prices are based on market prices and the UK Department for Transport (DfT) Aviation Forecast, and CORSIA prices are based on internal analysis and ICAO industry price forecasts.

TCFD-aligned scenario analysis

In 2022, IAG repeated a TCFD-aligned scenario analysis exercise, building on the 2018 and 2021 exercises.

This was a structured, qualitative discussion of potential climate-related impacts and business responses, using the latest evidence and analysis from reputable sources like the UN, Eurocontrol and Climate Action Tracker (CAT).

1.5°C scenarios[1] were chosen for transitional risks, in recognition of IAG and global targets. 2°C and 3°C warming scenarios were chosen for physical risks, based on the latest UN projections.

2030 was chosen as the key timeframe, based on IAG targets and key policy timelines e.g. for SAF mandates. 2040 was also considered due to the possibility of the world overshooting 1.5°C in the 2030s leading to faster societal changes.

The 2021 and 2022 exercises involved representatives from multiple teams including Strategy, Treasury, Finance, Government Affairs, Commercial Planning, Investor Relations, People, Enterprise Risk Management, IAG Tech, IAG GBS, IAG Loyalty and sustainability representatives from all operating airlines. The Group Sustainability team collated inputs, which were reviewed by the IAG Sustainability Steering Group.

The Group remains resilient to the most material climate-related impacts – industry-wide policy shifts – and these have been quantified and mitigation plans embedded into financial and strategic planning. Industry-wide changes also create opportunities for the Group to move to become more resilient than its competitors.

To address significant uncertainty around future policy, technology and market trends, IAG is repeating scenario analysis annually. It will implement action plans in 2023 to further improve resilience to wider changes.

1 'Orderly' and 'disorderly' scenarios were chosen as per TCFD definitions. These scenarios compare smooth, predictable and idealised climate-related changes with abrupt, variable and disjointed changes across regions.

A.1.6. Risks and opportunities

Climate-related risks are assessed and managed within the ERM framework as described in Section C.6. and in the Risk management and principal risks factors section under Principal Risk 'Sustainable Aviation'. Opportunities are managed within relevant teams.

Transitional risks primarily affect airline activity between European destinations, which contributed 37 per cent of flying activity in 2022. Physical risks could affect IAG operations across its global network, reflecting the global nature of climate change.

The carbon-reduction targets in the Flightpath Net Zero strategy are the key measures for assessing the mitigation of these risks, along with the consideration of these risks in relevant governance processes. The external risk environment, materiality of risks, mitigation actions and KPIs for these mitigating actions are reviewed regularly.

The table below lists risks assessed through the ERM process. The most material risks are policy risks. Risk timeframes align with corporate planning timelines.

TCFD risk type	Risk and/or opportunity combined description	Risk time frame	Risk trend	Scenario dependency[1]
Physical	Resilience to acute weather events	M	Stable	Temperature
	Resilience of routes and assets to chronic climate changes	L	Stable	Temperature
Market	Customer spend due to perceptions of IAG ESG progress	S	Up	Transition
	Customer spend due to perceptions of aviation industry ESG progress	S	Up	Transition
	Perceived quality of offset and removal projects	M	Stable	Transition
	Supply chain readiness	L	Down	Transition
Policy	Demand impact of EU and UK climate policy	M	Stable	Transition
	Resilience to changes in ETS/CORSIA pricing	M	Stable	Transition
	Policy asymmetry across regions	M	Up	Transition
	Extra regulation on activity not emissions	L	Stable	Transition
	Lack of supporting SAF infrastructure or policy	M	Down	Transition
	Regulation on non-CO_2 effects	L	Up	Transition
Technology	Access to and readiness for lower-emission technologies	L	Down	Transition
	Access to SAF	M	Down	Transition

Key: short-term (S) is 1-2 years, medium-term (M) is 3-5 years, long-term (L) is more than 5 years.

IAG continues to analyse risk and transition scenarios to inform mitigation plans to 2030. Key parameters for defining scenarios are below, based on UN, CAT, UK Climate Change Committee and internal analysis. These are kept under review.

Physical risk parameters	Current projection	2°C scenario	3°C scenario
Global scenario to 2100	2.4°C	RCP[2] 2.6	RCP 4.5

Transition risk parameters	Current policies/projections	Current targets	1.5°C-aligned scenario[1]
Global emissions vs 2019	0%	-7%	-41% (-27%)[3]
UK emissions vs 2019	-28%	-42%	-42%
EU emissions vs 1990	-55% (via Fit for 55)	-55%	-62%
US emissions vs 2005	-37%	-50%	-58%
Aviation (net) emissions vs 2019	-15% (via CORSIA)	-15%	-15%

1 Whether the cost impacts depend more on the temperature scenario (2°C or 3°C), or type of transition (orderly or disorderly).
2 Representative Concentration Pathway (RCP), a globally recognised scenario for physical changes under different temperature ranges.
3 A 41 per cent drop by 2030 represents an orderly transition. A 27 per cent drop represents a disorderly transition because smaller global emissions reductions to 2030 require rapid decarbonisation after 2030 to return to 1.5°C by 2100.

Risk Impacts and Mitigation

Description as per previous page	Potential unmitigated financial impacts	How IAG is mitigating
Resilience to acute weather events	Days of lost revenue due to additional flight disruption and associated mitigation and passenger compensation costs	Existing operational resilience processes can minimise extra disruption from e.g. more turbulence from US-UK flights
Resilience of routes and assets to chronic climate changes	Changed revenue from a different route network or a different frequency of flights to climate-affected destinations, changes in operational maintenance costs	Scale of route network means impacts above plan are not material so no immediate action needed. Aircraft are mobile assets which can be moved to different locations to account for e.g. more hurricanes in Caribbean
Customer spend due to perceptions of IAG ESG progress	Customers change frequency of flying, duration of trips, or spend less relative to other carriers	Delivering emissions reductions, developing emissions dashboards for customers, expanding customer communications
Customer spend due to perceptions of aviation industry ESG progress	Customers change frequency of flying, duration of trips, or spend less relative to other travel modes	Support for global instruments like CORSIA, working via trade associations to advance green solutions
Perceived quality of offset and removal projects	Exposure to sudden variability in prices, cost of CORSIA credits, scale of growth in revenue by 2050 due to available volume of removals to deliver net zero	Strategy to avoid price spikes, governance to ensure offset quality, a removals roadmap based on external evidence, advocacy for policy support and monitoring regimes
Supply chain readiness	Sustainability compliance or technology change causing unplanned changes in cost of goods and services provided to IAG or associated supplier management costs, margin erosion	Supply chain sustainability programme which includes ESG scorecards and supplier risk screening
Demand impact of EU and UK climate policy	Pass-through of industry-wide costs affects ticket prices and so demand	Impacts of emerging policy assessed as part of longer-term financial planning and strategy
Resilience to changes in CORSIA/ETS pricing	Exposure to long-term price increases affects compliance costs	Strategy to reduce impact of price spikes; using carbon prices in fleet and financial planning
Policy asymmetry across regions	Changing numbers of customers relative to other carriers who are under more favourable or more restrictive policy regimes	Advocacy for global solutions such as the ICAO Long-Term Aspirational Goal agreed in 2022
Extra regulation on activity not emissions	Industry-wide taxes or levies increase operating costs and have potential demand impacts, demand management measures equate to lost revenue	Advocacy in support of emissions-reducing measures like SAF and against economically inefficient measures like taxes
Lack of supporting SAF infrastructure or policy	Higher prices of SAF in core markets due to lack of investment in SAF production or cost of inputs	Advocacy for SAF policy, e.g. via UK Jet Zero Council, and a strategy to procure SAF in regions where supportive policy exists
Regulation on non-CO_2 effects	Potential multiplier on ETS costs, lost revenue due to route restrictions, or operational costs due to non-CO_2 management	External research suggests just 10% of flights could be 80% of impacts. Advocacy via trade associations to support monitoring and targeted solutions such as route optimisation and SAF uptake
Access to and readiness for lower-emission technologies	Higher ETS costs if technology access is restricted or technology development is slow	Hangar 51 Ventures team aligns research and work with the Flightpath Net Zero strategy
Access to SAF	Changing unit prices of SAF in core markets	Securing SAF deals and taking equity in early-stage projects where relevant

A.1.7. Stakeholder engagement

Relevant standards: GRI 102-13/43/44

Overview

The aviation industry will decarbonise faster with stakeholder and policy support.

The Group and its operating airlines regularly engage with key stakeholders: governments and regulators, shareholders, lenders and other financial stakeholders, trade associations, customers, suppliers, employees, communities, NGOs and academic institutions to advocate for support for emissions reductions and to share progress on Flightpath Net Zero.

As one example, IAG successfully delivered its first ESG day for investors in 2022, as described in the CEO letter in the ARA.

Internal governance ensures that wider stakeholder engagement on climate change is consistent with material issues and environmental goals.

As per the IAG Code of Conduct, IAG does not use Company funds or resources to support any political party or candidate.

Key stances on climate change

IAG supports cost-effective approaches to deliver net zero emissions by 2050, advance low-carbon solutions, and support global efforts to align with 1.5°C.

Actions across ten associations are listed below. If the climate-related positions of trade associations are deemed to be substantially weaker or inconsistent with these internal stances, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stances and constructively move to alignment.

IAG is proud to have consistent stances on climate change with all the organisations of which it is a member (below). IAG has positively influenced this outcome by contributing expertise and time to drive net zero commitments, and create and support roadmaps to net zero emissions across SA, A4E, **one**world, JZC, and ATAG. IAG has also driven and encouraged higher SAF ambitions across the JZC, **one**world and WEF.

IAG and key trade associations are listed on the EU Transparency Register.

Key principles of climate-related engagement

Aviation is a global industry and IAG remains committed to global policy approaches.

In 2022, it supported the strengthening of the global UN-regulated CORSIA scheme. Changes agreed at the ICAO General Assembly will ensure that net emissions from international aviation will be 15 per cent below 2019 levels in 2030, en route to the ICAO target of net zero emissions by 2050.

IAG advocates for carbon pricing as a key instrument to determine both the pace of emissions reductions for the aviation industry and the balance of in-sector and out-of-sector reductions.

IAG prioritises advocacy on SAF too, as this is a key emissions reduction driver in the next decade, and supports policies on operational efficiency, zero-emission aircraft and carbon offsets and removals.

It advocates for policies that are effective and fair across multiple airlines.

Member of organisation	IAG involvement in organisation and actions to ensure and move to consistent stances
UK focus	
Sustainable Aviation (SA)	One of 13 members of SA Council, which governs activities for 44 members Drove development of net zero roadmap in 2020, proposed interim industry climate targets in 2021, active participant in workstreams to advance green solutions
Jet Zero Council (JZC)	Chairs SAF Delivery Group, supported creation of UK Jet Zero Strategy in 2022 to deliver net zero UK aviation by 2050, British Airways CEO a member
Royal Aeronautical Society (RAeS) – Greener by Design group (GbD)	Executive Committee of GbD, attended non-CO_2 conference in 2022 to understand how best to mitigate these effects
Spain/Europe focus	
Grupo Español para el Crecimiento Verde	Iberia is one of over 50 corporate members supporting green growth
Airlines 4 Europe (A4E)	Founding member, drove development of net zero roadmap in 2021, supported RefuelEU consultation responses and other work to advance green solutions
Global focus	
Coalition for Negative Emissions	Founding member in 2020, Steering Group member, active contributor to consultation responses to UK Government on how to scale up carbon removals
oneworld (represents 15 airlines)	Chairs Environment Strategy Board (ESB), coordinated net zero roadmap and 10 per cent SAF ambition across 2020-21, hosted two ESB meetings in London in 2022, continues to provide support for advancing green solutions
Air Transport Action Group (ATAG)	Significant airline contributor to global aviation roadmap to net zero in 2020-21, which helps to inform industry priorities for continual advancement of green solutions
World Economic Forum (WEF) – Cleaner Skies for Tomorrow Coalition	Regular contributor to reports on how to scale up SAF as a low-carbon solution, advocated for 10 per cent SAF ambition by 2030
IATA (represents 300 airlines worldwide)	Chaired IATA Sustainability and Environment Advisory Council (SEAC), representatives on IATA working groups to advance policies for green solutions, supported advocacy for net zero commitment at ICAO and strengthening of CORSIA baseline

A.2. Planet – wider issues

A.2.1. Waste

Relevant standards: GRI 306-1/2/3 (2020).

Overview

IAG has one of the most comprehensive waste reduction plans in the airline industry.

The '5 by 2025' plan covers five waste streams and five business units, with waste generation and recycling targets across on-board, office, cargo and maintenance waste and a zero-based approach to single-use plastic (SUP). IAG is committed to reducing, reusing and recycling waste and dealing with any hazardous waste in line with relevant national and international regulations.

On-board services are the main source of waste. Key waste outputs include plastic packaging, leftover food waste, drinks cans and cabin items such as wrappers. Key inputs included on-board meals and amenity kits supplied to passengers.

In 2022, IAG operations generated:

- 52,106 tonnes overall (27,613 in 2021)
- 51,133 tonnes non-hazardous waste
- 973 tonnes hazardous waste.

13,806 tonnes were recovered or recycled.

Waste is typically offloaded and processed at airports by third-party caterers, with some materials recovered on-site and other materials incinerated or sent to landfill. The majority of cabin and catering waste is processed at IAG's hub airports – London, Madrid and Barcelona – although the Group flies to over 200 airports worldwide.

Reducing food waste remains an area of focus. For example, Iberia offers a Buy-Before-You-Fly service on shorthaul flights and British Airways offers a pre-ordering service for products from the on-board SpeedBird Cafe, to give passengers the choice of buying fresh and ambient products before departure. These services remove food waste from unpurchased shorthaul economy cabin meals while maintaining customer choice. British Airways has a target to halve food waste volumes between 2019 and 2025.

The Group is also expanding its efforts to increase recycling. For example, in 2022 Aer Lingus trialled the first-ever flights into Ireland to recycle on-board, Iberia segregated glass on-board for the first time, and Vueling rolled out trolleys which enabled waste segregation.

Track record on waste

- **2016** – **Iberia joins the EU LIFE+ Cabin waste project**
- **2019** – **160 tonnes of SUP saved across the Group**
- **2020** – **British Airways targets 700 tonnes SUP saved a year but had to cancel due to COVID-19**
- **2021** – **First Group-wide waste targets**; **EU SUP ban comes into force**
- **2022** – **New initiatives to recycle more on-board waste**
- **2025** – **Delivery of '5 by 2025' waste targets**

Below is the Group's most comprehensive waste disclosure to date. Waste trends remain unusual due to the COVID-19 recovery and are expected to stabilise in 2023, allowing for more in-depth analysis of progress towards the 2025 goals.

Metric	Unit	2019 base	2025 target	2020	2021	2022	vly
On-board waste per passenger	Kg/pax	0.33	0.27 (-20%)	0.75	0.47	**0.41**	(12%)
Office waste per full-time employee	Kg/FTE	95.7	47.8 (-50%)	124.5	103.1	**77.4**	(25%)
Maintenance waste per unit of activity	Kg/person-hr	0.63	0.47 (-25%)	0.67	0.56	**0.36**	(35%)
Cargo waste per unit of cargo carried	Kg/tonne cargo	1.55	1.16 (-25%)	1.59	1.43	**1.59**	11%
On-board waste at hubs recycled/recovered	%	24%	40%	31%	26%	**24%**	(2pts)
Office waste recycled/recovered	%	35%	60%	16%	13%	**26%**	13pts
Maintenance waste recycled/recovered	%	50%	70%	35%	45%	**60%**	15pts
Cargo waste recycled/recovered	%	63%	80%	55%	61%	**59%**	(2pts)

Commentary on key metrics

Key metrics	Description	Commentary
Overall waste	Includes waste from all streams – on-board, office, cargo and maintenance waste – and an extrapolation of waste processed at overseas airports, where waste destinations are not always reported by third parties.	Waste volumes increased as flying recovered and waste intensity metrics are returning to pre-pandemic levels. Trends are expected to stabilise in 2023.
Waste recycling and recovery	Includes re-use, downcycling, upcycling, energy from waste, composting and anaerobic digestion. Regulations, including International Catering Waste (ICW) regulations, limit the amount which can be recycled.	Overall recycling/recovery rates are 26 per cent, up from 21 per cent in 2019. The impact of airline recycling initiatives is expected to become clearer in 2023.
Single-Use Plastic (SUP)	Items made wholly or partly of plastic and are typically intended to be used just once or for a short period of time before they are thrown away. This aligns to the EU definition.	160 tonnes of SUP were reduced from initiatives such as using birchwood cutlery and replacing packaging on blankets. The IAG GBS Procurement team is evaluating alternatives to plastic as part of procurement processes.
Waste/pax at hubs	On-board catering waste generated per passenger, including volumes later recycled and recovered. Passenger numbers are based on those inbound and outbound passengers who have their waste processed at hub airports London Heathrow and Gatwick, Madrid, Barcelona and Dublin.	Waste generation ratios per passenger are gradually decreasing back to pre-pandemic levels.

Detailed descriptions of all waste metrics are available in the NFIS.

A.2.2. Noise and air quality

Relevant standards: GRI 305-7.

IAG has delivered a 12 per cent reduction in noise per take-off and landing cycle (LTO) versus 2019, driven by fleet renewal. It remains committed to reducing the impact of aircraft noise and air pollution on local communities near airports and supports innovation as a means of delivering this. Noise and air quality performance are monitored using national databases and global aircraft noise standards.

Group airlines continue operational practices to minimise noise impacts, such as the use of continuous descents. They engage with stakeholders such as community groups, regulators and industry partners to understand their concerns and participate in research and operational trials to identify and refine solutions. In 2021 and 2022, Iberia participated in the EU AVIATOR project to better understand air pollution at airports, including the impact of a 30 per cent SAF blend.

As indicated in the 2021 Annual Report, IAG planned to update noise targets in 2022 but has delayed this review until 2023 when flying demand is expected to stabilise. Detailed descriptions on all noise metrics are available in the IAG NFIS.

Metric	Unit[1]	vly	v2019	**2022**	2021	2020	2019	2018
Noise per cycle	QC per LTO	(0%)	(12%)	**0.88**	0.88	0.96	1.00	1.07
NOx per cycle	kg per LTO	(4%)	(4%)	**8.8**	9.22[2]	9.84	9.23	9.71
ICAO Chapter 14	% at standard	3pts	6pts	**59%**	56%	58%	53%	50%
CAEP Chapter 8	% at standard	2pts	6pts	**41%**	39%[2]	40%	35%	29%

1 % at standard is based on the fleet position at the end of 2021, including parked aircraft and excluding leased aircraft. Metrics per LTO are based on aircraft operational during the year. 80% of the IAG Fleet is CAEP Chapter 6-compliant, up from 74% in 2018.
2 Restated using the latest available data.

Related risk: Operational noise restriction and charges

Risk and/or opportunity description and potential impact	Mitigating actions
Airport operators and regulators apply operational noise restrictions and charging regimes which may introduce additional costs or restrict airlines' ability to operate, e.g. restrictions on night flights.	• Investing in new quieter aircraft as part of fleet modernisation • Continually improving operational practices including continuous descents, slightly steeper approaches, low-power/low-drag approaches and optimised departures • Internal governance and training and external advocacy in Ireland, Spain and the UK to manage noise challenges

B. People

B.1. Overview

Our people are central to our business and key in delivering for our customers. The flexibility, commitment and support our colleagues have demonstrated have been critical to enable the Group's recovery as markets re-opened and travel restrictions eased.

Each airline had a different recovery path, reflecting their network and markets served. All have faced resourcing challenges as we established the capacity to meet increasing demands for travel. This resourcing challenge included recruiting around 17,400 new colleagues across the Group, driving a 17 per cent increase in our workforce year on year. The strength of the Group's brands was key to attracting talent, but we faced industry-wide shortages in skilled resources especially in engineering and airport operation roles. At the end of 2022, around 66,000 people were employed across the Group in 77 countries. Voluntary turnover at 8 per cent reflects both more normalised levels and the dynamic talent market in our key hubs.

The pandemic and inflation have created pressure for the business and for our people, and the approach to pay and conditions in each operating company reflected the different starting points and business context they face. The agreements reached by operating companies have endeavoured to strike the right balance between benefits to our employees and the competitiveness of the business in the long-term.

At the start of 2022 we announced our ambition for 40 per cent of women in senior leadership roles by 2025. This new ambition was underpinned by a new diversity and inclusion framework and strategy and we have been making strong progress in making IAG a more inclusive place to work.

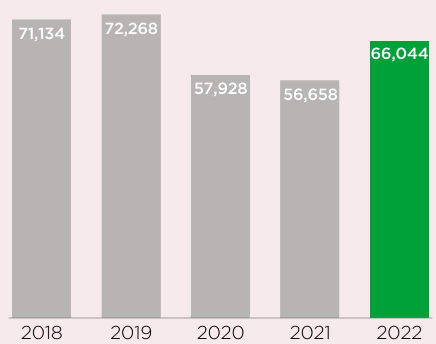
In 2022, we have seen the percentage of women in the IAG Management Committee increase 8 percentage points with the appointment of Sarah Clements as IAG's new General Counsel. We end the year at 34 per cent of women in senior leadership roles, up from 33 per cent in 2021. We remain confident we are on track to deliver on our 40 per cent ambition and have instigated new succession and talent processes and implemented changes to ensure our recruitment processes are inclusive, and we are seeing more talent mobility across the Group as a result.

B.2. Key metrics and progress

Relevant standards: GRI 102-7, 102-8, 401-1, 405-1

Key measures are provided in the next few pages together with explanations.

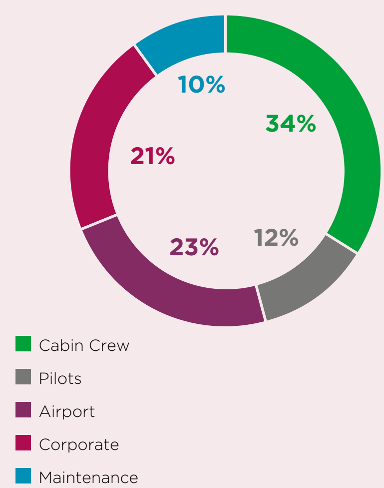
Headcount



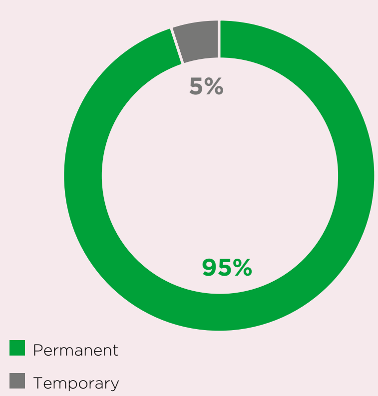
Number of senior women increased to

34%

Headcount by employment categories



Headcount by employment contract



Headcount by employment type

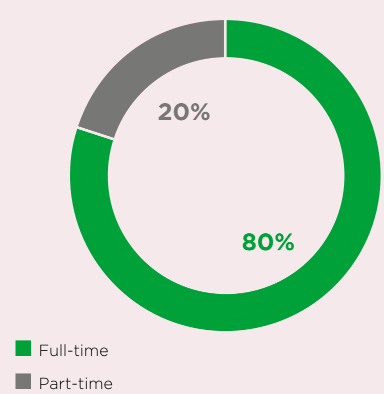


Table of key measures

Metric	GRI standard	Unit	Sub-category	vly	2022	2021	2020	2019	2018
Employment	102-7	Average manpower equivalent[1]		+18.5%	**59,505**	50,222	60,612	66,034	64,734
Headcount	102-7	Number of people[2]		+16.6%	**66,044**	56,658	57,928	72,268	71,134
Composition	102-8	% headcount by employment type	Full-time:	2pts	**80%**	78%	79%	74%	75%
			Part-time:	-2pts	**20%**	22%	21%	26%	25%
Composition	102-8	% headcount by employment contract	Permanent:	-1pts	**95%**	96%	97%	94%	94%
			Temporary:	1pts	**5%**	4%	3%	6%	6%
Composition	102-8	% headcount by employee categories	Cabin crew:	2pts	**34%**	32%	31%	35%	35%
			Pilots:	-1pt	**12%**	13%	13%	11%	11%
			Airport Operations:	0pts	**23%**	23%	25%	26%	26%
			Corporate Function:	2pts	**21%**	19%	20%	17%	18%
			Maintenance:	-3pt	**10%**	13%	11%	11%	10%
Employees by country		% of people	UK:	2pts	**51%**	49%	50%	54%	nr
			Spain:	-2pts	**34%**	36%	34%	31%	nr
			Ireland:	0pts	**7%**	7%	8%	7%	nr
			Other:	0pts	**8%**	8%	8%	8%	nr

Note: ‘nr’ means ‘not reported’.

1 The mean of the manpower equivalent captured quarterly to reflect seasonality.
2 Actual number of people employed across the Group at December 31, 2022.

Table of key measures continued
Relevant standards: GRI 102-7, 102-8, 401-1, 405-1

Metric	GRI standard	Unit	Sub-category	vly	2022	2021	2020	2019	2018
Gender diversity	405-1	% women at Board level		3pts	**45%**	42%	42%	33%	33%
		% women at senior executive level		1pt	**34%**	33%	30%	30%	27%
		% women at Group level		2pts	**44%**	42%	43%	44%	45%
Age diversity	405-1	% of managerial staff in each age band	<30	4pts	**6%**	2%	3%	4%	7%
			30-50	1pts	**56%**	55%	57%	55%	57%
			50+	-5pts	**38%**	43%	40%	41%	36%
		% of non-managerial staff in each age band	<30	5pts	**21%**	16%	18%	21%	22%
			30-50	-4pts	**49%**	53%	54%	50%	50%
			50+	-1pt	**30%**	31%	28%	29%	28%
Workforce turnover	405-1	Attrition rate (%)	Voluntary	3pts	**8%**	5%	16%	7%	8%
			Non-voluntary	0pts	**1%**	1%	5%	2%	3%
		Overall % by age group	<30	5pts	**40%**	35%	16%	37%	35%
			30-50	-4pts	**42%**	46%	33%	36%	34%
			50+	-1pt	**18%**	19%	51%	27%	31%
		Overall % by gender	Women	-2pts	**47%**	49%	52%	47%	51%
			Men	2pts	**53%**	51%	48%	53%	49%

Relevant standards: GRI 102-41, 403-9, 404-1. TR-AL-310a1

Metric	GRI standard	Unit	vly	2022	2021	2020	2019	2018
Social dialogue and trade unions	102-41	% covered by collective bargaining agreements	-2pts	**89%**	91%	89%	87%	86%
Average hours of training	404-1	Average hours per employee per year	80%	**53.3**	29.6	26.4	48.4	41.1
Lost Time Injury (LTI) frequency rate	403-9	LTI per 200,000 hours worked	33%	**3.01**	2.27	2.41	4.34	4.20
LTI severity rate		Average days lost per LTI	-21%	**23.98**	30.47	37.80	22.64	21.12
Fatalities	403-9	Number of fatalities	0pts	**0**	0	0	0	1

Note: ‘nr’ means ‘not reported’.

Description and commentary for key workforce metrics

Metric	Unit	Description	Commentary
Employment	Average manpower equivalent	Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.	The 18.4% increase reflects our business's growing recovery in 2022 and substantial recruitment and increases in full-time employment across the business. This is an average figure and most of the on-boarding of new recruits has taken place in the second half of 2022. This measure accounts for employees' contractual schedule of work.
Headcount	Number of people	Headcount is the actual number of people employed across the Group (employees) at December 31, 2022.	Overall headcount has increased by 17% in 2022. This reflects recruitment drives across the Group's key hubs.
Composition	% headcount by employment type, contract and employee categories	Composition is a breakdown of headcount as at December 31, 2022. Full-time employees are defined as those working full contractual hours as at December 31, 2022. A temporary employment contract has a defined end date. The employee category breakdown portrays the distribution of the major groups within IAG's workforce 'in the air' – pilots and cabin crew – and 'on the ground' – airport, corporate and maintenance and logistics.	Increases in temporary workers to pre-pandemic levels of 5%, driven by short-term capacity requirements and a return to more normalised seasonal resourcing. We have also seen an increase in full-time employees to 80%. There have been significant net increases in full-time cabin crew +25% and airport operations employees +25%. Cabin crew composition levels have recovered this year to 34% of the Group workforce.
Employees by country	Number of people	This metric depicts the distribution of the Group's employees according to the country in which they are based.	The increase in the proportion of Group employees based in the UK reflects the recruitment drive currently underway in British Airways. This has seen nearly 9,000 UK-based employees join the Group. At the end of 2022 IAG had employees based in 77 countries.
Gender diversity	% women at Board, senior executive, and Group level	The share of women as a proportion of all staff at specific levels of seniority across the Group.	There were 221 senior executives as at December 31, 2022. Gender diversity increased to 45% at Board level. IAG's proportion of women in senior executive roles is currently 34%. An increase in the proportion of women across the Group is associated with the recruitment drives in roles with a traditionally more balanced gender mix e.g. cabin crew.
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group. The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to captains and cabin service managers.	Employee turnover for <30 year old was 31% (2,951); 10% for 30-50 year old (3,022); and 7% for >50 year old (1,427). Overall, the Group has seen a decrease in the proportion of employees aged between 30-50 years old. This is linked to significant growth in the <30 years age joining the group (+19%).
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).	The overall annual turnover in 2022 was 9% – a total of 5,930 employees, of which 916 were non-voluntary leavers. This compares to 6% in 2021, a total of 5,054 of which 685 were non-voluntary leavers. This increased turnover reflects more normalised turnover levels and the dynamic talent market in key hubs.

B.3. Equity, Diversity and Inclusion

Diversity is one of IAG's core strengths, with colleagues joining us from across the world, and working in around 80 countries. IAG continues to champion and make positive progress relating to equity, diversity, and inclusion (EDI) initiatives and practices. A robust integrated framework for EDI guides our journey towards a diverse and inclusive culture and workforce.

In 2022, we reset our ambition of 40 per cent women in senior leadership roles by 2025 and we have made strong progress in our first year with a 1 percentage point increase to 34 percent. Our Group-wide plans go beyond gender. We are reviewing how we manage declarations in our core countries of operation, reflecting the cultural and regulatory environment, with an aim to use data and insights to set progressive targets and action plans.

The IAG Diversity Panel, created in 2021, sees representatives across all operating companies sharing best practice and leading on the co-design and implementation of new EDI initiatives. In 2022, the panel welcomed internal and external guest speakers on specialist subjects such as gender diversity in aviation and reverse mentoring. Members of the panel have joined Women in Hospitality and Leisure (WiHTL) Committees, including specialist areas such as Race & Ethnicity and Disability.

To support and underpin actions and initiatives across the group, work has taken place to review IAG's key employment policies, ensuring they are inclusive and fair for all.

Achievements in 2022

- IAG has increased the number of women in senior executive roles to 34 per cent, a 1-percentage point increase on last year.
- IAG's new Equity, Diversity and Inclusion policy was approved by the IAG Board of Directors in July 2022.
- Launch of the 'Peppy' menopause support App across IAG head office, British Airways and IAG Loyalty, recognising the impact of the menopause at work and offering 24/7 advice, support, and information to those impacted both directly and indirectly.
- Having achieved the Bronze Investors in Diversity Award from the Irish Centre for Diversity, Aer Lingus now targets the Silver Award, with significant improvements to parental leave policies implemented in 2022 and a continuation in support for Dublin's Pride Parade.
- British Airways achieved 40% women in senior leadership roles for the first time. The airline also successfully undertook a 9-month pilot for reverse mentoring with colleagues from racially and ethnically diverse backgrounds and members of the British Airways Management Committee. In 2023, this programme will be rolled out to all senior managers across British Airways.
- IAG Cargo invested in mental health first aid training for 59 colleagues across the company, supporting a culture of support and inclusion. In recognition of the global nature of the Cargo business, Rosetta Stone Language Learning launched and was made available to all colleagues.
- IAG GBS have launched the first Equity, Diversity, and Inclusion policy for the company.
- IAG Loyalty placed EDI at the centre of its new values this year, stating 'We take belonging seriously'. Bringing this to life included forming a colleague 'squad' focused on the topic, the launch of a women's development programme in partnership with Amazing If and an organisation-wide EDI survey.
- Iberia have incorporated EDI into their values, transforming the previous value of 'We are one' into 'We are one and diverse'. In 2022, the company also created and launched a network of diversity ambassadors who will be supported as champions and role models.
- In Iberia Express the management committee reached 50 per cent female representation for the first time and there was a substantial improvement in female representation in First Officer pilot roles, moving from 9 to 11 per cent
- Vueling finalised its D&I strategy and action plan. The company also celebrated achieving a 50% female management committee and a positive 44% of female colleagues working in team leader positions.

"Diversity is one of IAG's core strengths"

B.4. Health, safety and well-being

Overview

IAG is committed to safeguarding the health and safety of our employees, customers and all others related to our activities. This means operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, Company policies and industry standards. Health and safety are fundamental to our business, whether in the air or on the ground.

IAG has robust governance processes in place led by the safety committees in each operating company.

The IAG SECR Committee has oversight of all matters related to the operational safety and corporate responsibility of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

IAG's customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

Focus areas

As IAG continues to recover and grow in 2022, health and safety has remained a priority area for the Group. While Lost Time Injury (LTI) frequency rates have increased this year to 3.0 incidences per 200,000 hours worked, this is still relatively low compared to pre-2019 levels, and reflects the increase in hours worked by front-line operational teams compared to 2021.

To support and prioritise employees' health and safety, our operating companies continue to provide employees with access to occupational health services and rehabilitation services. For example, British Airways has relaunched its Early Active Rehabilitation programme to assist employees back to work to help keep LTI severity rates low whilst providing employees the necessary support to get back to work. British Airways will also be commencing a project in 2023 to replace its current Occupational Health software to provide employees and managers with a better platform for colleague referral. IAG Cargo has trained 59 accredited Mental Health First Aiders as part of a new vision, mission and values launch across the business.

Most of our operating companies have supplemented government and healthcare-provided influenza vaccinations with their own programmes. Given the low levels of influenza since COVID-19 this initiative is seen as key to keeping our employees healthy and protected and maintaining productivity in the Group. For example, Iberia has continued its 'Elige Cuidarte' ('Choose to take care of yourself') programme with an objective to vaccinate all employees against the flu and providing workers with suggestions of health lifestyle habits.

B.5. Human rights and modern slavery

IAG had no known cases of human rights violations across the Group during 2022, the same as in 2021.

IAG is taking steps to prevent incidences of modern slavery within the Group and across its supply chains.

The IAG Group Slavery and Human Trafficking Statement outlines these actions and is available on the IAG website. This statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA). In terms of policies associated with human rights, IAG asks suppliers to comply with the Supplier Code of Conduct, which expressly prohibits the use of child labour and any form of slave, bonded, forced, involuntary prison labour, human trafficking or exploitation. Modern slavery clauses feature in all new supplier contracts as well as contract renewals.

IAG remains committed to taking swift and robust action if any evidence relating to slavery or human trafficking in our business supply chain is identified.

IAG is taking steps to prevent human trafficking. Human trafficking is of particular concern to IAG and to the wider aviation industry, as the Group transports millions of passengers every year and has tens of thousands of suppliers across the world. Operating airlines work closely with governments and the airports in which they operate to ensure that any suspected trafficking on our flights is identified, reported and dealt with appropriately. IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

Operating airlines also train staff to recognise and respond to the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected. This training is managed at airline level. In 2022, over 24,000 employees have completed training covering human rights topics, compared to 27,000 employees in 2021.

Related risk: Human rights

Risk description and potential impact	Mitigating actions
Not preventing potential incidences of human trafficking via IAG routes, damaging efforts to improve human rights and associated legal and reputational impacts. Potential human rights or modern slavery violations in the supply chain leading to fines, compliance issues, business interruption or reputational damage.	• Updated Group Slavery and Human Trafficking Statement • Training for staff to recognise signs of potential human trafficking and guidance and processes in place to report this • See C.4. Supply chain governance

In 2022, IAG planned to review its assessment of human rights risks within the business. This review has been shifted to 2023.

B.6. Community engagement and charitable support

Relevant standards: GRI 102-13, 201-1.

In 2022, IAG raised over €6.5 million for charitable causes across the Group, including campaigns related to the floods in Pakistan and the war in Ukraine.

Of this, 43 per cent came from customer contributions, 35 per cent from Company donations, 16 per cent from employee contributions, and 6 per cent from in-kind donations. The Group also carried over 19 million COVID-19 vaccines between 2020 and 2022.

Metric	GRI Standard	Unit	vly	2022	2021	2020	2019	2018
Total raised		€ million	141%	**6.5**	2.7	4.6	5.7	nr

Group operating companies have partnerships with a range of organisations including:

Disasters Emergency Committee (UK)

Flying Start (UK)

Save the Children (Spain)

Lovaas Foundation (Spain)

Dublin Pride (Ireland)

Special Olympics (Ireland)

Business vs Smog (Poland)

Noble Gift (Poland)

UNICEF (global)

Aer Lingus and Paralympics Ireland

In October 2022, Aer Lingus was announced as the Official Airline of Paralympics Ireland and will support Team Ireland as it prepares for and competes in the Paris 2024 Paralympic Games. Following the support of the team for its Tokyo 2020 campaign, Aer Lingus will continue to support Irish para-athletes to World Games in the lead up to qualification for Paris 2024.

C. Principles of sustainability governance

C.1. Sustainability strategy

IAG's vision is to be the world's leading airline group on sustainability.

That means using its scale, influence and track record to not only transform the business but drive the system-wide changes required to create a truly sustainable aviation industry. IAG is committed to delivering best practices in sustainability programmes, processes and impacts, while executing Group strategy.

IAG aligns its environmental strategy with the three overall strategic priorities of the business described in the Strategy section.

Material issues

IAG orientates its sustainability strategy around material issues: those which are most important to key stakeholders and which have the biggest external impacts.

To identify these issues over a three-year timeframe and to 2030, IAG repeated a materiality assessment in 2021 which was facilitated by an independent third party. External stakeholders included investors, corporate customers, policy makers, trade associations, fuel suppliers, airports, and NGOs. Internal stakeholders included IAG Board members, all IAG Management Committee members, and operating company sustainability representatives.

The results inform ongoing disclosures and strategy.

Tackling climate change was identified as the most material issue in the long-term. In the short-term, as the business recovers from the COVID-19 pandemic, profitability and customer and employee engagement and well-being remain high priorities. IAG will consider use of a double materiality assessment when it next repeats this analysis, which is expected to be 2024.

IAG does not have specific risk provisions, targets or guarantees related to non-material issues such as water consumption, biodiversity, raw materials consumption or light pollution. More information on water and biodiversity is available in the Additional Disclosures section of the NFIS.

Leading net zero by 2050 roadmaps and commitments

Oct 10, 2019	**IAG commitment** (first airline group worldwide)
Nov 8, 2019	**IAG roadmap launched at Capital Markets Day**
Feb 4, 2020	**Sustainable Aviation roadmap and commitment**
Sept 11, 2020	**oneworld commitment**
Feb 11, 2021	**A4E roadmap and commitment**
Aug 31, 2021	**oneworld roadmap**
Oct 4, 2021	**IATA commitment**
Oct 3, 2022	**ICAO commitment**

Leading 10% SAF by 2030 commitments

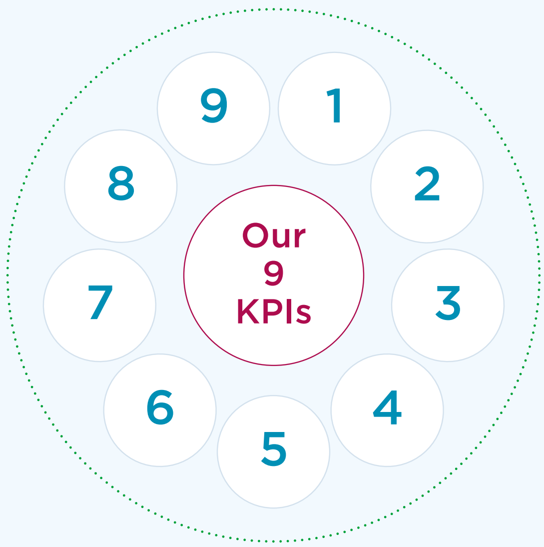
Apr 22, 2021	**IAG (first European airline group to commit)**
Sept 22, 2021	**World Economic Forum (Cleaner Skies for Tomorrow Coalition)**
Oct 4, 2021	**oneworld alliance**
Oct 9, 2021	**UK Government**

Leading innovation

Dec 2017	**CDP A-List company**
Sept 2019	**Sustainability category added to Group accelerator programme.**
Oct 2020	**Founding member of Coalition for Negative Emissions, supporting carbon removals.**
Jan 2021	**Secures first aviation sustainability-linked loan linked to ESG targets, via British Airways**
2021	**Invests in hydrogen aircraft (ZeroAvia)**
Nov 2022	**Offers carbon removals to customers (British Airways)**

- Drove/leading role
- Supported
- IAG-specific

Sustainability leadership KPIs



IAG drives progress based on nine strategic KPIs agreed by the Board in 2021.

1 Clear and ambitious targets relating to IAG's most material issues

2022 action

2025, 2030 and 2050 carbon targets and published transition plan. British Airways and Iberia have sustainability-linked loans related to 2025 carbon efficiency.

2 Low-carbon transition pathway embedded in business strategy

2022 action

Sustainability aspects included in one-year, three-year and 2030 business planning for operating companies.

3 Management incentives aligned to delivering a low-carbon transition plan

2022 action

Over 7,400 senior executives and managers have 10 per cent of their annual incentive linked to annual carbon intensity targets.

4 Leadership in carbon disclosures

2022 action

A-List company in CDP climate ratings in 2022 (Top 3 per cent). Highest-ranked airline in TPI climate ratings (Score: 17/18).

5 Accelerating progress in low-carbon technologies including aircraft technology, SAF, carbon offsets and carbon removals

2022 action

Sustainability remains a focus area within the IAG accelerator programme Hangar 51.

6 Accelerating innovation in low-carbon technology as above

2022 action

LanzaJet Freedom Pines SAF plant was the first project worldwide to receive a catalyst grant from the Breakthrough Energy Catalyst Grant.

7 Industry leadership in the innovation and deployment of SAF including power-to-liquids

2022 action

250,000 tonnes of SAF secured for 2030, 25 per cent of target.

8 Stepping up our social commitments including on diversity, employee engagement and sustainability as a core value

2022 action

34% women in senior executive roles, a 1 percentage point increase on 2021.

9 Industry leadership in stakeholder engagement and advocacy

2022 action

Leadership roles across multiple trade associations. See A.1.7.

CDP DISCLOSURE INSIGHT ACTION
A LIST 2022
CLIMATE

Leadership in carbon disclosures

IAG leads the aviation industry in external ratings of climate action.

For four of the past six years, IAG has been awarded Leadership grades by The Carbon Disclosure Project (CDP), which assesses almost 15,000 companies globally on climate action. CDP awarded IAG a prestigious A-List award in 2022, placing the Group in the top 3 per cent of respondents worldwide.

For the past two years, IAG has also been the highest ranked airline in the global Transition Pathway Initiative (TPI) ratings, which assess 600 companies across 47 countries on their readiness for the low-carbon transition.

IAG is in the top 10 per cent of airlines assessed by Sustainalytics, which gives ESG risk ratings to around 15,000 companies worldwide based on public disclosures.

IAG continues to engage with other relevant ESG rating agencies to enable more accurate calculations of IAG's scores and to identify actions to improve these scores.

Governance spotlight: Jet Zero Council

Overview

In 2021, the UK Government created a new initiative called the Jet Zero Council (JZC), to provide advice on the Government's ambitions to deliver net zero aviation and zero-emission flights.

IAG support

IAG staff chaired two subgroups – a COP26 Group and the SAF Delivery Group – and the British Airways CEO is a member.

In 2022 the work of the JZC supported the launch of an ambitious 'Jet Zero Strategy' for UK aviation.

Scope

The JZC is a partnership between industry and Government to bring together ministers and CEO-level stakeholders, with regular meetings and subgroups to drive the ambitious delivery of new technologies and innovation to cut aviation emissions.

Next steps

The Government also committed to reviewing the strategy every five years, and adapting its approach based on the progress made.

The JZC model has been so successful that it is being replicated in other countries.

C.2. Governance frameworks

Relevant standards: GRI 102-46/-48

Overview

IAG has robust governance in place to ensure joined-up and progressive decisions on sustainability.

This also helps to ensure that wider stakeholder engagement is consistent with material issues and environmental priorities and goals. An annual meeting planner for the Board ensures sustainability governance processes fit within the reporting and disclosure framework of the Group.

The Group's unique structure means that each individual operating company has a distinct sustainability programme. These are regularly reviewed to ensure alignment with the Group sustainability strategy and principles, which covers material issues, KPIs and engagement plans.

Relevant forums and levels of responsibility are indicated below. Information flows between groups is covered in Sections C.6., on the second page of the Risk Management and Principal Risk factors section, and in the Corporate Governance section.

Board/management committee	Frequency of meetings	Responsibility in relation to sustainability
Board	At least quarterly	Approval for strategy, major investments, risk management and controls and review of progress against environment and people plans including climate-related goals and targets
Board Safety, Environment and Corporate Responsibility (SECR) Committee	At least quarterly	Dedicated oversight of Group sustainability programme and alignment with strategic priorities, review of progress against environment and people plans. Provides a link between operating company management committees and the IAG Board
IAG Audit and Compliance Committee	At least quarterly	Ensures compliance with relevant regulation and reviews Annual Report and Accounts and Non-Financial Information Statement
IAG Management Committee	At least quarterly	Reviews and challenges Group programmes, the alignment of operating company-specific programmes with Group priorities and strategy, and progress against plans
Operating company management committee	At least quarterly	Reviews and challenges operating company-specific environment and people programmes

Forum	Frequency of meetings	Responsibility in relation to sustainability
IAG Sustainability Steering Group (SSG)	At least quarterly	Comprised of senior representatives from across the Group who provide oversight of environmental and social initiatives and reporting
IAG SAF Steering Group	At least quarterly	A cross-Group meeting focusing on SAF projects and progress
IAG Sustainability network	Monthly	Sharing sustainability updates and ideas across all business units and over 30 sustainability representatives. In 2022, three Group workshops were also hosted: in Spain, Ireland and Poland
Hangar 51 Governance Committee	At least bi-annually	Reviews new potential investments to consider emerging climate technologies and partnerships with sustainability start-ups Members include the Chief Strategy Officer, Chief Financial Officer, Chief Information Officer and General Counsel

Individual	Frequency of reporting	Responsibility in relation to sustainability
IAG CEO	At least quarterly	Chairs the IAG Management Committee, updates the Board, and ensures Board-level decisions are directed into action across the Group
IAG Chief People, Corporate Affairs and Sustainability Officer (CPCASO)	At least quarterly	Reports into the IAG CEO. A member of IAG Management Committee. Chairs the SSG and provides approval and direction of Group programmes
IAG Group Head of Sustainability	Regularly as relevant	Reports into IAG CPCASO. Chairs the Sustainability network
IAG Group Head of People	Regularly as relevant	Reports into IAG CPCASO

Wider governance

Wider governance processes integrate sustainability aspects. As part of the Group-wide ERM process, sustainable aviation and people, culture and employee relations risks are presented bi-annually to the Audit and Compliance Committee and annually to the Board. One-year financial plans and three-year business plans are coordinated by Group Finance and include sustainability aspects.

In 2022, Group Sustainability representatives also attended the away days of other teams to support the embedding of sustainability.

C.3. Workforce governance

Relevant standards: GRI 403-4, 408-1, 409-1.

IAG aims to create an environment in which employees feel motivated, safe and able to thrive as this is central to the continued success of the Group.

Working policies and rights at work

Core principles in the IAG Code of Conduct include fair and equal treatment, non-discrimination, fairness and respect for human rights. This Code applies to all directors, managers and employees of the Group and e-learning training to support it is mandatory and applicable to all employees and directors. In addition to the Code of Conduct, individual operating companies have responsibility for policies and procedures relating to their employees, including appropriate reward frameworks to ensure they can continue to attract and retain the best talent for every role.

IAG has employees based in European countries which comply with the conventions of the International Labour Organization (ILO), covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Outside the EU, IAG recognises trade unions in many jurisdictions, has collective agreements and meets/exceeds all relevant labour standards.

Collective bargaining arrangements are in place for 89 per cent of our workforce. In addition, IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG completed the election and appointment process for the new Select Committee and Chair in early 2022, and the transition was completed in May this year.

Training and development

Within the Group, individual operating companies have responsibility for the policies and procedures relating to their employees to ensure they can continue to attract and retain the best talent for every role.

Measures to support employee satisfaction and talent management are primarily managed within operating companies and each operating company has its own established methods of measuring employee satisfaction. In addition, IAG has introduced an organisational health survey, initially focused on management populations across all operating companies to benchmark management practices against a globally recognised metric. This survey was run initially in November 2020 and repeated every six months since. Insights from the survey are used to shape and prioritise cultural development plans.

Individual operating companies are responsible for learning, development and talent within their business, to enable them to ensure they have the right skills and capabilities required to support their strategy. In May, IAG completed a detailed review of succession planning and talent for all critical and senior roles which has been used to shape the Group's talent and leadership development priorities and plans. Due to the diverse nature of Group businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level. Each is responsible for determining the specific courses offered within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following mandatory corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Diversity

At IAG, we believe diversity is key to innovation and to the future growth and success of our business. IAG is proud of the diversity of its workforce, with colleagues having joined from across the world, working in 77 countries, speaking dozens of languages and representing every element of the communities we live and operate in. It is this richness of backgrounds, of experiences, of cultures and ideas that makes our business tick.

We want our workforce to reflect the full diversity of the communities we live and work in. We want everyone to see role models they can identify with and to have the same chance of progression and development, and we want everyone who works for IAG to feel that their unique difference is recognised and valued. This means a focus on equity, diversity and inclusion. This allows us to be a place where everyone's talents are recognised, where skills and capabilities grow, and where future leaders are nurtured and developed.

IAG has recently published a revised Group-wide Diversity, Equity and Inclusion Policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

At Group level, IAG also has a Directors' Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the IAG Management Committee. These policies have been approved by the Board of Directors.

See Section B.3. for more diversity initiatives.

C.4. Supply chain governance

Relevant standards: GRI 308-2, GRI 414-2.

Overview

IAG Global Business Services (IAG GBS) continues to engage with, support and monitor suppliers to ensure all products and services provided to IAG are on a path to net zero by 2050.

The IAG GBS Group Procurement team leads the Supply Chain Sustainability Programme by delivering in four key areas:

- The Supplier Code of Conduct (SCoC)
- Independent risk screening and sustainability assessments
- Corporate Social Responsibility (CSR) Audits
- Embedding sustainability as standard in the procurement process

From insight to action in 2022

The SCoC has been issued to the existing supply chain and integrated into the new supplier onboarding process. New suppliers are requested to acknowledge their commitment to achieving net zero emissions by 2050, and the need for a roadmap, supported by deliverable plans, to achieve this target.

IAG GBS is also partnering with EcoVadis, a market-leading provider of business sustainability ratings, to assess suppliers using a holistic environmental, social and governance (ESG) scorecard.

This gives IAG and its suppliers a baseline for improvements across ESG issues, and suppliers can share them with customers and other stakeholders, which benefits wider industry sustainability.

As a minimum, IAG requires its suppliers to provide a safe and healthy environment for their workforce. Supplier selection considers potential industry and geographical risk and, where necessary, on-site audits are carried out. These audits are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2022, 32 of these audits were completed.

All suppliers also undergo annual screening for any legal, social, environmental and financial risks. The Group Procurement and Compliance teams assess any suppliers identified as having potentially higher levels of risk and implement mitigation plans where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In 2022, IAG GBS embedded sustainability aspects into the day-to-day operation of the organisation and included sustainability targets in the performance objectives of all IAG GBS employees.

IAG GBS has verified the existing, active supplier base and IAG's airlines' interline relationships in Russia and Belarus in order to determine the potential implications of, and actions to be taken, due to the trade sanctions issued as a response to the war in Ukraine. Follow-up and support have been provided to IAG's operating companies with regard to mitigation actions taken in response to the findings (e.g. payment stop/blockage) in coordination with the relevant Compliance Teams.

Building a sustainable future in 2023

IAG GBS plans to assess the sustainability performance of suppliers representing at least 80 per cent of IAG's total spend, and include sustainability aspects in the category planning process and additional measures into the selection and contract award process.

2019	2020	2021	2022	2023 (planned)
Issued Supplier Code of Conduct	**All suppliers screened for sustainability risks**	**Net Zero Scope 3 commitment**	**EcoVadis partnership and supplier sustainability clause**	**Embedding sustainability into category planning**

Tracking metrics and progress

	GRI Standard	vly	2022	2021	2020	2019	2018
Total number of suppliers		6%	**14,045**	13,272	22,947	27,033	nr
Suppliers screened		6%	**14,045**	13,272	22,947	18,369	nr
Suppliers with additional compliance assessments	308-2, 414-2	(63%)	**557**	1,510	1,818	2,912	nr
Critical suppliers under regular risk monitoring		(6%)	**32**	34	35	n/a	nr
Independent CRS audits		7%	**32**	30	25	28	nr

Related risk: Supply chain sustainability compliance

Risk and/or opportunity description and potential financial impact	Mitigating actions
Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial penalties, legal, environmental, social and/or reputational impacts.	• IAG GBS procedures above as well as integrity, sanctions and IAG Know Your Counterparty due diligence for higher-risk third parties • Internal governance on supplier management to identify challenges and mitigation • Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability

C.5. Ethics and integrity governance

Relevant standards: GRI 102-16/-17, 205-1/-2/-3

Overview

All directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

IAG's Group Code of Conduct (CoC), last revised in 2019 and approved by the Board, sets out the general guidelines that govern the conduct of all directors and employees of the Group when performing their duties in their business and professional relationships. Mandatory CoC training and communications activities are carried out for directors, employees and third parties on a regular basis to maintain awareness and understanding of the principles that govern the conduct of the Group. This policy is available on the IAG website.

In 2022, a new Group-wide Whistleblowing Policy was issued and all the Group channels consolidated to one whistleblowing channel provided by an independent third-party provider, EthicsPoint, where concerns can be raised on an anonymous and confidential basis.

This channel is available to members of staff as well as suppliers, with information on how to access it published in the CoC and SCoC. If any employee has a concern about unethical behaviour or organisational integrity, they are encouraged to first speak with their manager or a member of the Legal, Compliance or Human Resource teams. Similarly, suppliers are encouraged to contact their primary contact within the business.

IAG will not tolerate any retaliation against individuals using the whistleblowing channel or contributing to investigations arising from reports to the whistleblowing channel.

Whistleblowing reports received for each Operating Company are triaged by the Compliance teams to direct to the most appropriate area for investigation, maintaining independence in this investigation process.

The IAG Audit and Compliance Committee reviews the effectiveness of the whistleblowing channel on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; process and responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements or reputation of the Group or other areas of compliance.

In 2022, whistleblowing reports concerned issues relating to employment matters (64 per cent), dishonest behaviour/reputation (29 per cent), health and safety (6 per cent) and regulatory matters (1 per cent). All reports were followed up and investigated where appropriate, and no material concerns were identified.

Anti-corruption and anti-money laundering

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in the Group CoC and supporting policies which are available to all directors and employees. An anti-bribery policy statement is also set out in the SCoC.

In 2022, a Group-wide anti-bribery and corruption policy was issued. This sets out the minimum standards that are expected by the Group, its directors and employees, including definitions and guidance for bribery, gifts and hospitality guidance, political and charitable donations, public officials, facilitation payments amongst others.

Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams from across the Group meet regularly through Working Groups and Steering Groups, under the IAG General Counsel. They conduct an annual review of bribery risks at operating company and Group level.

The main risks identified for 2022 were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. No material compliance breaches were identified in 2022, as in 2021.

Anti-bribery and corruption training is mandatory for all relevant personnel in IAG operating companies, Group functions and the Board. Individual training requirements are set by each operating company and function and are determined by factors such as the level and responsibilities of an employee.

Revised Group-wide anti-bribery e-learning was rolled out in 2019 and is required to be completed every three years.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

There were no legal cases regarding corruption brought against the Group and its operating companies in 2022, as in 2021, and management is not aware of any impending cases or underlying issues.

IAG has processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls, which help to combat money laundering in the business.

	vly	2022	2021	2020	2019	2018
Employees completing anti-bribery e-learning	248%	**4,880**	1,404	1,984	7,933	nr
Speak Up (whistleblower) reports	54%	**252**	164	193	nr	nr

C.6. ESG risk management

Relevant standards: GRI 102-11/-15.

Overview

Sustainable aviation risks and People, culture and employee relations risks are reported as principal risks to IAG.

These risks are considered and assessed under the Group ERM framework which is presented bi-annually to the Audit and Compliance Committee and annually to the SECR Committee and Board. More details on this framework, risk identification and assessment, and risk management can be found in the Risk management and principal risks factors section.

All principal risks are linked to the Group strategic priorities which includes environmental sustainability.

Sustainability risks and opportunities, including climate-related risks and opportunities, are also identified and assessed by the Group Sustainability team, in conjunction with the Group ERM team, and presented to the IAG CPCASO, IAG MC and SECR Committee. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business, with agreed initiatives included in relevant operating company business plans.

People, culture and employee relations risks are managed by the Group's operating companies with guidance from the Group as appropriate.

Impact on operations and strategy

Sustainability risk assessments have informed specific decisions related to business operations and strategy, and IAG allocates significant resources to environmental risk management. Examples include:

- In 2018, TCFD-aligned scenario analysis identified a need for more ambitious action on climate change, which contributed to the 2019 decision to design and adopt the industry-leading Flightpath Net Zero strategy to deliver net zero emissions by 2050.
- In 2021, IAG set a new net zero target by 2050 for Scope 3 emissions and IAG GBS appointed EcoVadis to help to track supplier sustainability performance and mitigate supply chain-related sustainability risks.
- In 2022, IAG expanded its commitment to invest in SAF development, production and supply, from US$400 million to the equivalent of US$865 million based on assumed energy prices, to manage climate policy risks and take advantage of energy-related opportunities.

IAG is committed to mitigating the impacts of hazards which, if they occur, have uncertain but potentially negative outcomes on the environment or people.

As such, IAG adopts precautionary measures to mitigate these hazards, an approach known as the precautionary principle. For example, the precautionary principle is applied to the planning of operations and the development and launch of new services, by integrating climate considerations into three-year business plans and one-year financial forecasts and aligning activities with the Flightpath Net Zero strategy.

IAG also manages risks via the use of ISO-14001-aligned environmental management systems and is planning for all material environmental impacts across 100 per cent of flight operations and corporate activities to be covered by the IATA Environmental Management System (IEnvA) by the end of 2023.

IEnvA is the airline industry version of ISO 14001, the international standard for environmental management systems. IEnvA is tailored specifically for airlines and is fully compatible with the International Organization for Standardization (ISO).

Vueling achieved full IEnvA certification in 2022 and British Airways and Aer Lingus have achieved partial (Stage 1) accreditation.

In terms of the amount of provisions and warranties for environmental risks, IAG does not take out any specific insurance to cover environmental risks.

Related risk: Environmental regulation compliance

Risk description and potential financial impacts	Mitigating actions
An inadvertent breach of compliance requirements related to ESG reporting, emissions or waste management, or other environmental issues, leading to fines and potential reputational damage.	• Strengthening sustainability governance including reviews of annual disclosures via the Audit and Compliance Committee • Internal governance, training and assigning ownership for environmental compliance obligations • Working towards IEnvA accreditation to improve internal compliance processes

C.7.1. Reporting and data governance

The full contents of this sustainability report are included in the IAG Non-Financial and Sustainability Information Statement (NFIS), which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised)[1] standards. Compliance with specific frameworks and standards is listed under relevant section headings.

IAG complies with current and emerging standards on sustainability reporting.

These include obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, the 2018 UK Streamlined Energy and Carbon Reporting regulation, the Task Force on Climate-related Financial Disclosures (TCFD), and the EU Taxonomy Regulation (2020/852).

IAG does not align with GRI Core or GRI Comprehensive options but instead aligns with selected GRI standards based on compliance with Spanish Law 11/2018. In cases where GRI alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used and described.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU ETS, and for all flights for the UN CORSIA scheme. Any material changes to key metrics are highlighted in future Annual Reports.

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, GRI Standards for material issues, and relevant criteria from external ESG rating agencies. IAG supported IATA and the GRI to develop the IATA handbook.

The scope of environment performance data in this report includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This is also the scope of the net zero targets. Some exceptions for non-material business units have been applied for specific metrics, and these are clearly stated with rationale provided.

The scope of workforce and ethics and integrity data includes all IAG operating companies and support functions. Some exceptions have been applied and these are clearly stated with rationale provided.

The scope of human rights and modern slavery reporting is as above and includes data from all suppliers in the IAG supply chain.

For any specific cases where full-year data was not available for selected metrics, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust. Any prior-year restatements are indicated next to relevant metrics with reasons provided.

C.7.2. Alignment with GRI and SASB standards

Key: **Green** is GRI CORE

Sustainability section	Sustainability subsection	GRI	SASB
A.1. Planet – climate change	A.1.3. Metrics and progress	305-1/2/3/4/5, 301-1, 302-1	TR-AL-110a.1.
	A.1.4. Emissions reduction initiatives	305-5	TR-AL-110a.2.
	A.1.7. Stakeholder engagement	**102-13/-43/-44**	
A.2. Planet – wider issues	A.2.1. Waste	306-1/-2/-3 (2020)	
	A.2.2. Noise and air quality	305-7	
B. People and prosperity	B.2. Workforce metrics	102-7/8, 401-1, 405-1, 102-41, 404-1, 403-9	TR-AL-310a.1.
	B.6. Community engagement and charitable support	**102-13**, 201-1	
C. Principles of sustainability governance	C.2. Governance frameworks	**102-46/-48**	
	C.3. Workforce governance	**403-4**, **408-1**, **409-1**	
	C.4. Supply chain governance	308-2, 414-2	
	C.5. Ethics and integrity	**102-16**, 102-17, 205-1/-2/-3	
	C.6. ESG risk management	**102-11**, 102-15	

1 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

Managing risk to protect the business and support delivery of sustainable change

Agility in Enterprise Risk Management (ERM)

The Group's ERM framework continues to adapt and evolve to the needs of the business and our stakeholders. This allows the Group and its businesses to both respond to changes in the external risk environment and support the pace and scale of business transformation to achieve sustainable change.

In the year, the Group has reviewed the macroeconomic and geopolitical landscape to identify emerging risks and implications for existing principal risks as well as competition and market risk changes, particularly those that could impact operational resilience. By continuing to develop the Group's assessment of the interdependencies of risks; scenario planning to quantify risk impact under different combinations and assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the Group, its Board and management are better informed and can react more quickly. Where further action has been required the Board has considered potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks or retain them within the Board's determined Group risk appetite.

New guidance from regulators and investors is reviewed on an ongoing basis and best practice sought from other risk management sources.

Emerging risks and longer-term threats

Consideration is given to emerging risks and longer-term threats that the Group or the industry could face. Where emerging risks are identified, they are within the overall risk framework as "on watch" until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact over the next two or three years can be made, and appropriate mitigations can be put in place or the risk becomes a principal risk. Other high-impact, low-likelihood risks are also considered and discussed.

ERM policy and framework

The Group Enterprise Risk Framework is set out in the ERM policy, which has been approved by the Board. The comprehensive risk management process and methodology ensures a robust identification and assessment of the risks facing the Group, including emerging risks. The risk management framework is embedded across all of the Group's businesses. Enterprise risks are defined as any risk that could impact the three-year Strategic Business Plan ("the plan"). They are assessed and if the impact is above a threshold, plotted on an enterprise risk heat map, based on probability and impact. Consideration is given to changes in the speed of potential impact. Risks are also considered in combining events where a number of risks could occur together. This process is led by the Management Committee supported by the ERM function.

The Group considers risks to the plan over the short-term up to two years, also medium-term from three to five years and in the longer-term beyond five years.

Risk outcomes are quantified as the potential cash impact to the plan over two years. Non-financial considerations include the Group's sustainability commitments, potential for increased regulatory scrutiny, as well as damage to customer and employee trust impacting the Group's brand and share price.

Key controls and mitigations are documented, including appropriate response plans. Where risk treatments require time to implement, short-term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every principal risk has clear Management Committee oversight.

Risk heat maps for each operating company and central functions are also reviewed by their operating company's management committee or function leadership team.

Where the Group's operating companies have a reliance on other parts of the Group for services delivery, risks are reflected appropriately across risk heat maps to ensure accountability is clear.

The ERM function also works with other compliance and Group functions, such as Government Affairs, Investor Relations, Legal and Sustainability, leveraging their frameworks and assessments where appropriate.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk heat map.

Risk appetite

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, of the Board's appetite for certain risks. Each risk appetite statement applies either on a Group-wide basis or for specific programmes, initiatives or activity within the Group. The framework has continued to operate throughout the year, with the Board assessing its appetite across all of the framework statements at the half year and year end against the Group's performance and its anticipated delivery of the Board-approved strategic business plan priorities and initiatives. The Board is satisfied that the Group continued to perform and deliver initiatives throughout 2022 as planned to mitigate risk as set out in its framework statements or necessary additional mitigations to risks have been addressed as they occurred.

The appetite framework has been subject to review and a new framework will be implemented in 2023. This will allow the setting of tolerances more dynamically across the business plan period. The framework will also allow consideration of trade offs to allow appropriate prioritisation of initiatives to seek opportunities and manage risk within the defined appetite tolerances. The new framework is aligned to the Group strategy approved by the Board in 2022 which sets the level of ambition and investment across the business plan period.

Viability assessment

The Board's assessment of the viability of the Group is directly informed by the outputs of the ERM framework. Full details of our approach, scenarios modelled and the viability assessment are shown at the end of this report.

Risk management roles and responsibilities

Risk owners and management

Across the Group, risk owners are responsible for identifying potential risks and appropriately managing decisions within their area of responsibility that could impact business operations and delivery of the plan.

As the Group undertakes transformation activities within its operating companies, the pace and agility of the changes required creates risks and opportunities. For transformational risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders.

Emerging risks are assessed and risk owners consider and identify any potential impact to plans. Longer-term 'on watch' risks are subject to review as part of the framework.

Management is responsible for the effective operation of the internal controls and execution of the agreed risk mitigation plans.

Operating companies' management committees

Operating companies review risk during the year including risk heat map reviews semi-annually, in advance of the Group risk heat map reviews.

They escalate risks that have a Group impact or require Group consideration in line with the Group ERM framework.

They confirm to their operating company board and audit committees, where they have them, as to the identification, quantification and management of risks within their operating company at least annually.

Local risk heat maps are in place for subsidiary businesses, together with Group support platforms including Group Business Services and IAG Tech.

IAG Management Committee

The IAG Management Committee reviews risk during the year, including the Group risk heat map semi-annually in advance of reviews by the Audit and Compliance Committee, in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Management Committee reviews the performance of the Group at half year and full year against the risk appetite framework and reports any near tolerance or out of tolerance assessments to the Audit and Compliance Committee.

The Management Committee recommends scenarios for stressing the strategic business plan as part of the annual Group viability assessment.

IAG Board and Audit and Compliance Committee

The IAG Board has overall responsibility for ensuring that the Group has an appropriate, robust and effective risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives.

The IAG Audit and Compliance Committee discusses risk and considers the risk environment regularly throughout the year, as does the IAG Board as part of wider Board discussions, in addition to the IAG Audit and Compliance Committee's bi-annual risk heat map review, including a review of the assessment of the Group's performance against its risk appetite, scenarios for assessment of viability and the outputs from the viability modelling. The Audit and Compliance Committee has early sight of management consideration of scenarios to enable it to challenge subjectivities and confirm rationale. It then reviews the outputs at year end and makes recommendations on the viability assessment and statement to the Board.

The IAG Board reviews the Group's risk heatmap annually and it has completed a robust assessment of the Group's emerging and principal risks in the year.

Enterprise Risk Management function

The Enterprise Risk Management function provides support across the Group to ensure risk management processes are appropriately embedded and applied consistently, as well as working with management to identify risk, challenge assessments and strengthen the risk culture across the Group. The function provides enterprise risk management guidance and shares best practice across the Group and its operating companies, keeping them informed of any risk-related regulatory developments. The function is responsible for ensuring that the Enterprise Risk Management framework remains agile and responsive to meet the needs of the business and its stakeholders.

Year in review

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, expose the Group to a number of risks.

The Group's exposure to the external risk environment and the weaknesses in the resilience of the aviation sector's supply chain and inflation impacts, combined with an ambitious transformation and change agenda has required assessment of how risks are evolving and responding to mitigating actions.

With the return of operations as markets have re-opened, the Group has reviewed macroeconomic and geopolitical events to identify emerging risks and implications for existing principal risks.

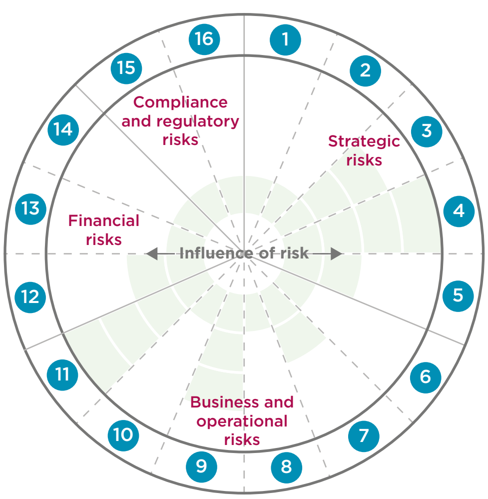
The Group has also considered operational resilience, competition and market risk changes, the status of the financial markets and access to finance, people and culture across the Group and customer satisfaction and trust. Macroeconomic uncertainty and impacts on inflation, interest and exchange rates have been reflected in the principal risk assessments. Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature.

Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in the Group's latest business plan and related risk scenarios.

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

Principal risks influence

The relative level of influence each principal risk has on the other principal risks



Principal risk radar

The assessed likelihood of risk materialisation for each principal risk

Key

Stakeholder impact

Customers

Employees

Suppliers

Governments and regulators

Shareholder, lenders and other financial stakeholders

Link to principal risk

Strategic priorities

1 2 3

Risk trend

Increase

Stable

Decrease

Considered in viability assessment scenarios

V 1 2 3 4

Principal risk	Strategic priorities	Stakeholder impact	Risk trend 2022	2021	Viability scenario
Strategic					
1 **Brand and customer trust** Chief Strategy Officer	1 2 3		=	↓	2
2 **Competitive landscape** Chief Strategy Officer	1 2 3		=	↑	1 2
3 **Critical third parties in the supply chain** Chief Transformation Officer	1 2 3		↑	↑	2
4 **Economic, political and regulatory environment** Chief Strategy Officer/Chief People, Corporate Affairs & Sustainability Officer	1 2 3		=	=	1
5 **Sustainable aviation** Chief People, Corporate Affairs and Sustainability Officer	1 2 3		↑	↑	2 4
Business and operational					
6 **Cyber attack and data security** Group CIO	1 2 3		=	=	3
7 **IT systems and IT infrastructure** Group CIO/Chief Transformation Officer	1 2 3		=	↑	3
8 **Operational resilience** Chief Strategy Officer/Operating company CEOs	1 2 3		↑	=	1 2 3
9 **People, culture and employee relations** Chief People, Corporate Affairs and Sustainability Officer/Operating company CEOs	1 2 3		=	↑	2
10 **Safety or security incident** Operating company CEOs	1 2 3		=	=	
11 **Transformation and change** Chief Transformation Officer	1 2 3		=	NEW	2
Financial risk including tax					
12 **Debt funding** Chief Financial Officer	1 2 3		=	=	1
13 **Financial and treasury-related risk** Chief Financial Officer	1 2 3		=	=	1
14 **Tax** Chief Financial Officer	1 2 3		=	=	
Compliance and regulatory					
15 **Group governance structure** General Counsel	1 2 3		=	=	
16 **Non-compliance with key regulation and laws** General Counsel	1 2 3		=	=	

Principal risk register

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the Board and Management Committee believe to be the most likely to have a potential material impact on the Group.

Strategic

1 Brand and customer trust

Chief Strategy Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The Group's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the Group airlines' brands and their associated reputation for customer service and value. The Group airlines' brands are, and will continue to be, vulnerable to adverse publicity regarding events impacting service and operations. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. Where customers have been impacted as a result of operational resilience issues in the year, all airlines have worked directly with their customers to resolve the issues and ensure, where possible, that customers have been able to complete their travel plans. IAG remains focused on strengthening its customer-centricity to ensure that its operating companies continue to adapt and focus their business models to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. The resilience and engagement of our people as customer service ambassadors to deliver excellent customer service is critical to retaining brand and customer trust.

Risk description

Erosion of the brand and customer trust through poor customer service or lack of reliability in operations, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.

If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.

Failure to meet customer expectations on sustainability and the Group's impact on stakeholders and society could impact the Group and its brands.

Strategic relevance

- The Group's brands are positioned in their respective markets to meet their customer propositions and deliver commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.
- IAG will continue to focus on its customer propositions to ensure competitiveness in its chosen priority customer demand spaces and to ensure that it adapts to meet changing customer expectations.
- The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.

Mitigations

- All IAG airlines are considered within the brand portfolio review.
- Brand initiatives for each operating company have been identified and are aligned to the plan.
- Product investment to enhance the customer experience supports the brand propositions and is provided for in the plan.
- All airlines track and report to IAG on their Net Promoter Score (NPS) to measure customer satisfaction.
- IAG Customer Steering Group meets monthly and shares initiatives.
- Hygiene and travel protocols have been implemented across the Group's airlines to address regulatory requirements resulting from the COVID-19 pandemic.
- Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.
- Enhanced flexibility in airline booking policies.
- Increased focus on the end-to-end customer journey from flight search through to arrival and baggage reclaim.
- The Group's global loyalty strategy builds customer loyalty within IAG airlines.
- The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.
- Robust portfolio process to determine the right investments across the Group.
- The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.
- Additional focus on customer feedback.

Strategic

2 Competitive landscape

Chief Strategy Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3		⊜	↑	v

Status The recovery of demand in the year has seen a significant return of capacity into the market. The distortionary effects of the governmental support and aviation-specific state aid measures on the competitive landscape, including those provided in response to the COVID-19 pandemic, continue to be assessed. The Group is investing in new fleet and products to maintain its competitive position in the markets in which its airlines operate.

IAG acquired 20 per cent of Air Europa by converting its convertible loan in August 2022 and has agreed the acquisition of the remaining 80 per cent as at February 23, 2023, subject to relevant regulatory approvals.

See Financial review section

The Group continues to lobby over the negative impacts of government policies on aviation or policy asymmetry, such as increases in Air Passenger Duty (APD).

Risk description

Competitor capacity growth in excess of demand growth could materially impact margins.

Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.

Strategic relevance

- The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.
- Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

Mitigations

- The IAG Management Committee meets weekly and undertakes regular operating company-specific reviews.
- The Board discusses strategy throughout the year and dedicates two days per year to undertake a detailed review of the Group's strategic plans.
- The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit opportunities and accelerate change.
- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.
- The Group maintains rigorous cost control and targeted investment to remain competitive. The Group Procurement function reviews all critical contracts.
- The Group's airlines are focused on customer-centricity and operational resilience.
- The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.
- The IAG Management Committee regularly reviews market share and the commercial performance of joint business agreements.
- The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.
- The Group's Government Affairs function monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.

Strategic

3 Critical third parties in the supply chain

Chief Transformation Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The aviation sector has been affected by global supply chain disruption which has impacted aircraft deliveries, component availability, resource availability and/or threat of employee industrial action in critical third parties and airport services such as Border Force. It has also been impacted by the high inflationary environment driving additional costs. Operational staffing shortages at hubs and airports have required capacity adjustments, including managing the impact on British Airways' customers and operations of the decision by Heathrow Airport to cap passenger numbers during the summer of 2022. The Group proactively assessed its schedules to ensure our customers had sufficient notice of any changes to their flight plans wherever possible and within our airlines' control. Learnings from the summer disruptions were identified and actions to improve resilience have been implemented. The Group continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource or production delays which could delay the availability of new fleet, engines or critical goods or services, in some places. This has led to increased costs to secure such services. Additional focus was placed on key suppliers given the inflationary environment impacting wages and costs of goods, to understand any business or operational continuity impacts.

The Group continues to lobby and raise awareness of the negative impacts of air traffic control (ATC) airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly with the capacity recovery and continued closure of Russian airspace. The Group relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities. The Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow.

Risk description

IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group sustainability programme.

IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.

IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.

IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.

IAG is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which the Group operates.

Strategic relevance

- Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers and impacting our brand and reputation.
- Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside the Group's control.
- London Heathrow has no spare runway capacity.
- An uncontrolled increase in the planned cost of expansion could result in increased landing charges.
- Airport charges represent a significant operating cost to the airlines and have an impact on operations.
- Inflationary cost pressures within the supply chain may increase the cost of travel.

Mitigations

- The Group mitigates engine and fleet performance risks, including delays to delivery and unacceptable levels of carbon emissions, to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
- The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
- The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
- The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary and inflation minimised.
- The Group procurement function has oversight of all critical contracts across the Group's businesses.
- Alternative suppliers are identified where feasible.
- Transformation initiatives to offset inflation.

Strategic

4 Economic, political and regulatory environment

Chief Strategy Officer
Chief People, Corporate Affairs and Sustainability Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The economic impact of energy shortages and increases in commodity and wage costs have driven significant inflation and uncertainty over the economic outlook. The Group is closely reviewing the impacts of wage and supplier inflation on margins and customer demand. The Group will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required and where possible.

The Group airlines have utilised the slot alleviation waivers granted by regulatory bodies in 2022. Impacts and consequences of the pandemic have continued in 2022, such as the gradual opening of China and with restrictions remaining in countries with varying degrees of passenger and airline operational complexity to comply with.

Wider macroeconomic trends are being monitored such as a potential economic recession, tone of dialogue between the US, Russia, China and the EU and UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to the Group is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered across the Group. The Group also considers changes in government in key markets and the implications for trade, respective economic health and how it views the aviation industry, with elections expected in the UK, Ireland, Spain and the US over the next two years.

Developments in relevant international relationships, in particular as they affect air services agreements to which the EU or UK are party, are monitored throughout the year and IAG operating companies' positions advocated with national governments. Any further macroeconomic trends or potential requirements arising from Brexit are monitored by the IAG Government Affairs function.

See the Regulatory environment section

Risk description

Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.

Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.

Changes in government may result in a change in sentiment to aviation and access to markets.

Government policy asymmetry impacting a domestic market could increase the burden of regulation and cost to our passengers.

Strategic relevance

- IAG remains sensitive to political and economic conditions in the markets globally, particularly in our hub markets. All of the following can be influenced by political and economic change
  - Business and leisure demand for travel
  - Inflation impacts on the cost base
  - Access to markets for new or existing routes
  - Increasing levels of regulation
  - Supply of products

Mitigations

- The Board and the Management Committee review the financial outlook and business performance of the Group through the monthly trading results, financial planning process and the quarterly reforecasting process.
- Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.
- External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring.
- IAG Government Affairs function monitors governments' initiatives, represents the Group's interest and gives the Group and its operating companies early sight of likely changes to laws and regulations, e.g. any review of slot allocation policy in the UK or EU.
- The Group engages with its regulators, governments and other political representatives and trade associations to help represent the views and contribution of the Group and aviation to society and economies.

Strategic

	Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
5 Sustainable aviation Chief People, Corporate Affairs and Sustainability Officer	1 2 3		↑	↑	V

Status IAG is committed to a target of net zero carbon emissions across its operations and supply chain by 2050 along with 2025 and 2030 targets. The Global Business Services (GBS) procurement function will have a key role to play in ensuring its delivery of the Scope 3 commitment for the Group with supplier sustainability ratings and sustainability clauses in supplier contracts key considerations for future contract negotiations and renewals. IAG has also committed to 10 per cent Sustainable Aviation Fuel (SAF) usage on average across its fleet by 2030.

In July 2021, the EU announced its 'Fit for 55' package of proposals. The Group continues to model potential impacts and costs, which includes the removal of aviation jet fuel tax exemption from 2024, with mitigation plans embedded into financial and strategic planning.

All of the Group's airlines have agreed new deals for the production of SAF to meet the Group's target on the path to decarbonisation. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by the Group in the medium to longer-term, where markets may not have such strict eco targets or government set policy.

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. The Group continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. The Group has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes and is resilient to material climate-related impacts.

See the Sustainability risk and opportunities section

Risk description

Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.

New taxes, the potential removal of aviation jet fuel exemptions and increasing price of carbon allowances impact on demand for air travel. Customers may choose to reduce the amount they fly.

The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity, particularly with policy asymmetry in key markets.

Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.

Strategic relevance

- IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.
- Our stakeholders and potential investors seek confirmation over our sustainability agenda and may link their purchasing, investment or lending decisions to our commitments and progress against them.
- Our customers look to ensure that our airlines allow them to offset their flight emissions.

Mitigations

- IAG climate change strategy to meet target of net zero carbon emissions by 2050.
- Annual incentive plans link manager bonuses to annual carbon intensity targets to enable 2025 target.
- All of the Group's airlines have platforms to offset or mitigate passenger flight emissions over time.
- British Airways and Iberia have loans linked to 2025 carbon intensity targets.
- Embedded climate impacts into the financial statements, balance sheet and other relevant disclosures.
- British Airways customer proposition for carbon renewal credits on BA.com which uniquely offers offsets, removals or SAF.
- IAG investment in SAF with operating companies securing deals in 2022.
- Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.
- EcoVadis partnership with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.
- Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.
- Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes.
- Horizon scanning of potential partners and technology.
- Engagement across UK, EU and global trade associations to shape effective climate policy and drive support for low-carbon solutions.

Business and operational

6 Cyber attack and data security

Group CIO

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The threat of ransomware attacks on critical infrastructure and services has increased as a result of the war in Ukraine and the potential for state-sponsored cyber attacks. The Group continues to focus its efforts on appropriate monitoring to mitigate the risk.

The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. The Group airlines are subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).

Investment in cyber security systems and controls continues as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to a Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the cloud across the Group's airlines will further help to improve the security controls environment. As the Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.

Risk description

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.

If the Group does not adequately protect customer and employee data, it could breach regulations and face penalties and loss of customer trust.

Changes in working practices and environments for the Group's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.

Strategic relevance

- The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.
- The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews its own cyber projects at least quarterly.
- The IAG Chief Information Security Officer provides assurance and expertise around strategy, policy, training and security operations for the Group.
- Detection tools and monitoring are in place. The Group-wide security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the Group's defences.
- External attack surface monitoring and threat intelligence is used to analyse cyber risks to the Group.
- External benchmarking on cyber posture.
- There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure, and regulations are adhered to.
- Data Protection Officers are in place in all operating companies, coordinated through a Group-wide Privacy Steering Group.
- Working practices are reviewed to ensure the integrity of the cyber and data security.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.
- Security architecture team embedded into Datacentre migrations programmes.
- Desktop exercises to test business response plans have been held across the Group airlines during the year.

Business and operational

7 IT systems and IT infrastructure

Group CIO
Chief Transformation Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The Group recognises the importance of technology to business transformation and growth. The Chief Information Officer (CIO) works with the Chief Transformation Officer (CTO) to ensure appropriate prioritisation and investment in the Group's transformation. Both are members of the IAG Management Committee.

The Group has reviewed its IT operating model and has moved more resources into product teams more closely aligned to business needs. All of the Group's businesses have a Chief Digital and Information Officer (CDIO) who represents their business within IAG Tech. This has strengthened IAG Tech's focus on supporting the transformation of the Group's legacy estates to deliver digital customer experiences. The IAG Tech Management Committee governance structure is mirrored across into the Group's businesses to ensure that IT investment and operating company requirements are appropriately prioritised and delivered.

The Group is reliant upon the resilience of its systems and networks for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. The Group is currently engaged in a number of major programmes to modernise and upgrade its IT systems, digital capability, customer propositions and core IT infrastructure and network where required. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans. Operational outages are tracked and root causes identified to help minimise any impact to our customers and operations.

Risk description

The dependency on IT systems and networks for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.

The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed.

Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation.

Technology disruptors may use tools to position themselves between our brands and our customers.

Strategic relevance

- IAG is dependent on IT systems for most key business processes. Increasingly, the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure, e.g. airport baggage operators.
- Competitors and new entrants to the travel market may use digital tools and technology more effectively and disrupt the Group's business model.

Mitigations

- IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.
- Operating companies' IT boards are in place to review delivery timelines.
- IAG Tech leadership and professional development framework.
- Reversion plans are developed for migrations on critical IT infrastructure.
- System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
- Robust portfolio process to determine the right investments across the Group.
- IAG Tech CIO and MC have strategic relationships with all critical IT suppliers and oversight of all critical IT contracts across the Group's businesses.
- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.
- IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

Business and operational

8 Operational resilience	Strategic priorities	Stakeholder impact	Risk trend 2022	2021	Viability scenario
Chief Strategy Officer Operating company CEOs	1 2 3				V

Status The COVID-19 pandemic resulted in an unprecedented level of disruption to the aviation sector and changed the Group's perspective on how resilient it needed to be to withstand severe unexpected stresses. Potential high-impact, low-likelihood events have been considered that could have the potential to disrupt IAG and/or the aviation sector. Many of these events remain outside the Group's control such as adverse weather, another pandemic, civil unrest or a terrorist event seen in cities served by the Group's airlines.

The Group is reliant on critical third parties for services and goods, many of which have been impacted by resourcing challenges, inflation and supply chain disruption. Ongoing labour shortages, threat of strike action in the aviation sector and staff sickness have impacted the operational environment of the Group's airlines as well as the operations of the businesses on which the Group relies. Many of these events can occur within a close timeframe and challenge operational resilience. In addition, the Group has significant IT infrastructure changes to complete which could impact operations. The Group is focused on minimising any unplanned outages or disruption to customers with additional resilience built into the airlines' networks.

Risk description

An event causing significant network disruption or the inability to promptly recover from short-term disruptions may result in lost revenue, customer disruption and additional costs to the Group.

Public health concerns impacting populations at scale could see an adverse effect on the Group where governments choose to impose restrictions, as would any future pandemic outbreak or other material event impacting operations or customers' ability to travel.

The Group's airlines may not be able to resource their operations sufficiently resulting in impacts to customers and brands.

The Group's airlines are reliant on critical third parties to deliver services and any failure of the level of service may impact operational resilience and our customers.

Strategic relevance

- The Group's airlines may be disrupted by a number of different events.
- A single prolonged event, or a series of events in close succession, impact on the Group airlines' operational capability, financial status and brand strength.
- The Group needs to adhere to local governments' restrictions and regulations especially related to safety and public health and is therefore sensitive to any consequential impact on demand.

Mitigations

- Management has business continuity plans to mitigate this risk to the extent feasible, with focus on operational and financial resilience and customer and colleague safety and recovery.
- Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.
- All of the Group's airlines are focused on developing customer disruption management tools to help our customers in times of disruption.

Business and operational

9 People, culture and employee relations

Chief People, Corporate Affairs and Sustainability Officer
Operating company CEOs

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The resilience and engagement of our people and leaders are critical to achieving our transformation plans. Our people are a critical enabler of the Group's future success. Our leadership recognises the efforts of our staff and their resilience and commitment supporting the ramp up of operations. Resource shortages and the timelines to secure resource, particularly in the UK and Ireland, impacted operational readiness and resilience. The Group is focused on measures to attract and secure flight and ground staff into its airlines to enable them to fulfil their schedules and maintain competitiveness.

The Group is focused on staff well-being and people morale and motivation, including supporting agile and hybrid working models. Welfare support schemes are in place to support the Group's staff, and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. All operating companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description

Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.

Our people are not engaged, or they do not display the required leadership behaviours.

The Group businesses fail to attract, motivate, retain or develop our people to deliver service and brand experience.

Critical skillsets are not in place to execute on the required transformation and drive the business forward.

If the Group's airlines cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.

Strategic relevance

- The Group has a large unionised workforce with around 89% of colleagues represented by a number of different trade unions under collective bargaining agreements. IAG relies on the successful agreement of collective bargaining arrangements across its operating companies to operate its airlines.
- The right skillsets and culture are needed to transform our businesses at the pace required.
- The Group's airlines require specialist skillsets to continue to operate.

Mitigations

- Ongoing information sharing, consultation and collective bargaining with unions across the Group take place on a regular basis led by operating companies' human resources specialists, who have a strong skillset in industrial relations.
- Ensuring that remuneration is aligned to local markets in terms of productivity and pay.
- Operating companies' people strategies are in place in our businesses.
- Succession planning within and across operating companies has been reviewed by the IAG Management Committee and Board and a consistent process is being implemented across the Group.
- Focus on recruiting and developing skills to run and transform our business.
- Operating companies' engagement and organisational health surveys have been conducted with subsequent action plans developed to create a positive and inclusive culture.
- Access to support individuals' well-being.
- IAG Code of Conduct is supported by annual awareness programmes and mandatory training for all of our staff.

Business and operational

10 Safety or security incident Operating company CEOs	Strategic priorities	Stakeholder impact	Risk trend 2022	2021
	1 2 3			

Status The Group's airlines were focused on a safe return to operations in the year. As capacity increased, British Airways focused on recruiting, onboarding training new cabin crew and ground colleagues, with appropriate training to build their skills and knowledge.

The IAG Safety, Environment and Corporate Responsibility (SECR) Committee of the Board and the Board of each operating company continued to monitor the safety performance of IAG's airlines. Safety and security responsibility lies with each Group airline in accordance with its applicable standards. Further detail is provided in the SECR Committee report.

Risk description

A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact the Group's brands, operations and financial performance.

Strategic relevance

- The safety and security of our customers and employees are fundamental values for the Group.

Mitigations

- The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.
- The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.
- There is ongoing security engagement with airports, regulators and public authorities across the airlines' networks.
- Incident centres respond in a structured way in the event of a safety or security incident or intelligence.

Business and operational

11 Transformation and change

Chief Transformation Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3			NEW	V

Status The Group has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives across the Group focussed on improving customer service, revenue and cash efficiency. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board.

Risk description

Failure to transform the business to effectively deliver cost efficiency initiatives, maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions.

The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.

The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.

Further standardisation, simplification and efficiencies of the Group platforms are not delivered.

Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of the Group.

The Group focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.

Strategic relevance

- The transformation agenda is critical to the Group's ability to deliver strong returns, compete in the new competitive marketplace, where distortionary effects of aviation support schemes may have allowed competitors to accelerate their change agendas and invest to improve capabilities and customer propositions.

Mitigations

- The Chief Transformation Officer has clear oversight of all programmes acrosss the Group's businesses.
- Mirrored structures in the operating companies.
- Consistent core metrics and dashboard reporting used to assess performance against plan.
- The IAG Management Committee has regular operating company-specific meetings to assess their transformation agenda and the risks to delivery.
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.
- There is operating company-led communications to our employees on change initiatives and changes that may affect them.
- Consideration is given to the Group's sustainability commitments and agenda for all programmes.
- Any potential changes that could impact the brand are reviewed to mitigate against brand damage.

Financial risk including tax

12 Debt funding

Chief Financial Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	2021	Viability scenario
1 2 3				V

Status Access to the unsecured debt markets may be restricted for sub investment-grade organisations, which may reduce the external funding options available to the Group for new aircraft financing or where it chooses to re-finance upcoming maturities. The Group successfully raised financing for all its aircraft deliveries during 2022, using normal long-term aircraft financing arrangements. Rising interest rates also increase the debt servicing cost for floating rate debt and new debt arrangements. As at December 31, 2022 approximately one quarter of the Group's debt was floating rate.

See Financial review section

Risk description

Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.

New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.

Higher interest rates in the market for new finance arrangements or re-financing may impact the Group's cost base.

Strategic relevance

- The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions, financial institutions' appetite for secured aircraft financing and the financial market's perceptions of the future resilience and cash flows of the Group.

Mitigations

- The IAG Board and Management Committee review the Group's financial position and financing strategy regularly.
- The Group has maintained clear focus on protecting liquidity with c.€14bn of liquidity at 31 December 2022.
- During 2022, the Group extended the availability of its $1.755 billion revolving credit facility by one year to March 2025.
- Maintain strong relationship with banks, lenders and lessors.
- Scenario planning for different financial environments.

Financial risk including tax

13 Financial and treasury-related risk

Chief Financial Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1, 2, 3		=	=	V

Status Fuel cost increases have been partly mitigated by the Group's fuel hedging policy. Access to fuel hedging instruments or the ability to pass increased fuel costs on to consumers could impact the Group's profits. The Group continues to assess the strength of the US dollar against the euro and pound sterling and the potential impacts on the Group's operating results. All airlines hedge in line with the Group hedging policy.

The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography continue to be assessed to ensure the Group responds to the rapidly changing financial environment appropriately. Details are set out in the Group financial statements.

Risk description

Failure to manage the volatility in the price of oil and petroleum products.

Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airlines' local currencies of euro and sterling.

Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.

Failure to manage the financial counterparties' credit exposure arising from cash investments and derivatives trading.

Strategic relevance

- The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.
- The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.
- The volatility in floating interest rates can have a material impact on the Group's operating results.
- The Group is exposed to non-performance of financial contracts that may result in financial losses.

Mitigations

- Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.
- All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.
- The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.
- Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.
- All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.
- The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments.
- The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis.
- The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts. Any position outside of policy limits has to be approved by the IAG Audit and Compliance Committee.

Financial risk including tax

14 Tax Chief Financial Officer	Strategic priorities	Stakeholder impact	Risk trend 2022	2021
	1 2 3			

Status Tax is managed in accordance with the Tax Strategy, found in the Corporate Policies section of the IAG website. Further information about taxes paid and collected by IAG is set out in note 10 of the Group financial statements.

Risk description

The Group is exposed to systemic tax risks arising from either changes to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation.

Businesses and consumers may be subject to higher levels of taxation as governments seek to increase environmental taxes, redesign the global tax framework and recover the national debts arising from COVID-19 pandemic support measures.

The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.

Strategic relevance

- Payment of tax is a legal obligation. Changes in the tax regulatory environment, including changes in tax rates, may result in additional tax costs for the Group and in additional complexity in complying with such changes. The Group's tax strategy aims to balance the needs of our key stakeholders, recognising that tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates.

Mitigations

- The Group adheres to the tax policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities.
- Tax risk is managed by the operating companies in conjunction with the IAG Tax function.
- Tax risk is overseen by the Board through the Audit and Compliance Committee.
- The Group seeks to understand its stakeholders' expectations on tax matters, e.g. cooperative working with tax authorities and its interaction with non-governmental organisations.
- The IAG Board annually reviews the tax strategy.

Compliance and regulatory

15 Group governance structure

General Counsel

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021
1 2 3			

Status The aviation industry continues to operate under a range of nationality and other restrictions, some of which are relevant to market access under applicable bi-lateral and multi-lateral air service agreements, while some are relevant to eligibility for applicable operating licences. The Group will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

See Corporate governance section

Risk description

IAG could face a challenge to its ownership and control structure.

Strategic relevance

- Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences, an EU airline must be majority-owned and effectively controlled by EU nationals. British Airways is a UK carrier and not subject to the same requirement.

Mitigations

- The Group has governance structures in place that include nationality structures to protect Aer Lingus', British Airways' and Iberia's operating licences and/or route rights. These have been approved by the relevant national regulators.
- IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

16 Non-compliance with key regulation and laws

General Counsel

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021
1 2 3			

Status The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year. For safety- and security-related regulatory risks, please refer to the 'Safety and Security Incident' risk.

Risk description

The Group is exposed to the risk of an individual employee's or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.

Strategic relevance

- Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.

Mitigations

- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance monitored by the IAG Audit and Compliance Committee.
- There are mandatory training programmes in place to educate employees as required for their roles in these matters.
- Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.
- IAG Code of Conduct is supported by annual awareness programmes and mandatory training for all of our staff.
- Data Protection Officers are in place in all operating companies.

Viability assessment

Risk assessment across the timeline of the plan

The directors have assessed key threats and trends faced by the industry, emerging risks and opportunities, as well as other industry and Group-specific risks that could impact the Group's business plan:

- These are considered in light of their impact on our business model and relevance, operations, customers, financial status and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities, technology trends, environmental implications and infrastructure developments that could impact our operations, as well as more existential threats to aviation.
- When developing the Group's three-year business plan, longer-term considerations have been assessed by the Management Committee and the Board in conjunction with the priorities of and risks faced by the business.
- The Board has also conducted its annual strategy session in addition to progress reviews during the year. Following this process, short-, medium- and longer-term priorities, challenges and opportunities have been identified and actions agreed.

Scenarios modelled

The Group undertakes extensive analysis, forecasting and scenario modelling throughout the year. Stresses reflect specifics to markets and regions relevant to the Group's airlines as well as the analysis completed at the Group level.

When considering the viability of the Group, the directors evaluated the risk landscape and recommended the following plausible but severe downside scenarios.

1. Downside case

2 4 8 12 13

2. Business transformation and operational resilience

1 2 3 5 8 9 11

3. Cyber security and IT infrastructure

6 7 8

4. Sustainability

5

Full details of modelled scenarios provided on the next page

Link to Principal risks

Longer-term trends and risk considerations

The directors have assessed industry, Group-specific and non sector-specific longer-term trends over a timeframe beyond the plan period, such as climate change regulation, infrastructure proposals at hubs, availability and timing of technologies in fleet that will benefit the environment, move to and exploitation of the cloud and disruptive innovation. This may require the business to consider strategic responses, plans to adapt and require new skillsets to implement ahead of any potential impact to the Group plan.

- Other considerations include:
  - economic trends and shifts in the relative strengths of global economies including market dynamics and inflation, the competitive landscape and changes in customer behaviours or sentiment to travel
  - supply chains and connectivity, movement of physical goods, inflationary and availability pressures on key suppliers
  - costs of compliance to environmental and climate change regulations and/or lack of availability of infrastructure within countries to meet commitments or government mandates
  - areas of risk or opportunity for the Group, such as workforce availability, war for talent, diversity and inclusion ambitions, hybrid ways of working and different career expectations from new joiners into workforces and the aviation industry
  - structural changes in how customers travel and the potential macroeconomic consequences of rising unemployment and inflation
  - the potential longer-term economic impact of Brexit
  - the Group's resilience to future events impacting aviation or global markets, financial markets, interest rates and exchange rates, particularly the US dollar
  - stakeholder expectations over commitment to acting with integrity to protect our planet, particularly climate change and carbon impacts

Management has assessed and the Board considered the longer-term sustainability and climate risks, applying scenario analysis techniques as set out by the TCFD process. Further details can be found in the Sustainability report.

Viability scenario process

When considering the viability of the Group, for the purposes of this report, the directors have evaluated the risk landscape facing the Group and recommended plausible but severe downside scenarios that could impact the Group's refreshed three-year plan to determine the Group's resilience to such impacts. The results of these scenarios on the plan have been presented both pre and post an assessment of the likely effectiveness of the mitigations that management reasonably believes would be available over this period (and not already reflected in the plan).

- The scenarios have been defined by management and designed to consider principal risks that could materialise over the viability period and weaken the Group's liquidity position, and therefore its financial sustainability. Each scenario considered the impact on liquidity, solvency and the ability to raise financing in an uncertain and volatile environment.
- Management has also assessed mitigations that are available to the business beyond operating cost reductions including further financing, capital expenditure plans and potential disposals. Options that may not have been previously considered are presented as appropriate to the Board to assess. In reviewing and approving the scenarios, the Board considered, amongst other matters, the availability and sufficiency of potential mitigations, the expected speed of implementation in response to the uncertainty and the future flexibility required for the Group to adapt further as needed.
- Sensitivities in the scenarios' assumptions have been highlighted by management and challenged by the Board. In addition, the Board reviewed the results of capacity and margin reverse stress tests, which demonstrated the level of sustained capacity reductions, with losses capped as experienced through the pandemic and losses followed by margin decline (before mitigations) that would result in the Group using all available liquidity (including cash and currently available undrawn credit facilities) and compared this to the outputs from the scenarios.

Scenarios modelled

No.	Title	Link to principal risks
1	**Downside case**	
	Downside case stressing the plan models a combination of risks facing the Group, including risks to economies following the pandemic and as a result of the war in Ukraine. Scenario configures a blend of commercial and operational adverse impacts which would result in capacity reductions over and above the Group's business plan assumptions. In addition, a more severe downside case with increased sensitivities, including increased fuel prices, has also been considered. Economic considerations include demand impact from global economic pressures resulting in reduced revenues, and increased operating costs due to inflationary pressures. Operational considerations factor in operational disruption as a result of airport capacity, resourcing issues or strike action; and further schedule disruption as a result of severe weather, winter resourcing or other operational issues. Reduction in capacity modelled from these considerations further impacts the Group's revenues. The Downside case assumes that €350 million of the €3.3 billion of available general credit facilities are required to be drawn, assuming no further mitigating actions. As part of the modelling, consideration was given to some of the key factors that could influence the evolution of cash in the Downside case. Cost mitigations were considered across all operating cost lines, including the sensitivity to cost variability being lower than that assumed. Fuel was modelled directly, based on fuel curves and hedging plans. Working capital and capital expenditure adjustments were applied within the scenarios. The scenarios assume that the Group is able to continue to secure financing for future aircraft deliveries, having successfully financed all aircraft deliveries during 2020, 2021 and 2022 and, in addition, has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience. The Group has considered the acquisition of Air Europa Holdings for the purposes of the viability assessment. The period to June 2024 of this Downside case has also been applied as the Downside case set out in the going concern analysis (see note 2 of the Group financial statements).	**2, 4, 8, 12, 13**
2	**Business transformation and operational resilience**	
	Potential for lost revenue impact arising from delays in delivering and realising the benefits of business transformation initiatives and increased costs of securing required resourcing levels. Lost revenue within some IAG airlines from pre-emptive flight cancellations with resultant reputational impact in response to resourcing challenges. Increased staff attrition and industrial relations strike action across IAG airlines due to nature and pace of business transformation plans increases costs and impacts revenues. Further revenue impact considered from reduced capacity as a result of airport capacity and air traffic control airspace restrictions.	**1, 2, 3, 5, 8, 9, 11**
3	**Cyber security and IT infrastructure**	
	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period of one week resulting from the attack before full connectivity is restored, impacting customers and operations of the affected airline. It also assumes lost revenue due to disruption of operations at the affected airline with knock-on impacts to other IAG airlines due to need to isolate and switch off connectivity of Group shared credentials platforms. There are also further lost revenues due to reputational impact and increased EU 261 costs. Associated costs of recovering from the incident include the disruption through the investigation period including increased IT costs as well as brand impacts, and the potential for regulatory scrutiny and fines. In addition, the scenario considers an unplanned outage owing to data centre migration activity resulting in short notice flight cancellations causing further lost revenue and increased EU 261 costs.	**6, 7, 8**
4	**Sustainability**	
	An increasing revenue stress on shorthaul operations across the Group to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). Transatlantic revenues below plan expectations also modelled to reflect a potential long-term change in corporate business travel behaviours. Revenue impact from schedule disruption due to extreme weather events also considered within the scenario alongside increased costs from new taxes and additional fuel costs in years 2 and 3 due to biofuels mandate. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the implementation of new regulatory policy, carbon costs and the cost and availability of Sustainable Aviation Fuel are also subject to assessment and modelling by the Group.	**5**

Viability statement

The directors have assessed the viability of the Group over three years to December 2025. They have considered the post pandemic global macro-economic environment and uncertainty, the health of the aviation industry and its supply chain, the assumptions of the plan, the strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the directors have determined that a three-year period is an appropriate timeframe for assessment as it is aligned with the Group's strategic planning period (as reflected in the plan) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and continue to drive change in the external risk environment. The Board recognises the pace of change required within the Group to further adapt and respond to this environment in addition to the rapidly changing competitive landscape and wider global macroeconomic conditions.

The Group has modelled the impact of mitigating actions to offset further deterioration in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Further details on debt financing can be found in the Going Concern disclosures in note 2 of the Group financial statements.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2025. However, this is subject to a number of significant factors that are outside of the control of the Group. In reaching this assessment the directors have made the following assumptions when considering both the plan and the Downside case (the most severe and plausible of the viability scenarios considered):

- the Group will continue to have access to funding options and that the capital markets retain a level of stability and appetite for funding within the aviation sector;
- the Group can implement any further structural changes required in agreement with any union consultation processes and regulatory approvals;
- future COVID-19 pandemic or other public health related restrictions do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;
- any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

In the event of another risk scenario resulting in an adverse liquidity impact in excess of the Downside case and other stresses it has considered, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is forecast at February 23, 2023.

ANNUAL CORPORATE GOVERNANCE REPORT AND DIRECTORS REMUNERATION REPORT

The 2022 annual corporate governance and directors' remuneration reports of International Consolidated Airlines Group, S.A., prepared according to Circular 3/2021, of September 28, of the Spanish National Stock Exchange Commission are part of this Management Report and, from the date of the publication of the 2022 Financial Statements, are available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

KPMG Asesores S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on the Consolidated Non-Financial Information Statement of International Consolidated Airlines Group, S.A. and subsidiaries for 2022

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

Pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review of the Consolidated Non-Financial Information Statement (hereinafter NFIS) of International Consolidated Airlines Group, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) for the year ended 31 December 2022, which forms part of the accompanying consolidated Directors' Report of the Group for 2022.

The consolidated Directors' Report includes additional information to that required by prevailing mercantile legislation concerning non-financial information, which has not been the subject of our assurance work. In this respect, our work was limited exclusively to providing assurance on the information contained in the "Table of contents" of the accompanying consolidated Directors' Report.

Directors' Responsibility

The Directors of the Parent are responsible for the content and authorisation for issue of the NFIS included in the Group's consolidated Directors' Report. The NFIS has been prepared in accordance with prevailing mercantile legislation and selected Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) based on each subject area in the "Table of contents" of the aforementioned consolidated Directors' Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFIS is free from material misstatement, whether due to fraud or error.

The Directors of the Parent are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS was obtained.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies prevailing international quality standards and accordingly maintains a quality system including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, which refers exclusively to 2022. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management, as well as of the different units and areas of the Parent that participated in the preparation of the NFIS, reviewing the processes for compiling and validating the information presented in the NFIS and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with the Parent's personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these matters and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the NFIS for 2022 based on the materiality analysis performed by the Parent and described in the "Our material issues and initiatives" and "Sustainability strategy" sections, considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFIS for 2022.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFIS for 2022.
- Corroboration, through sample testing, of the information relative to the content of the NFIS for 2022 and whether it has been adequately compiled based on data provided by the information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the NFIS of International Consolidated Airlines Group, S.A. and subsidiaries for the year ended 31 December 2022 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in the "Table of contents" of the aforementioned consolidated Directors' Report.

Emphasis of Matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment stipulates the obligation to disclose information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable in relation to climate change mitigation and climate change adaptation. This obligation applies for the first time for the 2022 fiscal year, in addition to the information related to eligible activities required in 2021. Consequently, the attached NFIS does not contain comparative information on alignment. Additionally, certain information has been included in respect of which the Directors of the Parent have opted to apply the criteria that, in their opinion, best allow them to comply with the new obligation, and which are those defined in section "Description of EU Taxonomy and 2022 related activities" in the accompanying NFIS. Our conclusion is not modified in respect of this matter.

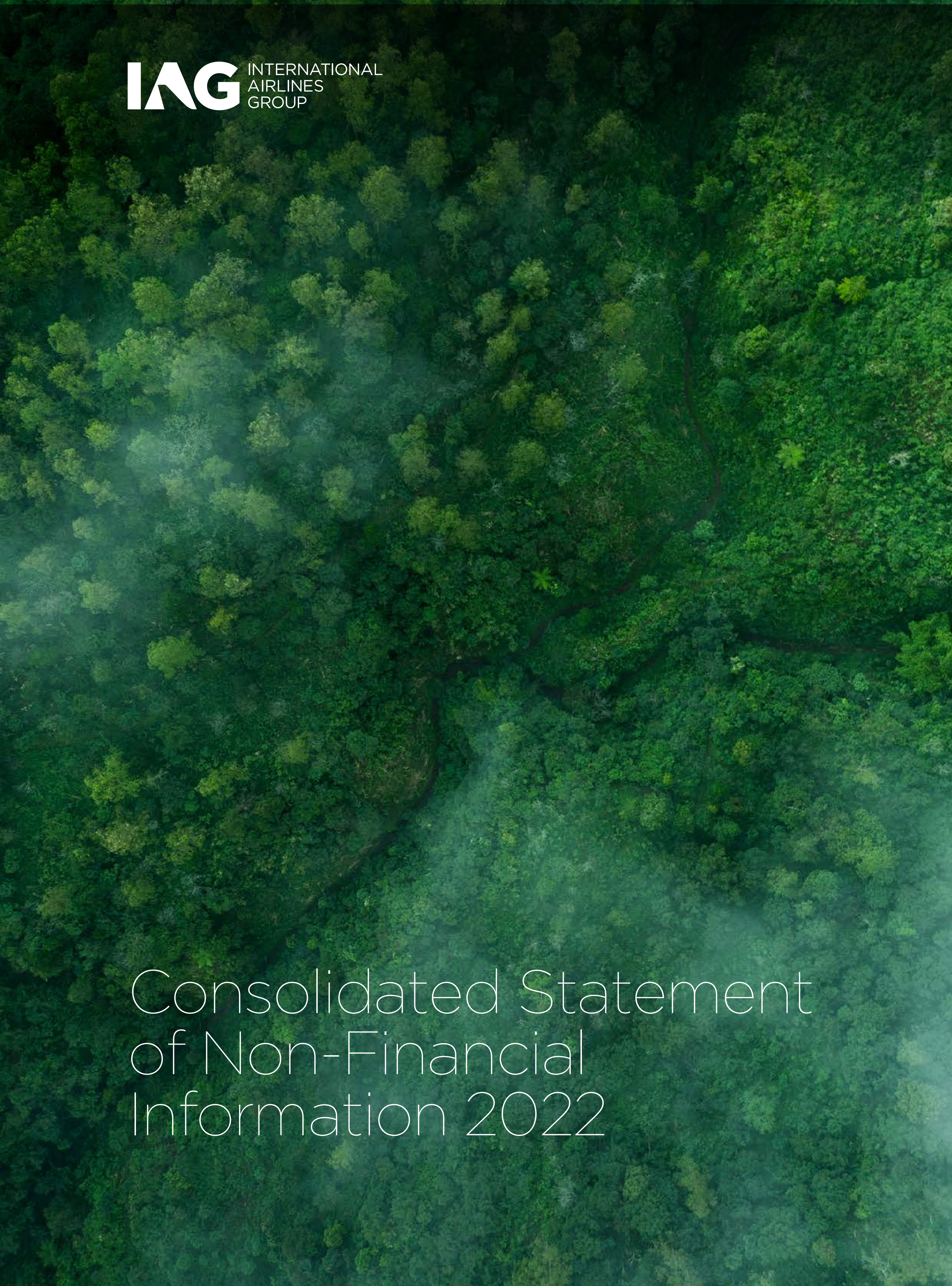
Use and Distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

Marta Contreras Hernandez

1 March 2023



INTERNATIONAL AIRLINES GROUP

Consolidated Statement of Non-Financial Information 2022

Consolidated Statement of Non-Financial Information

The present statement was prepared to comply with the requirements of Spanish Law 11/2018, of December 28, 2018 on non-financial information and diversity (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), and forms part of the Group's Management Report. The title of this statement complies with the UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, SI 2022/31.

International Consolidated Airlines Group (IAG) provides information about environmental, social, employee-related, and human rights-related issues, which is relevant to the Company and important for the execution of business activities. All information except the Additional Disclosures section is also in the IAG Annual Report and Accounts. Key changes in the scope of this NFIS versus last year are restructured climate change disclosures and reporting aligned spend for the EU Taxonomy.

This statement contains the following sections:

We deliver for our stakeholders and society

Who we are

We are an international airline group, with leading airlines in Spain, the UK and Ireland, and a series of best-in-class non-airline businesses within our central platform that drive efficiency and create additional sources of revenue for IAG. Our purpose in the world is to connect people, businesses and countries, and we hold **innovation**, **commitment**, **care for people**, **responsibility**, **pragmatism**, **execution**, **ambition** and **resilience** as key values that enable us to fulfil our purpose.

We have a portfolio of world-class brands and operations

Airline operating companies

Non-airline businesses and central platform

IAG Loyalty

avios

IAG Cargo

IAG GBS

IAG Tech

For more information see the operating companies' sections

Our stakeholders

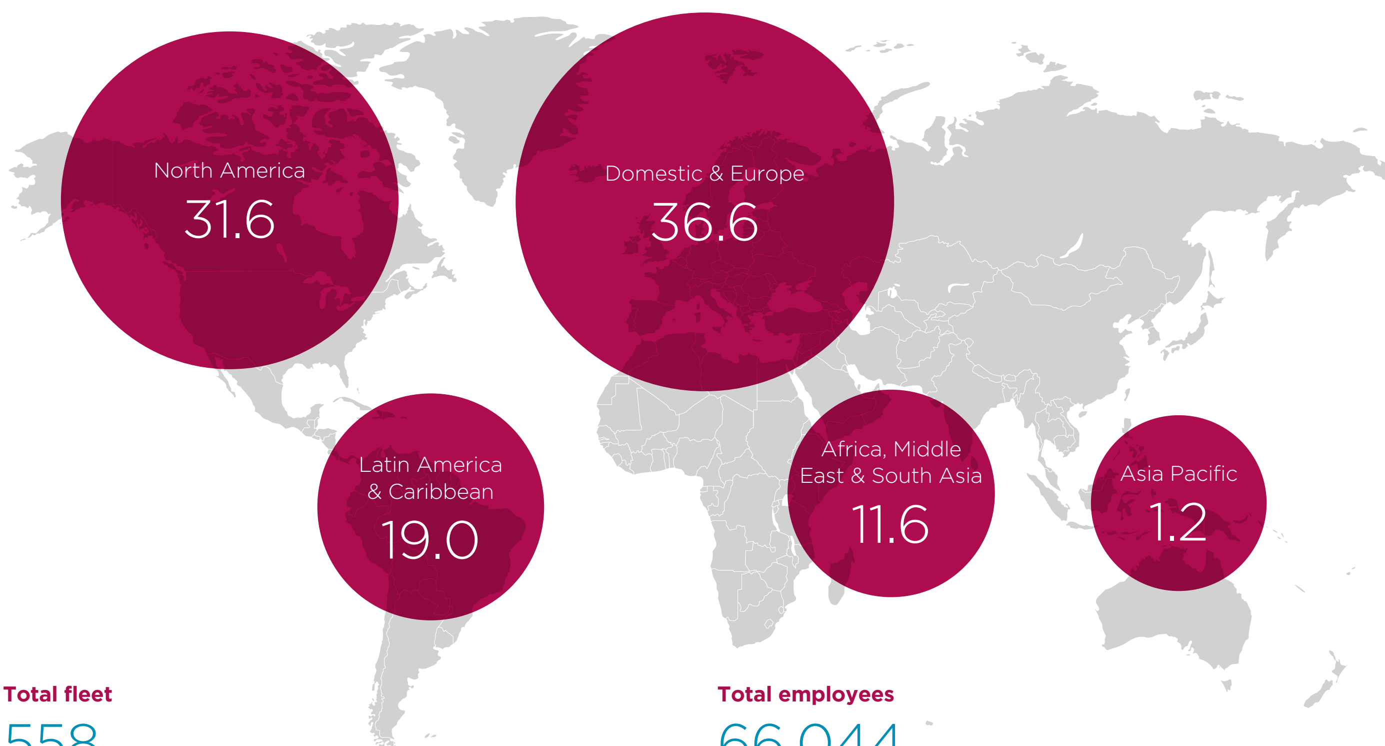
IAG has the aim to be a force for good where we operate and, in doing so, create value for all our stakeholders. This starts with fostering a culture that makes our employees feel valued, focusing on diversity and inclusion and providing our employees with options to develop within the Group. Our employees play a critical role in delivering the service our customers expect, which is in turn the main driver of the Group's ability to create value for all our stakeholders. Our shareholders, lenders and other financial stakeholders, and the broader capital markets are also essential in supporting us in the delivery of our purpose, business plans and strategy. In addition to our employees, customers, lenders and shareholders, collaboration with the broader industry, including our suppliers and regulators, is key to ensuring that we maintain the high standards our customers expect and that policy makers understand the impact of their decisions on our businesses and customers.

For more information see the Stakeholder engagement section

- Customers
- Employees
- Suppliers
- Shareholders, lenders and other financial stakeholders
- Governments and regulators

Where we operate

ASKs (% of IAG 2022 network)



Total fleet
558

Total employees
66,044

We are committed to sustainable aviation

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

For more information see the Sustainability section

Our purpose is fulfilled with a unique model

We were formed with a model based around consolidation, synergy capture, leadership in our core markets and financial performance.

Our operating model

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

Principles

Operating companies' execution and accountability

Light structure at the centre for central functions and intra-Group coordination

Central execution only where it provides additional value

Corporate parent

Sets long-term strategy for the Group

Defines portfolio, M&A and partnerships

Sets targets, coordinates transformation plans across IAG and oversees performance

Allocates capital and secures funding

Drives ESG agenda for the Group

Manages investor relations

Facilitates best practice sharing

Defines, drives and monitors response to external shocks

Airline operating companies

Define and execute commercial strategy, network strategy and planning

Ensure operational efficiency

Define product strategy for target customer segments

Deep understanding of customer and competitive environment

Standalone profit centres and independent credit identities

Individual brands, cultural identities and management teams

Central platform

Provides common services and allow the Group's operations to benefit from scale and world-class expertise

For more information see the operating companies' pages

The Group has a unique business model within the airline industry, based on a light structure at the centre, agile, empowered and focused airline operating companies accountable for their results, and a central platform providing a competitive advantage to our airlines through scale and world-class expertise.

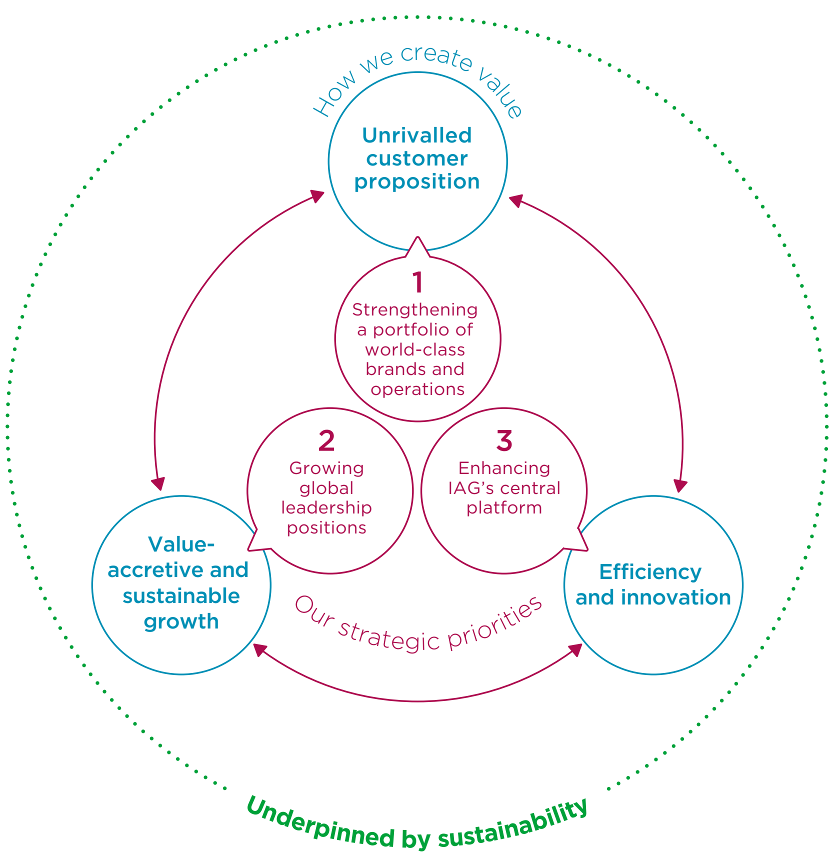
IAG, as the parent company, actively engages and works collaboratively with its portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies and value to the Group. Its independence from the operating companies enables IAG to implement a long-term strategy for the Group that is aligned with our purpose and values, as well as set performance targets for the operating companies, track their progress and efficiently allocate capital within the Group. Our model also allows the Group to more effectively take part in industry consolidation, with IAG ensuring inorganic options are aligned with our strategy and providing a central platform to the benefit of new operating companies joining the Group.

The operating companies, with their different brand identities and customised business models, are in turn empowered to execute their strategies and are fully accountable for their financial results. The Group's structure allows our brands to focus their efforts on their addressable markets, customer proposition, cultural identities, commercial strategy and their industrial relations, while its scale supports innovation and investment in new products and services to enhance our operating companies' customer experience.

The airline portfolio sits on the Group's central platform, which drives efficiency and simplicity across the operating companies whilst creating additional sources of revenues for IAG. The IAG central platform allows the Group to be at the forefront of innovation and sustainability in the airline industry, supporting and scaling top emerging technologies in travel and aviation.

Our strategic priorities to create sustainable value

Our strategic priorities



Tracking our performance

We use a combination of financial and non-financial metrics to measure the performance and progress of our strategy:

Financial KPIs: see the Key performance indicators section

Employees: see the Sustainability section

Customer NPS: see the Key performance indicators section

Environment: see the Sustainability section

How we create value

Unrivalled customer proposition

- Ensure our operating companies collectively deliver an unrivalled proposition able to fulfil customers' needs across the full spectrum of travel occasions
- Lead industry consolidation and develop organic options to differentiate the Group from its competitors and ensure customer demands are met
- Deepen customer-centricity to win a disproportionate share in each customer segment

Value-accretive and sustainable growth

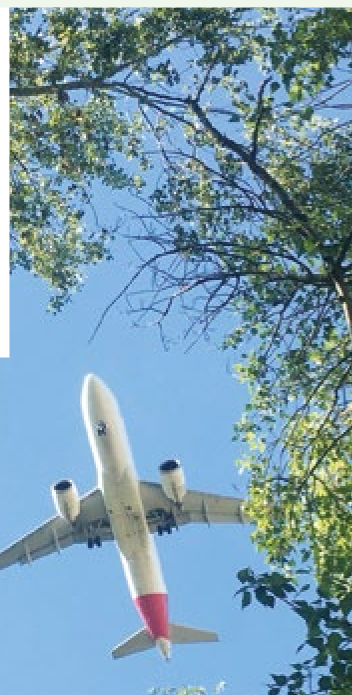
- Pursue value-accretive organic and inorganic growth to reinforce existing or pursue new leadership positions in our priority markets
- Attract and develop the best people in the industry
- Set the industry standard for environmental and societal stewardship, whilst always prioritising the safety and security of our customers and employees

Efficiency and innovation

- Reduce costs and improve efficiency by leveraging Group scale and synergy opportunities
- Engage in Group-wide innovation and digital mindset to enhance productivity and best serve our customers
- Promote a culture of high operational efficiency throughout our portfolio of operating companies, and leverage the platform to drive synergies and reduce costs

Sustainability supporting our purpose

Contents of this section



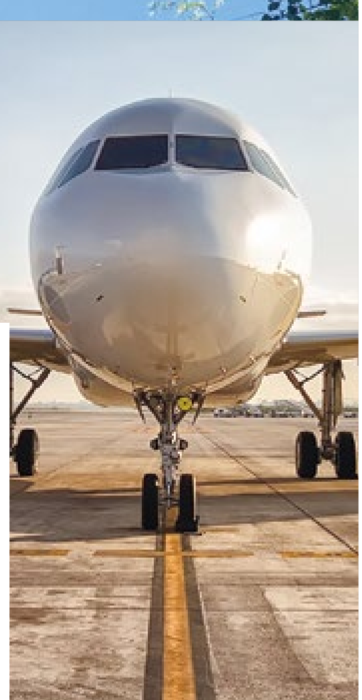
A. Planet

TCFD summary, transition plan, metrics and progress, emissions reduction initiatives, scenario analysis, risks and opportunities, stakeholder engagement

Waste, noise and air quality

B. People and Prosperity

Key metrics, health, safety and well-being, human rights and modern slavery, community engagement and charitable support



C. Principles of governance

Sustainability strategy, governance frameworks, workforce governance, supply chain governance, ethics and integrity, ESG risk management, reporting and data governance, alignment with GRI and SASB standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement (NFIS) which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised) standards.

IAG's most material environmental metric – Scope 1 emissions – receives additional verification each year as part of the EU, Swiss and UK Emissions Trading Schemes (ETS) and international Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), within six months of the issuance of this report. Any material changes are restated in future reports.

Compliance with specific frameworks and standards is listed under relevant section headings and summarised in C.8. While IAG does not align with the Global Reporting Initiative (GRI) Core or GRI Comprehensive standards, it aligns with selected GRI standards based on compliance with Spanish Law 11/2018 and chooses to voluntarily align with other GRI standards on material issues.

Our vision

Is to be the world's leading airline group on sustainability.

Our strategy

Is to pursue nine sustainability leadership KPIs as listed in section C.1.

Our governance

Board-level oversight	IAG Management Committee oversight	Operating company oversight	Cross-Group alignment
Safety, Environment and Corporate Responsibility Audit and Compliance	Chief People, Corporate Affairs and Sustainability Officer (CPCASO)	Management committees oversee tailored sustainability programmes	Group sustainability team updates Group sustainability strategy

Our material issues and initiatives

IAG takes a holistic approach to sustainability[1].

A. Planet

Key material issues

- Reducing our climate impact
- Influencing policy

Key policies

- Environmental Sustainability Policy

Annual initiatives

- Flightpath Net Zero strategy
- Climate-related remuneration
- Policy advocacy for green solutions
- Leadership in trade associations

Key UN Sustainable Development Goals

3, 7, 9, 11, 12, 13

B. People and prosperity

Key material issues

- Engaging with employees
- Building a diverse, inclusive and equal workplace

Key policies

- Equity, Diversity and Inclusion (EDI) Policy
- Modern slavery and anti-trafficking statement

Annual initiatives

- Organizational Health Index (OHI) surveys
- EDI and engagement initiatives
- Community giving and fundraising
- Developing a social roadmap

Key UN Sustainable Development Goals

3, 4, 5, 8, 11, 13

C. Principles of governance

Key material issues

- Investing in the future
- Planning for climate-resilient operations
- Working with suppliers

Key policies

- Code of Conduct
- Supplier Code of Conduct
- Anti-bribery and corruption Policy
- Whistleblowing Policy
- Policy on disclosure of corporate information and engagement with shareholders

Annual initiatives

- Accelerator programme and ventures
- Supply Chain Sustainability Programme
- Task Force on Climate-related Financial Disclosures (TCFD) scenario analysis

Key UN Sustainable Development Goals

12, 13

Targets

2019 Target Baseline

2025

- 11% better carbon efficiency, to 80 gCO_2/pkm
- Comprehensive waste targets
- 10% lower noise per take off vs 2020
- 40% women in senior leadership roles

2030

- 10% Sustainable Aviation Fuel (SAF)
- 20% drop in net Scope 1 emissions, to 22 MT
- 20% drop in net Scope 3 emissions, to 6.6 MT

2050

- Net zero Scope 1, 2, and 3 emissions across our full operations and supply chain.
- Removals for any residual emissions

1 The above pillars align with World Economic Forum 'Measuring Stakeholder Capitalism' report in 2020. 'Running a profitable business' and 'Pleasing our customers' are material issues relevant to Prosperity which are covered in other sections of the NFIS.

Towards more sustainable journeys

Our sustainable products and services for customers help them to reduce their carbon emissions and support wider sustainability goals. We continue to trial new offers.

Pre-flight services at airports

- Renewable electricity in lounges[1]
- Vegan menus in lounges[2,3]
- Pre-ordering meal service to reduce food waste[3]

Ground transport at airports

- Trialling electric buses for passengers[2]
- Electric Mototoks to pull aircraft to runways[2,3]
- Trialling electric trucks[5]
- Renewable electricity to power aircraft on the ground[1]

On-board impacts

- Voluntary offsetting for customers using verified[6] offsets[1]
- Voluntary SAF for customers[2,4]
- Use of IAG-procured SAF[2]
- Vegan food[2,3]
- Recycling on-board[2,3,4]

1 All airlines. 2 British Airways. 3 Iberia. 4 Vueling. 5 IAG Cargo. 6 Gold-standard or Verra-accredited projects to ensure real carbon savings.

Planet highlights

CDP DISCLOSURE INSIGHT ACTION
A LIST 2022
CLIMATE

A prestigious award for our climate action

250,000 tonnes

of SAF secured for 2030, which is 25 per cent of our target volume

First

alcohol-to-jet SAF plant in the world, the LanzaJet Freedom Pines project, in a signed partnership with IAG

100%

of IAG airline senior executives have climate-related remuneration

12%

annual improvement in carbon efficiency, on track for our 2025 target

People and prosperity highlights

66,044

people employed across the Group in 79 countries

17%

increase in our workforce versus 2021

89%

of staff covered by collective bargaining agreements

34%

women in senior leadership roles

Governance highlights

6

meetings of the Board SECR committee

100%

of suppliers screened for sustainability risks

0

instances of modern slavery identified in our business or supply chain

74%

of suppliers, by spend, completed ESG scorecards

A.1. Planet – climate change

A.1.1. TCFD summary

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidance and first carried out TCFD-aligned scenario analysis in 2018. Descriptions of TCFD recommendations are on the TCFD website.

IAG has applied the TCFD Guidance for All Sectors to the disclosures in this report. Cross-references to relevant sections are below. An internal review of compliance with the 11 core TCFD recommendations identified no material gaps or material changes from last year.

Governance	**Strategy**	**Risk management**	**Metrics and targets**
			
Disclose the organisation's governance around climate-related risks and opportunities (a, b)	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material (a, b, c)	Disclose how the organisation identifies, assesses and manages climate-related risks (a, b, c)	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material (a, b, c)
Relevant disclosures in this report			
a. See C.2., C.6. b. See A.1.5, C.2., C.6., Risk management and principal risk factors section	a. See A.1.6. b. See A.1.6., C.6., Risk management and principal risk factors section c. See A.1.5.	a. See A.1.5., A.1.6., C.6., Risk management and principal risk factors section b. See above c. See above	a. See A.1.3., A.1.5., Report of Remuneration Committee b. See A.1.3., A.1.6. c. See Sustainability at a Glance, A.1.2., A.1.6.
Current activities			
Board oversight via SECR Committee and Audit and Compliance Committee; multiple layers of robust governance; 2021 materiality assessment still relevant and so not updated	Delivering against Flightpath Net Zero strategy and nine leadership KPIs; sustainability-linked loans for British Airways and Iberia; TCFD-aligned scenario analysis; one- and three-year financial and business plans integrate sustainability aspects; new sustainability contract clause for suppliers	Sustainable aviation risks are treated as a principal risk and regularly reviewed within Enterprise Risk Management (ERM) processes; risk disclosures received an 'A' rating from CDP	Clear metrics and targets for 2025, 2030 and 2050 (see 'At a Glance'); climate-related remuneration for senior executives and managers
Planned future activities			
Review assurance, repeating materiality assessment in 2024	Ramp up of SAF procurement, ongoing scenario analysis, reviewing guidance and evidence on pathways to support 1.5°C transition	More detailed work on risk impacts to 2030 and 2040, actions to maximise climate resilience, and risk mitigation KPIs	Delivery against existing targets, review 2030 targets in line with latest evidence on 1.5°C-aligned transitions

Leading our industry in SAF projects

What is Sustainable Aviation Fuel?

Sustainable Aviation Fuels (SAF) are chemically almost identical to kerosene.

The feedstocks for these fuels – currently waste materials such as used cooking oil, municipal waste or waste wood – absorb CO_2 in their growth cycle before this carbon is recycled into fuel and then consumed in the flight.

There are eight certified pathways to making SAF based on use of specific technologies. These processes are certified to international standards to ensure the fuels are safe to use. SAF can be used in existing aircraft and airport fuelling infrastructure.

IAG also ensures its SAF complies with strict sustainability certification schemes to ensure the feedstocks come from sustainable sources, and that the production processes conserve water and energy and have minimal wider impacts.

Key SAF projects – production dates

2023
- **LanzaJet** Georgia, USA
- **Neste** Finland; Singapore
- **Phillips 66** Humber, UK

2024
- **aemetis** California, USA

2025
- **LanzaTech** South Wales, UK

2026
- **Gevo** Minnesota, USA
- **Velocys** Mississippi, USA
- **LanzaJet/ NovaPangaea** Teesside, UK

2027
- **Velocys** Immingham, UK

2030

Role in IAG transition plan

SAF is a key solution in IAG's transition plan to net zero (Section A.1.2). It reduces carbon emissions on a greenhouse gas lifecycle basis and typically by 70 per cent or more compared with the fossil jet fuels it replaces.

IAG is on track to deliver a 100-fold increase in its SAF volumes between 2022 and 2030 and expects to use SAF for 70 per cent of total fuel in 2050.

In 2021, the Group set a target of using one million tonnes of SAF a year by 2030, dependent on appropriate government policy support, and this volume will save as much carbon as taking one million cars off the road a year. The Group has now secured 250,000 tonnes of SAF for 2030, committing US$865 million in SAF offtakes and investments.[1]

The Group has also made direct investments in new and innovative SAF production capacity, catalysing the wider development of the SAF market. These investments are typically coupled with SAF purchase agreements, which are critical to the financeability of the new SAF production capacity.

Group airlines will be taking delivery of 7,500 tonnes annually from the Lanzajet Freedom Pines facility once construction is completed towards the end of 2023.

1 Based on an assumed jet fuel price in 2030 of $900 per metric tonne and contracted margins for SAF production.

Planet spotlight: Sustainable Aviation Fuel in 2022

First alcohol-to-jet SAF plant
In October, the LanzaJet Freedom Pines plant in the US (see above) was the first SAF project in the world to receive a grant – of $50 million – from the Breakthrough Energy Catalyst Fund. IAG invested in this plant and will receive offtake when it is operational, which is expected to be the end of 2023.

First UK-produced commercial scale SAF
Across 2022, in partnership with the refining company Phillips 66, British Airways received the first UK-produced SAF on a commercial scale, which is manufactured using sustainable waste oils.

New SAF offers for customers
From June 2022, Vueling offered customers the option to fund SAF use on the day of their flight, via a partnership with Avikor. Over 50,000 passengers contributed, and Vueling matched their contributions, supplying over 50 tonnes of SAF at Barcelona and Madrid airports.

A.1.2. Transition plan

Overview

IAG is targeting net zero emissions by 2050 across its Scope 1, 2, and 3 emissions.

'Net zero' means any residual emissions from IAG operations in 2050, or by the manufacture and transport of goods supplied to the Group, will be mitigated by an equivalent amount of CO_2 removed from the atmosphere via carbon removals.

IAG is on track to deliver its 2025, 2030 and 2050 climate targets (see below) by carrying out emission-reduction initiatives, working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development.

IAG is also driving internal action by using climate-related annual incentives for over 7,400 senior executives and managers.

Key measures to reduce emissions are fleet modernisation, SAF, market-based measures including the UK and EU ETS and CORSIA, and carbon removals.

Less than 10 per cent of the emissions reductions to 2050 are from offsets.

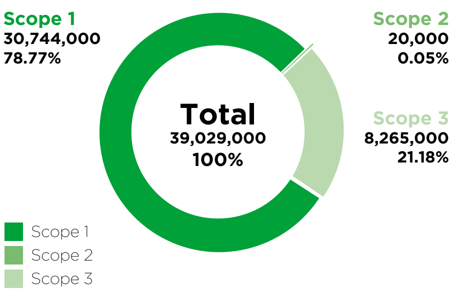
Roadmap to net zero

IAG was the first airline group in the world to commit to net zero emissions and has been publishing its latest roadmap to this goal every year since 2019.

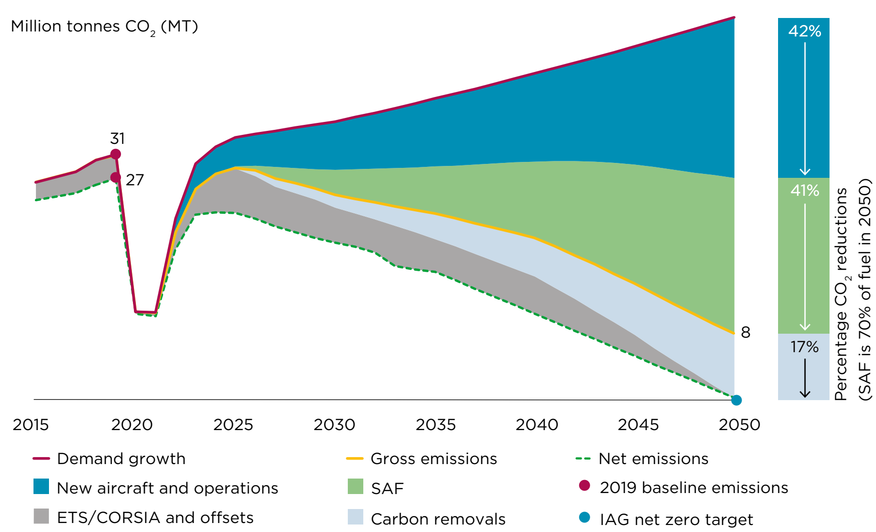
The version below is a core Group scenario which assumes continued policy support for aviation decarbonisation, an overall recovery to 2019 levels of passenger demand by 2024 and annual demand growth aligned with the long-term growth forecasts disclosed in Note 4 and 17 of the Financial Statements.

Key changes versus last year's roadmap are an earlier ramp up of carbon removals, larger net emissions reductions from CORSIA, fuel efficiency gains tapering by 2050, and an increased share of SAF in 2050 to reflect proposed mandates. This roadmap maintains the assumption on hydrogen aircraft in the fleet from 2040 and 5 per cent saving from airspace modernisation by 2050.

2019 Emissions (tonnes CO_2e)



Latest IAG Roadmap to Net Zero



IAG interim targets: 11% improvement in fuel efficiency 2019-2025, 20% drop in net Scope 1 and 3 emissions 2019-30, 10 per cent SAF in 2030, net zero by 2050.

Pillar of carbon roadmap	Delivery plans	Venture investments/key innovation partners
New aircraft and operations	• €13.5 billion investment between 2023-30 for 192 new, efficient aircraft	ZeroAvia (hydrogen aircraft manufacturer) I6 (fuel management software) NAVflight services (flight planning services) Honeywell Forge (fuel efficiency software)
SAF	• US$865 million committed to date on SAF offtake and agreements, based on assumed energy prices	LanzaJet (sustainable fuels producer)
Carbon removals	• Refining the IAG carbon removals roadmap	Heirloom (carbon capture start-up)
Market-based measures and offsets	• Support for the global CORSIA scheme to limit net emissions from aviation • All airlines offer voluntary offsets for customers	CHOOOSE (customer offsetting platform)
Supply chain	• 74% of suppliers by spend have submitted scorecards on ESG performance • New supplier contract clause on sustainability	EcoVadis (business sustainability ratings)

IAG invests in innovation to meet its targets, drive decarbonisation and accelerate wider change towards a more sustainable industry. IAG supports climate technology innovation via its Hangar 51 accelerator, venture capital investments, university collaborations, pilot schemes, supporting applications for grant funding, and research and development consortia. Since 2019, a dedicated sustainability category has been included in the Group accelerator programme Hangar 51.

IAG supports the 1.5°C ambition of the Paris Agreement and continues to review evidence on aviation pathways which support this.

Where possible, IAG will work with relevant stakeholders, including the Science-Based Targets initiative (SBTi) and Transition Pathway Initiative (TPI), to build an understanding of aviation industry pathways to net zero, how these contribute to national and global goals, and how companies and policy makers can drive investment into a green transition.

Future emissions intensity

Delivery of current decarbonisation plans, dependent on appropriate policy support, is expected to enable the following changes versus 2019:

Gross emissions (MT CO_2):

- 2030 – 15 per cent lower
- 2050 – 73 per cent lower

Gross emissions intensity (g CO_2/pkm):

- 2030 – 27 per cent lower
- 2035 – 39 per cent lower
- 2050 – 83 per cent lower

IAG supports the inclusion of carbon removals in industry decarbonisation pathways, and in external assessments of support for the 1.5°C global ambition.

IAG's short- and long-term targets have been independently assessed by TPI as 1.5°C-aligned and it's mid-term target assessed as well-below-2°C-aligned.

The TPI assessment compared the milestones in the 2021 IAG roadmap with an industry-wide pathway modelled by the International Energy Agency (IEA), taking removals commitments into account.

What are carbon removals?

Carbon removals solutions extract CO_2 already in the atmosphere and store it in biological or geological ways.

Four key types are relevant for IAG:

- Nature-Based Solutions (NBS) – include creating new forests and peatland
- BioEnergy Carbon Capture and Storage (BECCS) – capturing biogenic carbon from industrial facilities and storing it in e.g. underground aquifers
- CCS with SAF production – as above and including the use of byproducts which can absorb CO_2
- Direct Air Capture (DAC) – absorbing CO_2 directly from the air using a catalyst

Carbon removals projects differ from carbon avoidance projects, which prevent the future release of CO_2. IAG sees carbon avoidance projects as a key transitional solution en route to full use of removals.

When IAG or operating companies choose to voluntarily invest in carbon avoidance and removal projects, they work in collaboration with key partners, carry out due diligence to select reputable providers and select projects carefully to meet and align with verified quality standards such as Gold Standard and Verified Carbon Standard (VCS).

Within the Group, British Airways started offering removals projects to customers in 2022: mangrove restoration in Pakistan and a biochar project in Oregon, USA.

Role in IAG transition plan

By 2050, IAG will only use carbon removals to mitigate any residual emissions from its operations.

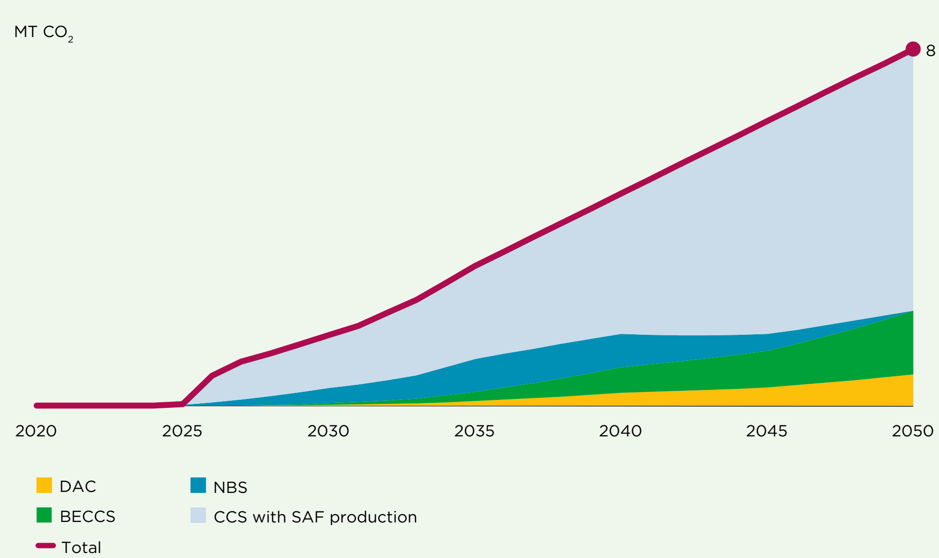
By 2050 it will only work with suppliers who do the same, as part of meeting the Group Scope 3 commitment. It is already encouraging suppliers to transition from offsets to removals as part of a new supplier contract clause which is being rolled out across its supply chain.

Based on the latest roadmap detailed below, the Group expects to use approximately 100 MT of carbon removals between 2022 and 2050 to mitigate Scope 1 emissions and could potentially be removing 2 MT annually in 2030, conditional on clear and globally agreed verification and quality standards for removals, inclusion of removals in ETS schemes, and stable policy support.

IAG expects to use removals to meet an increasing share of its CORSIA obligations between 2024 and 2035, conditional on the above, and supports wider guidance on how to transition to removals such as the Oxford Offsetting Principles.

It continues to advocate for policies that will accelerate global uptake of carbon removals, via the Coalition for Negative Emissions and other trade associations listed in A.1.7., and supports the inclusion of removals in the EU, Swiss and UK ETS.

Illustrative carbon removals ramp up



A.1.3. Metrics and progress

Overview

IAG's transition plan focuses on reducing CO_2 from jet fuel use, as this represents over 99 per cent of Scope 1 emissions. The Group measures its full carbon footprint and tracks multiple metrics each quarter to ensure progress on tackling climate change.

2022 saw strong progress against the key metric of carbon efficiency. With a 12 per cent improvement to 83.5g CO_2/pkm[1], the Group is on track to deliver the 2025 target of 80g CO_2/pkm.

Calculation methodology

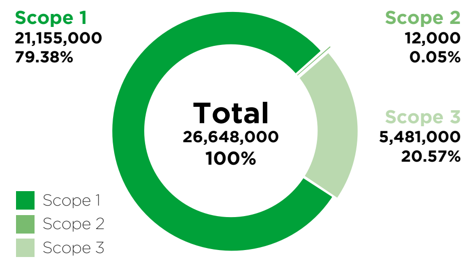
Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report. 2022 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available. Other factors like International Energy Agency emissions factors are used in specific cases as described in the NFIS.

IAG discloses methane (CH_4) and nitrous oxide (N_2O) as Scope 1 non-CO_2 greenhouse gases (GHGs), in line with the UK conversion factors.

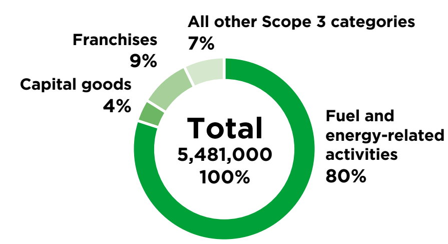
Emissions of CH_4 were 13,072 tonnes in 2022 and N_2O were 198,324 tonnes.

A detailed Scope 3 emissions breakdown is available in the IAG NFIS.

2022 Emissions[2]



Scope 3 emissions[2]



Key carbon footprint metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 1 CO_2e	305-1	MT CO_2e	94%	(31%)	**21.15**	10.92	11.02	30.74*	29.99
Net Scope 1 CO_2e		MT CO_2e	82%	(29%)	**19.13**	10.50	10.85	26.95*	27.22
Scope 2 location-based	305-2	kt CO_2e	30%	(31%)	**51.1**	39.2	48.2	74.6*	70.4
Scope 2 market-based	305-2	kt CO_2e	40%	(40%)	**11.7**	8.4	9.3	19.7*	40.7
Scope 3	305-3	MT CO_2e	65%	(34%)	**5.48**	3.32	3.66*	8.27*	8.79

Key emission reduction metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Flight-only emissions intensity	305-4	gCO_2/pkm	(12%)	(7%)	**83.5**	94.6	106.2	89.8	91.5
GHG reduction initiatives	305-5	ktCO_2e	38%	6%	**82.4**	59.7	17.2	77.4	65.9
Net reduction (ETS[3])		ktCO_2e	720%	(44%)	**1,796**	219	0	3,182	2,634
Net reduction (offset projects)		ktCO_2e	17%	n/a	**229**	196*	168	nr	nr
Fleet age		years	6%	5%	**11.9**	11.2	10.6	11.4	11.3

Other metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 2 emissions intensity	305-4	gCO_2/pkm	(41%)	(8%)	**0.20**	0.34	0.47	0.22*	0.22
Revenue per tonne CO_2e		€/tonne CO_2e	41%	32%	**1,088**	771	705	827	811
Jet fuel	301-1	MT fuel	94%	(31%)	**6.64**	3.42	3.45	9.65	9.41
SAF		kT fuel	338%	n/a	**10.3**	2.4	nr	nr	nr
Electricity	302-1	'000 MWh	13%	(20%)	**213.7**	189.0	200.1	267.7	234.9
Energy	302-1	Mn MWh	93%	(31%)	**81.5**	42.1	41.9	119.7	119.4
Renewable electricity[4]		%	(5pts)	9pts	**81%**	86%	86%	72%	54%
Renewable energy		%	(0.1pts)	0.2pts	**0.4%**	0.5%	0.4%	0.2%	nr

Descriptions and commentary on other metrics is available in the Additional Disclosures section of the IAG NFIS.

Note: 'nr' means 'not reported'. * means restated using the latest data and assumptions.

1 pkm means 'passenger-km'. The passenger-km used for this calculation is 213,376 million, which excludes no-show passengers. The cargo-tonne-km used is 3,712 million, which excludes cargo carried on other airlines or trucks. The jet fuel used excludes fuel for franchises and engine testing.
2 Rounded to the nearest '000 tonnes CO_2e.
3 2020 emissions were below the EU ETS sector cap for aviation so no net reductions were delivered.
4 For completeness, Scope 2 emissions cover electricity use at airports and overseas offices, which are partly outside IAG's operational control.

As part of complying with UK Streamlined Energy and Carbon Reporting regulation, IAG can disclose that 56 per cent of Group energy use was UK energy use, based on Scope 1 emissions and Group electricity use in UK-based offices.

A.1.4. Emissions reduction initiatives

Relevant standards: TR-AL-110a2. GRI 305-5.

Reducing gross and net emissions is a collective effort across the Group. Examples are throughout this report.

By 2030, fleet renewal and SAF programmes will have the biggest impact on reducing gross emissions, and CORSIA will have the biggest impact on reducing net emissions. In addition, other specific initiatives are run within operating airlines.

Here are savings from key initiatives in 2022, rounded to the nearest 10,000 tonnes:

1,580,000
illustrative tonnes of CO_2 saved this year from a more efficient fleet, compared to the 2019 fleet pre-COVID-19

30,000
tonnes of CO_2 saved from SAF purchased this year, five times higher than the saving in 2021

80,000
tonnes of CO_2 saved from operational efficiency initiatives such as reduced use of landing flaps, single-engine taxi-in and reduced weight on-board

230,000
tonnes of CO_2 avoided due to use of certified carbon offset projects, in locations such as Cambodia, Peru, the Congo Basin, Sudan and Malawi

Examples of initiatives across the Group:

Operating company	2022 examples
British Airways	9,980 tonnes of SAF delivered from Phillips 66, saving almost 30,000 tonnes of CO_2
	Rolled out a new fuel efficiency dashboard enabling pilots to better match fuel use to fuel needs
	Trials at airports of an electric bus for passengers and use of hydro-treated vegetable oil (HVO) in ground vehicles
Iberia	Began operation of a 10,000m^2 solar installation to generate 2.7 million renewable kWh annually
	Efficiency initiatives across the whole flight phase including take-off, cruise, approach and landing
Aer Lingus	Welcomed two A320neos to the fleet, which save up to 20 per cent of fuel compared to the aircraft they replace
	More efficient flightpaths out of Dublin airport saved around 1,200 tonnes of CO_2
Vueling	Demonstrated 72% CO_2 saving on a Green Flight between Barcelona and Lyon using SAF and a straighter path
	Moved to a new, more sustainable headquarters, certified to international BREEAM[1] standards
IAG GBS	Rolled out a new supplier contract clause encouraging emissions reductions
IAG Cargo	SAF deals with key cargo customers including Kuehne + Nagel, Bolloré Logistics, DB Schenker and DHL
	Trials including a lease of 40 tractor units running on HVO biofuel, and an electric tractor
IAG Tech	Migration of IT services to Amazon cloud servers, saving energy and CO_2
IAG Loyalty	British Airways Executive Club Members can use Avios points to contribute to verified carbon offset projects

A diverse portfolio of SAF

IAG continues to work with technology developers to establish a range of SAF supply options, including the projects listed below. The Group uplifts jet fuel in multiple locations including the US and Europe and therefore is exploring projects in multiple regions. It is working to support SAF projects which also remove carbon or capture and store it.

IAG has secured 25 per cent of its 2030 target volume of 1 million tonnes.

Key SAF partnerships

Partner	Project name if relevant	Production location	Planned production start
Phillips 66		Humber, UK	In production
Neste		Finland; Singapore	2023
LanzaJet	Freedom Pines	Georgia, USA	End 2023
aemetis	**one**world	California, USA	2024
LanzaTech	Project Dragon	South Wales, UK	2025
Gevo		Minnesota, USA	2026
Velocys[2]	Bayou Fuels	Mississippi, USA	2026
LanzaJet/NovaPangaea[2]	Speedbird	Teesside, UK	2026
Velocys[2]	Altalto	Immingham, UK	2027

1. Building Research Establishment Environmental Assessment Method. 2. Includes carbon capture and storage.

A.1.5. Scenario analysis

Overview

In 2022, IAG carried out multiple and aligned forms of scenario analysis:

- The IAG Sustainability team and the Enterprise Risk Management (ERM) team reviewed all climate-related risks and opportunities and potential impacts to 2024 and 2030. The impacts of material risks are quantified as part of the Company-wide ERM process which receives Board oversight
- Operating airlines modelled compliance-related costs, including from the UK and EU ETS and CORSIA, to 2030
- TCFD-aligned scenario analysis was repeated using a dual timeframe of 2030 and 2040
- Ongoing analysis was carried out on the Flightpath Net Zero strategy to 2050

This scenario work informs strategy, planning, risk management and financial management.

IAG takes a proactive approach to managing climate-related risks and opportunities, and is committed to managing their regulatory, reputational, financial, market and technology aspects.

Applying carbon prices

IAG concurrently applies carbon prices to financial planning and to future scenario analysis.

The fleet team uses updated carbon prices and price forecasts for shorthaul and longhaul fleet purchasing decisions, based on market values and reputable external sources. The Group airlines use carbon prices in financial planning, and flight operations teams and pilots use carbon prices in operational decisions about fuel uptake.

Potential acquisitions include an assessment of exposure to climate-related issues and policy.

For the period 2022-30, UK ETS prices of £75-£150/tonne, EU ETS prices of €67-€130/tonne and CORSIA prices of $11-$21/tonne were used for modelling compliance costs.

EU and UK ETS prices are based on market prices and the UK Department for Transport (DfT) Aviation Forecast, and CORSIA prices are based on internal analysis and ICAO industry price forecasts.

TCFD-aligned scenario analysis

In 2022, IAG repeated a TCFD-aligned scenario analysis exercise, building on the 2018 and 2021 exercises.

This was a structured, qualitative discussion of potential climate-related impacts and business responses, using the latest evidence and analysis from reputable sources like the UN, Eurocontrol and Climate Action Tracker (CAT).

1.5°C scenarios[1] were chosen for transitional risks, in recognition of IAG and global targets. 2°C and 3°C warming scenarios were chosen for physical risks, based on the latest UN projections.

2030 was chosen as the key timeframe, based on IAG targets and key policy timelines e.g. for SAF mandates. 2040 was also considered due to the possibility of the world overshooting 1.5°C in the 2030s leading to faster societal changes.

The 2021 and 2022 exercises involved representatives from multiple teams including Strategy, Treasury, Finance, Government Affairs, Commercial Planning, Investor Relations, People, Enterprise Risk Management, IAG Tech, IAG GBS, IAG Loyalty and sustainability representatives from all operating airlines. The Group Sustainability team collated inputs, which were reviewed by the IAG Sustainability Steering Group.

The Group remains resilient to the most material climate-related impacts – industry-wide policy shifts – and these have been quantified and mitigation plans embedded into financial and strategic planning. Industry-wide changes also create opportunities for the Group to move to become more resilient than its competitors.

To address significant uncertainty around future policy, technology and market trends, IAG is repeating scenario analysis annually. It will implement action plans in 2023 to further improve resilience to wider changes.

1 'Orderly' and 'disorderly' scenarios were chosen as per TCFD definitions. These scenarios compare smooth, predictable and idealised climate-related changes with abrupt, variable and disjointed changes across regions.

A.1.6. Risks and opportunities

Climate-related risks are assessed and managed within the ERM framework as described in Section C.6. and in the Risk management and principal risks factors section under Principal Risk 'Sustainable Aviation'. Opportunities are managed within relevant teams.

Transitional risks primarily affect airline activity between European destinations, which contributed 37 per cent of flying activity in 2022. Physical risks could affect IAG operations across its global network, reflecting the global nature of climate change.

The carbon-reduction targets in the Flightpath Net Zero strategy are the key measures for assessing the mitigation of these risks, along with the consideration of these risks in relevant governance processes. The external risk environment, materiality of risks, mitigation actions and KPIs for these mitigating actions are reviewed regularly.

The table below lists risks assessed through the ERM process. The most material risks are policy risks. Risk timeframes align with corporate planning timelines.

TCFD risk type	Risk and/or opportunity combined description	Risk time frame	Risk trend	Scenario dependency[1]
Physical	Resilience to acute weather events	M	Stable	Temperature
	Resilience of routes and assets to chronic climate changes	L	Stable	Temperature
Market	Customer spend due to perceptions of IAG ESG progress	S	Up	Transition
	Customer spend due to perceptions of aviation industry ESG progress	S	Up	Transition
	Perceived quality of offset and removal projects	M	Stable	Transition
	Supply chain readiness	L	Down	Transition
Policy	Demand impact of EU and UK climate policy	M	Stable	Transition
	Resilience to changes in ETS/CORSIA pricing	M	Stable	Transition
	Policy asymmetry across regions	M	Up	Transition
	Extra regulation on activity not emissions	L	Stable	Transition
	Lack of supporting SAF infrastructure or policy	M	Down	Transition
	Regulation on non-CO_2 effects	L	Up	Transition
Technology	Access to and readiness for lower-emission technologies	L	Down	Transition
	Access to SAF	M	Down	Transition

Key: short-term (S) is 1-2 years, medium-term (M) is 3-5 years, long-term (L) is more than 5 years.

IAG continues to analyse risk and transition scenarios to inform mitigation plans to 2030. Key parameters for defining scenarios are below, based on UN, CAT, UK Climate Change Committee and internal analysis. These are kept under review.

Physical risk parameters	Current projection	2°C scenario	3°C scenario
Global scenario to 2100	2.4°C	RCP[2] 2.6	RCP 4.5

Transition risk parameters	Current policies/projections	Current targets	1.5°C-aligned scenario[1]
Global emissions vs 2019	0%	-7%	-41% (-27%)[3]
UK emissions vs 2019	-28%	-42%	-42%
EU emissions vs 1990	-55% (via Fit for 55)	-55%	-62%
US emissions vs 2005	-37%	-50%	-58%
Aviation (net) emissions vs 2019	-15% (via CORSIA)	-15%	-15%

1 Whether the cost impacts depend more on the temperature scenario (2°C or 3°C), or type of transition (orderly or disorderly).
2 Representative Concentration Pathway (RCP), a globally recognised scenario for physical changes under different temperature ranges.
3 A 41 per cent drop by 2030 represents an orderly transition. A 27 per cent drop represents a disorderly transition because smaller global emissions reductions to 2030 require rapid decarbonisation after 2030 to return to 1.5°C by 2100.

Risk Impacts and Mitigation

Description as per previous page	Potential unmitigated financial impacts	How IAG is mitigating
Resilience to acute weather events	Days of lost revenue due to additional flight disruption and associated mitigation and passenger compensation costs	Existing operational resilience processes can minimise extra disruption from e.g. more turbulence from US-UK flights
Resilience of routes and assets to chronic climate changes	Changed revenue from a different route network or a different frequency of flights to climate-affected destinations, changes in operational maintenance costs	Scale of route network means impacts above plan are not material so no immediate action needed. Aircraft are mobile assets which can be moved to different locations to account for e.g. more hurricanes in Caribbean
Customer spend due to perceptions of IAG ESG progress	Customers change frequency of flying, duration of trips, or spend less relative to other carriers	Delivering emissions reductions, developing emissions dashboards for customers, expanding customer communications
Customer spend due to perceptions of aviation industry ESG progress	Customers change frequency of flying, duration of trips, or spend less relative to other travel modes	Support for global instruments like CORSIA, working via trade associations to advance green solutions
Perceived quality of offset and removal projects	Exposure to sudden variability in prices, cost of CORSIA credits, scale of growth in revenue by 2050 due to available volume of removals to deliver net zero	Strategy to avoid price spikes, governance to ensure offset quality, a removals roadmap based on external evidence, advocacy for policy support and monitoring regimes
Supply chain readiness	Sustainability compliance or technology change causing unplanned changes in cost of goods and services provided to IAG or associated supplier management costs, margin erosion	Supply chain sustainability programme which includes ESG scorecards and supplier risk screening
Demand impact of EU and UK climate policy	Pass-through of industry-wide costs affects ticket prices and so demand	Impacts of emerging policy assessed as part of longer-term financial planning and strategy
Resilience to changes in CORSIA/ETS pricing	Exposure to long-term price increases affects compliance costs	Strategy to reduce impact of price spikes; using carbon prices in fleet and financial planning
Policy asymmetry across regions	Changing numbers of customers relative to other carriers who are under more favourable or more restrictive policy regimes	Advocacy for global solutions such as the ICAO Long-Term Aspirational Goal agreed in 2022
Extra regulation on activity not emissions	Industry-wide taxes or levies increase operating costs and have potential demand impacts, demand management measures equate to lost revenue	Advocacy in support of emissions-reducing measures like SAF and against economically inefficient measures like taxes
Lack of supporting SAF infrastructure or policy	Higher prices of SAF in core markets due to lack of investment in SAF production or cost of inputs	Advocacy for SAF policy, e.g. via UK Jet Zero Council, and a strategy to procure SAF in regions where supportive policy exists
Regulation on non-CO_2 effects	Potential multiplier on ETS costs, lost revenue due to route restrictions, or operational costs due to non-CO_2 management	External research suggests just 10% of flights could be 80% of impacts. Advocacy via trade associations to support monitoring and targeted solutions such as route optimisation and SAF uptake
Access to and readiness for lower-emission technologies	Higher ETS costs if technology access is restricted or technology development is slow	Hangar 51 Ventures team aligns research and work with the Flightpath Net Zero strategy
Access to SAF	Changing unit prices of SAF in core markets	Securing SAF deals and taking equity in early-stage projects where relevant

A.1.7. Stakeholder engagement

Relevant standards: GRI 102-13/43/44

Overview

The aviation industry will decarbonise faster with stakeholder and policy support.

The Group and its operating airlines regularly engage with key stakeholders: governments and regulators, shareholders, lenders and other financial stakeholders, trade associations, customers, suppliers, employees, communities, NGOs and academic institutions to advocate for support for emissions reductions and to share progress on Flightpath Net Zero.

As one example, IAG successfully delivered its first ESG day for investors in 2022, as described in the CEO letter in the ARA.

Internal governance ensures that wider stakeholder engagement on climate change is consistent with material issues and environmental goals.

As per the IAG Code of Conduct, IAG does not use Company funds or resources to support any political party or candidate.

Key stances on climate change

IAG supports cost-effective approaches to deliver net zero emissions by 2050, advance low-carbon solutions, and support global efforts to align with 1.5°C.

Actions across ten associations are listed below. If the climate-related positions of trade associations are deemed to be substantially weaker or inconsistent with these internal stances, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stances and constructively move to alignment.

IAG is proud to have consistent stances on climate change with all the organisations of which it is a member (below). IAG has positively influenced this outcome by contributing expertise and time to drive net zero commitments, and create and support roadmaps to net zero emissions across SA, A4E, **one**world, JZC, and ATAG. IAG has also driven and encouraged higher SAF ambitions across the JZC, **one**world and WEF.

IAG and key trade associations are listed on the EU Transparency Register.

Key principles of climate-related engagement

Aviation is a global industry and IAG remains committed to global policy approaches.

In 2022, it supported the strengthening of the global UN-regulated CORSIA scheme. Changes agreed at the ICAO General Assembly will ensure that net emissions from international aviation will be 15 per cent below 2019 levels in 2030, en route to the ICAO target of net zero emissions by 2050.

IAG advocates for carbon pricing as a key instrument to determine both the pace of emissions reductions for the aviation industry and the balance of in-sector and out-of-sector reductions.

IAG prioritises advocacy on SAF too, as this is a key emissions reduction driver in the next decade, and supports policies on operational efficiency, zero-emission aircraft and carbon offsets and removals.

It advocates for policies that are effective and fair across multiple airlines.

Member of organisation	IAG involvement in organisation and actions to ensure and move to consistent stances
UK focus	
Sustainable Aviation (SA)	One of 13 members of SA Council, which governs activities for 44 members Drove development of net zero roadmap in 2020, proposed interim industry climate targets in 2021, active participant in workstreams to advance green solutions
Jet Zero Council (JZC)	Chairs SAF Delivery Group, supported creation of UK Jet Zero Strategy in 2022 to deliver net zero UK aviation by 2050, British Airways CEO a member
Royal Aeronautical Society (RAeS) – Greener by Design group (GbD)	Executive Committee of GbD, attended non-CO_2 conference in 2022 to understand how best to mitigate these effects
Spain/Europe focus	
Grupo Español para el Crecimiento Verde	Iberia is one of over 50 corporate members supporting green growth
Airlines 4 Europe (A4E)	Founding member, drove development of net zero roadmap in 2021, supported RefuelEU consultation responses and other work to advance green solutions
Global focus	
Coalition for Negative Emissions	Founding member in 2020, Steering Group member, active contributor to consultation responses to UK Government on how to scale up carbon removals
oneworld (represents 15 airlines)	Chairs Environment Strategy Board (ESB), coordinated net zero roadmap and 10 per cent SAF ambition across 2020-21, hosted two ESB meetings in London in 2022, continues to provide support for advancing green solutions
Air Transport Action Group (ATAG)	Significant airline contributor to global aviation roadmap to net zero in 2020-21, which helps to inform industry priorities for continual advancement of green solutions
World Economic Forum (WEF) – Cleaner Skies for Tomorrow Coalition	Regular contributor to reports on how to scale up SAF as a low-carbon solution, advocated for 10 per cent SAF ambition by 2030
IATA (represents 300 airlines worldwide)	Chaired IATA Sustainability and Environment Advisory Council (SEAC), representatives on IATA working groups to advance policies for green solutions, supported advocacy for net zero commitment at ICAO and strengthening of CORSIA baseline

A.2. Planet – wider issues

A.2.1. Waste

Relevant standards: GRI 306-1/2/3 (2020).

Overview

IAG has one of the most comprehensive waste reduction plans in the airline industry.

The '5 by 2025' plan covers five waste streams and five business units, with waste generation and recycling targets across on-board, office, cargo and maintenance waste and a zero-based approach to single-use plastic (SUP). IAG is committed to reducing, reusing and recycling waste and dealing with any hazardous waste in line with relevant national and international regulations.

On-board services are the main source of waste. Key waste outputs include plastic packaging, leftover food waste, drinks cans and cabin items such as wrappers. Key inputs included on-board meals and amenity kits supplied to passengers.

In 2022, IAG operations generated:

- 52,106 tonnes overall (27,613 in 2021)
- 51,133 tonnes non-hazardous waste
- 973 tonnes hazardous waste.

13,806 tonnes were recovered or recycled.

Waste is typically offloaded and processed at airports by third-party caterers, with some materials recovered on-site and other materials incinerated or sent to landfill. The majority of cabin and catering waste is processed at IAG's hub airports – London, Madrid and Barcelona – although the Group flies to over 200 airports worldwide.

Reducing food waste remains an area of focus. For example, Iberia offers a Buy-Before-You-Fly service on shorthaul flights and British Airways offers a pre-ordering service for products from the on-board SpeedBird Cafe, to give passengers the choice of buying fresh and ambient products before departure. These services remove food waste from unpurchased shorthaul economy cabin meals while maintaining customer choice. British Airways has a target to halve food waste volumes between 2019 and 2025.

The Group is also expanding its efforts to increase recycling. For example, in 2022 Aer Lingus trialled the first-ever flights into Ireland to recycle on-board, Iberia segregated glass on-board for the first time, and Vueling rolled out trolleys which enabled waste segregation.

Track record on waste

2016 – Iberia joins the EU LIFE+ Cabin waste project

2019 – 160 tonnes of SUP saved across the Group

2020 – British Airways targets 700 tonnes SUP saved a year but had to cancel due to COVID-19

2021 – First Group-wide waste targets; EU SUP ban comes into force

2022 – New initiatives to recycle more on-board waste

2025 – Delivery of '5 by 2025' waste targets

Below is the Group's most comprehensive waste disclosure to date. Waste trends remain unusual due to the COVID-19 recovery and are expected to stabilise in 2023, allowing for more in-depth analysis of progress towards the 2025 goals.

Metric	Unit	2019 base	2025 target	2020	2021	2022	vly
On-board waste per passenger	Kg/pax	0.33	0.27 (-20%)	0.75	0.47	**0.41**	(12%)
Office waste per full-time employee	Kg/FTE	95.7	47.8 (-50%)	124.5	103.1	**77.4**	(25%)
Maintenance waste per unit of activity	Kg/person-hr	0.63	0.47 (-25%)	0.67	0.56	**0.36**	(35%)
Cargo waste per unit of cargo carried	Kg/tonne cargo	1.55	1.16 (-25%)	1.59	1.43	**1.59**	11%
On-board waste at hubs recycled/recovered	%	24%	40%	31%	26%	**24%**	(2pts)
Office waste recycled/recovered	%	35%	60%	16%	13%	**26%**	13pts
Maintenance waste recycled/recovered	%	50%	70%	35%	45%	**60%**	15pts
Cargo waste recycled/recovered	%	63%	80%	55%	61%	**59%**	(2pts)

Commentary on key metrics

Key metrics	Description	Commentary
Overall waste	Includes waste from all streams – on-board, office, cargo and maintenance waste – and an extrapolation of waste processed at overseas airports, where waste destinations are not always reported by third parties.	Waste volumes increased as flying recovered and waste intensity metrics are returning to pre-pandemic levels. Trends are expected to stabilise in 2023.
Waste recycling and recovery	Includes re-use, downcycling, upcycling, energy from waste, composting and anaerobic digestion. Regulations, including International Catering Waste (ICW) regulations, limit the amount which can be recycled.	Overall recycling/recovery rates are 26 per cent, up from 21 per cent in 2019. The impact of airline recycling initiatives is expected to become clearer in 2023.
Single-Use Plastic (SUP)	Items made wholly or partly of plastic and are typically intended to be used just once or for a short period of time before they are thrown away. This aligns to the EU definition.	160 tonnes of SUP were reduced from initiatives such as using birchwood cutlery and replacing packaging on blankets. The IAG GBS Procurement team is evaluating alternatives to plastic as part of procurement processes.
Waste/pax at hubs	On-board catering waste generated per passenger, including volumes later recycled and recovered. Passenger numbers are based on those inbound and outbound passengers who have their waste processed at hub airports London Heathrow and Gatwick, Madrid, Barcelona and Dublin.	Waste generation ratios per passenger are gradually decreasing back to pre-pandemic levels.

Detailed descriptions of all waste metrics are available in the NFIS.

A.2.2. Noise and air quality

Relevant standards: GRI 305-7.

IAG has delivered a 12 per cent reduction in noise per take-off and landing cycle (LTO) versus 2019, driven by fleet renewal. It remains committed to reducing the impact of aircraft noise and air pollution on local communities near airports and supports innovation as a means of delivering this. Noise and air quality performance are monitored using national databases and global aircraft noise standards.

Group airlines continue operational practices to minimise noise impacts, such as the use of continuous descents. They engage with stakeholders such as community groups, regulators and industry partners to understand their concerns and participate in research and operational trials to identify and refine solutions. In 2021 and 2022, Iberia participated in the EU AVIATOR project to better understand air pollution at airports, including the impact of a 30 per cent SAF blend.

As indicated in the 2021 Annual Report, IAG planned to update noise targets in 2022 but has delayed this review until 2023 when flying demand is expected to stabilise. Detailed descriptions on all noise metrics are available in the IAG NFIS.

Metric	Unit[1]	vly	v2019	**2022**	2021	2020	2019	2018
Noise per cycle	QC per LTO	(0%)	(12%)	**0.88**	0.88	0.96	1.00	1.07
NOx per cycle	kg per LTO	(4%)	(4%)	**8.8**	9.22[2]	9.84	9.23	9.71
ICAO Chapter 14	% at standard	3pts	6pts	**59%**	56%	58%	53%	50%
CAEP Chapter 8	% at standard	2pts	6pts	**41%**	39%[2]	40%	35%	29%

1 % at standard is based on the fleet position at the end of 2021, including parked aircraft and excluding leased aircraft. Metrics per LTO are based on aircraft operational during the year. 80% of the IAG Fleet is CAEP Chapter 6-compliant, up from 74% in 2018.
2 Restated using the latest available data.

Related risk: Operational noise restriction and charges

Risk and/or opportunity description and potential impact	Mitigating actions
Airport operators and regulators apply operational noise restrictions and charging regimes which may introduce additional costs or restrict airlines' ability to operate, e.g. restrictions on night flights.	• Investing in new quieter aircraft as part of fleet modernisation • Continually improving operational practices including continuous descents, slightly steeper approaches, low-power/low-drag approaches and optimised departures • Internal governance and training and external advocacy in Ireland, Spain and the UK to manage noise challenges

B. People

B.1. Overview

Our people are central to our business and key in delivering for our customers. The flexibility, commitment and support our colleagues have demonstrated have been critical to enable the Group's recovery as markets re-opened and travel restrictions eased.

Each airline had a different recovery path, reflecting their network and markets served. All have faced resourcing challenges as we established the capacity to meet increasing demands for travel. This resourcing challenge included recruiting around 17,400 new colleagues across the Group, driving a 17 per cent increase in our workforce year on year. The strength of the Group's brands was key to attracting talent, but we faced industry-wide shortages in skilled resources especially in engineering and airport operation roles. At the end of 2022, around 66,000 people were employed across the Group in 77 countries. Voluntary turnover at 8 per cent reflects both more normalised levels and the dynamic talent market in our key hubs.

The pandemic and inflation have created pressure for the business and for our people, and the approach to pay and conditions in each operating company reflected the different starting points and business context they face. The agreements reached by operating companies have endeavoured to strike the right balance between benefits to our employees and the competitiveness of the business in the long-term.

At the start of 2022 we announced our ambition for 40 per cent of women in senior leadership roles by 2025. This new ambition was underpinned by a new diversity and inclusion framework and strategy and we have been making strong progress in making IAG a more inclusive place to work.

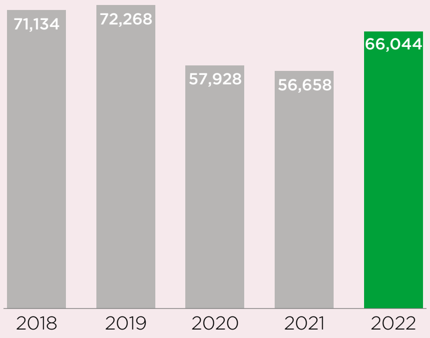
In 2022, we have seen the percentage of women in the IAG Management Committee increase 8 percentage points with the appointment of Sarah Clements as IAG's new General Counsel. We end the year at 34 per cent of women in senior leadership roles, up from 33 per cent in 2021. We remain confident we are on track to deliver on our 40 per cent ambition and have instigated new succession and talent processes and implemented changes to ensure our recruitment processes are inclusive, and we are seeing more talent mobility across the Group as a result.

B.2. Key metrics and progress

Relevant standards: GRI 102-7, 102-8, 401-1, 405-1

Key measures are provided in the next few pages together with explanations.

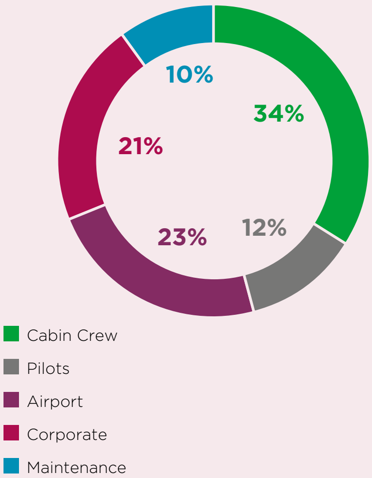
Headcount



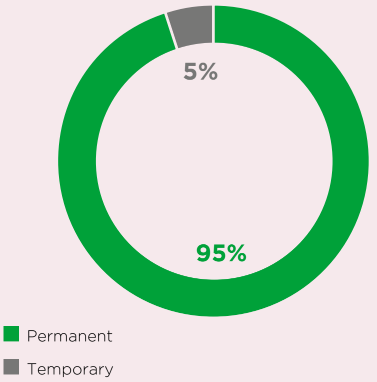
Number of senior women increased to

34%

Headcount by employment categories



Headcount by employment contract



Headcount by employment type

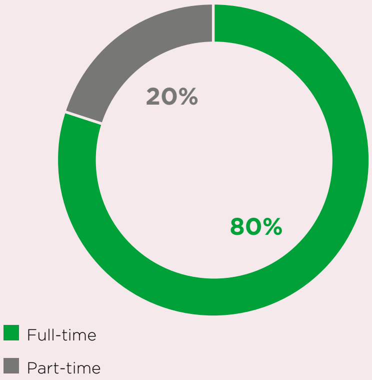


Table of key measures

Metric	GRI standard	Unit	Sub-category	vly	2022	2021	2020	2019	2018
Employment	102-7	Average manpower equivalent[1]		+18.5%	**59,505**	50,222	60,612	66,034	64,734
Headcount	102-7	Number of people[2]		+16.6%	**66,044**	56,658	57,928	72,268	71,134
Composition	102-8	% headcount by employment type	Full-time:	2pts	**80%**	78%	79%	74%	75%
			Part-time:	-2pts	**20%**	22%	21%	26%	25%
Composition	102-8	% headcount by employment contract	Permanent:	-1pts	**95%**	96%	97%	94%	94%
			Temporary:	1pts	**5%**	4%	3%	6%	6%
Composition	102-8	% headcount by employee categories	Cabin crew:	2pts	**34%**	32%	31%	35%	35%
			Pilots:	-1pt	**12%**	13%	13%	11%	11%
			Airport Operations:	0pts	**23%**	23%	25%	26%	26%
			Corporate Function:	2pts	**21%**	19%	20%	17%	18%
			Maintenance:	-3pt	**10%**	13%	11%	11%	10%
Employees by country		% of people	UK:	2pts	**51%**	49%	50%	54%	nr
			Spain:	-2pts	**34%**	36%	34%	31%	nr
			Ireland:	0pts	**7%**	7%	8%	7%	nr
			Other:	0pts	**8%**	8%	8%	8%	nr

Note: ‘nr’ means ‘not reported’.

1 The mean of the manpower equivalent captured quarterly to reflect seasonality.
2 Actual number of people employed across the Group at December 31, 2022.

Table of key measures continued
Relevant standards: GRI 102-7, 102-8, 401-1, 405-1

Metric	GRI standard	Unit	Sub-category	vly	2022	2021	2020	2019	2018
Gender diversity	405-1	% women at Board level		3pts	**45%**	42%	42%	33%	33%
		% women at senior executive level		1pt	**34%**	33%	30%	30%	27%
		% women at Group level		2pts	**44%**	42%	43%	44%	45%
Age diversity	405-1	% of managerial staff in each age band	<30	4pts	**6%**	2%	3%	4%	7%
			30-50	1pts	**56%**	55%	57%	55%	57%
			50+	-5pts	**38%**	43%	40%	41%	36%
		% of non-managerial staff in each age band	<30	5pts	**21%**	16%	18%	21%	22%
			30-50	-4pts	**49%**	53%	54%	50%	50%
			50+	-1pt	**30%**	31%	28%	29%	28%
Workforce turnover	405-1	Attrition rate (%)	Voluntary	3pts	**8%**	5%	16%	7%	8%
			Non-voluntary	0pts	**1%**	1%	5%	2%	3%
		Overall % by age group	<30	5pts	**40%**	35%	16%	37%	35%
			30-50	-4pts	**42%**	46%	33%	36%	34%
			50+	-1pt	**18%**	19%	51%	27%	31%
		Overall % by gender	Women	-2pts	**47%**	49%	52%	47%	51%
			Men	2pts	**53%**	51%	48%	53%	49%

Relevant standards: GRI 102-41, 403-9, 404-1. TR-AL-310a1

Metric	GRI standard	Unit	vly	2022	2021	2020	2019	2018
Social dialogue and trade unions	102-41	% covered by collective bargaining agreements	-2pts	**89%**	91%	89%	87%	86%
Average hours of training	404-1	Average hours per employee per year	80%	**53.3**	29.6	26.4	48.4	41.1
Lost Time Injury (LTI) frequency rate	403-9	LTI per 200,000 hours worked	33%	**3.01**	2.27	2.41	4.34	4.20
LTI severity rate		Average days lost per LTI	-21%	**23.98**	30.47	37.80	22.64	21.12
Fatalities	403-9	Number of fatalities	0pts	**0**	0	0	0	1

Note: 'nr' means 'not reported'.

Description and commentary for key workforce metrics

Metric	Unit	Description	Commentary
Employment	Average manpower equivalent	Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.	The 18.4% increase reflects our business's growing recovery in 2022 and substantial recruitment and increases in full-time employment across the business. This is an average figure and most of the on-boarding of new recruits has taken place in the second half of 2022. This measure accounts for employees' contractual schedule of work.
Headcount	Number of people	Headcount is the actual number of people employed across the Group (employees) at December 31, 2022.	Overall headcount has increased by 17% in 2022. This reflects recruitment drives across the Group's key hubs.
Composition	% headcount by employment type, contract and employee categories	Composition is a breakdown of headcount as at December 31, 2022. Full-time employees are defined as those working full contractual hours as at December 31, 2022. A temporary employment contract has a defined end date. The employee category breakdown portrays the distribution of the major groups within IAG's workforce 'in the air' – pilots and cabin crew – and 'on the ground' – airport, corporate and maintenance and logistics.	Increases in temporary workers to pre-pandemic levels of 5%, driven by short-term capacity requirements and a return to more normalised seasonal resourcing. We have also seen an increase in full-time employees to 80%. There have been significant net increases in full-time cabin crew +25% and airport operations employees +25%. Cabin crew composition levels have recovered this year to 34% of the Group workforce.
Employees by country	Number of people	This metric depicts the distribution of the Group's employees according to the country in which they are based.	The increase in the proportion of Group employees based in the UK reflects the recruitment drive currently underway in British Airways. This has seen nearly 9,000 UK-based employees join the Group. At the end of 2022 IAG had employees based in 77 countries.
Gender diversity	% women at Board, senior executive, and Group level	The share of women as a proportion of all staff at specific levels of seniority across the Group.	There were 221 senior executives as at December 31, 2022. Gender diversity increased to 45% at Board level. IAG's proportion of women in senior executive roles is currently 34%. An increase in the proportion of women across the Group is associated with the recruitment drives in roles with a traditionally more balanced gender mix e.g. cabin crew.
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group. The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to captains and cabin service managers.	Employee turnover for <30 year old was 31% (2,951); 10% for 30-50 year old (3,022); and 7% for >50 year old (1,427). Overall, the Group has seen a decrease in the proportion of employees aged between 30-50 years old. This is linked to significant growth in the <30 years age joining the group (+19%).
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).	The overall annual turnover in 2022 was 9% – a total of 5,930 employees, of which 916 were non-voluntary leavers. This compares to 6% in 2021, a total of 5,054 of which 685 were non-voluntary leavers. This increased turnover reflects more normalised turnover levels and the dynamic talent market in key hubs.

B.3. Equity, Diversity and Inclusion

Diversity is one of IAG's core strengths, with colleagues joining us from across the world, and working in around 80 countries. IAG continues to champion and make positive progress relating to equity, diversity, and inclusion (EDI) initiatives and practices. A robust integrated framework for EDI guides our journey towards a diverse and inclusive culture and workforce.

In 2022, we reset our ambition of 40 per cent women in senior leadership roles by 2025 and we have made strong progress in our first year with a 1 percentage point increase to 34 percent. Our Group-wide plans go beyond gender. We are reviewing how we manage declarations in our core countries of operation, reflecting the cultural and regulatory environment, with an aim to use data and insights to set progressive targets and action plans.

The IAG Diversity Panel, created in 2021, sees representatives across all operating companies sharing best practice and leading on the co-design and implementation of new EDI initiatives. In 2022, the panel welcomed internal and external guest speakers on specialist subjects such as gender diversity in aviation and reverse mentoring. Members of the panel have joined Women in Hospitality and Leisure (WiHTL) Committees, including specialist areas such as Race & Ethnicity and Disability.

To support and underpin actions and initiatives across the group, work has taken place to review IAG's key employment policies, ensuring they are inclusive and fair for all.

Achievements in 2022

- IAG has increased the number of women in senior executive roles to 34 per cent, a 1-percentage point increase on last year.
- IAG's new Equity, Diversity and Inclusion policy was approved by the IAG Board of Directors in July 2022.
- Launch of the 'Peppy' menopause support App across IAG head office, British Airways and IAG Loyalty, recognising the impact of the menopause at work and offering 24/7 advice, support, and information to those impacted both directly and indirectly.
- Having achieved the Bronze Investors in Diversity Award from the Irish Centre for Diversity, Aer Lingus now targets the Silver Award, with significant improvements to parental leave policies implemented in 2022 and a continuation in support for Dublin's Pride Parade.
- British Airways achieved 40% women in senior leadership roles for the first time. The airline also successfully undertook a 9-month pilot for reverse mentoring with colleagues from racially and ethnically diverse backgrounds and members of the British Airways Management Committee. In 2023, this programme will be rolled out to all senior managers across British Airways.
- IAG Cargo invested in mental health first aid training for 59 colleagues across the company, supporting a culture of support and inclusion. In recognition of the global nature of the Cargo business, Rosetta Stone Language Learning launched and was made available to all colleagues.
- IAG GBS have launched the first Equity, Diversity, and Inclusion policy for the company.
- IAG Loyalty placed EDI at the centre of its new values this year, stating 'We take belonging seriously'. Bringing this to life included forming a colleague 'squad' focused on the topic, the launch of a women's development programme in partnership with Amazing If and an organisation-wide EDI survey.
- Iberia have incorporated EDI into their values, transforming the previous value of 'We are one' into 'We are one and diverse'. In 2022, the company also created and launched a network of diversity ambassadors who will be supported as champions and role models.
- In Iberia Express the management committee reached 50 per cent female representation for the first time and there was a substantial improvement in female representation in First Officer pilot roles, moving from 9 to 11 per cent
- Vueling finalised its D&I strategy and action plan. The company also celebrated achieving a 50% female management committee and a positive 44% of female colleagues working in team leader positions.

"Diversity is one of IAG's core strengths"

B.4. Health, safety and well-being

Overview

IAG is committed to safeguarding the health and safety of our employees, customers and all others related to our activities. This means operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, Company policies and industry standards. Health and safety are fundamental to our business, whether in the air or on the ground.

IAG has robust governance processes in place led by the safety committees in each operating company.

The IAG SECR Committee has oversight of all matters related to the operational safety and corporate responsibility of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

IAG's customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

Focus areas

As IAG continues to recover and grow in 2022, health and safety has remained a priority area for the Group. While Lost Time Injury (LTI) frequency rates have increased this year to 3.0 incidences per 200,000 hours worked, this is still relatively low compared to pre-2019 levels, and reflects the increase in hours worked by front-line operational teams compared to 2021.

To support and prioritise employees' health and safety, our operating companies continue to provide employees with access to occupational health services and rehabilitation services. For example, British Airways has relaunched its Early Active Rehabilitation programme to assist employees back to work to help keep LTI severity rates low whilst providing employees the necessary support to get back to work. British Airways will also be commencing a project in 2023 to replace its current Occupational Health software to provide employees and managers with a better platform for colleague referral. IAG Cargo has trained 59 accredited Mental Health First Aiders as part of a new vision, mission and values launch across the business.

Most of our operating companies have supplemented government and healthcare-provided influenza vaccinations with their own programmes. Given the low levels of influenza since COVID-19 this initiative is seen as key to keeping our employees healthy and protected and maintaining productivity in the Group. For example, Iberia has continued its 'Elige Cuidarte' ('Choose to take care of yourself') programme with an objective to vaccinate all employees against the flu and providing workers with suggestions of health lifestyle habits.

B.5. Human rights and modern slavery

IAG had no known cases of human rights violations across the Group during 2022, the same as in 2021.

IAG is taking steps to prevent incidences of modern slavery within the Group and across its supply chains.

The IAG Group Slavery and Human Trafficking Statement outlines these actions and is available on the IAG website. This statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA). In terms of policies associated with human rights, IAG asks suppliers to comply with the Supplier Code of Conduct, which expressly prohibits the use of child labour and any form of slave, bonded, forced, involuntary prison labour, human trafficking or exploitation. Modern slavery clauses feature in all new supplier contracts as well as contract renewals.

IAG remains committed to taking swift and robust action if any evidence relating to slavery or human trafficking in our business supply chain is identified.

IAG is taking steps to prevent human trafficking. Human trafficking is of particular concern to IAG and to the wider aviation industry, as the Group transports millions of passengers every year and has tens of thousands of suppliers across the world. Operating airlines work closely with governments and the airports in which they operate to ensure that any suspected trafficking on our flights is identified, reported and dealt with appropriately. IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

Operating airlines also train staff to recognise and respond to the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected. This training is managed at airline level. In 2022, over 24,000 employees have completed training covering human rights topics, compared to 27,000 employees in 2021.

Related risk: Human rights

Risk description and potential impact	Mitigating actions
Not preventing potential incidences of human trafficking via IAG routes, damaging efforts to improve human rights and associated legal and reputational impacts. Potential human rights or modern slavery violations in the supply chain leading to fines, compliance issues, business interruption or reputational damage.	• Updated Group Slavery and Human Trafficking Statement • Training for staff to recognise signs of potential human trafficking and guidance and processes in place to report this • See C.4. Supply chain governance

In 2022, IAG planned to review its assessment of human rights risks within the business. This review has been shifted to 2023.

B.6. Community engagement and charitable support

Relevant standards: GRI 102-13, 201-1.

In 2022, IAG raised over €6.5 million for charitable causes across the Group, including campaigns related to the floods in Pakistan and the war in Ukraine.

Of this, 43 per cent came from customer contributions, 35 per cent from Company donations, 16 per cent from employee contributions, and 6 per cent from in-kind donations. The Group also carried over 19 million COVID-19 vaccines between 2020 and 2022.

Metric	GRI Standard	Unit	vly	2022	2021	2020	2019	2018
Total raised		€ million	141%	**6.5**	2.7	4.6	5.7	nr

Group operating companies have partnerships with a range of organisations including:

Disasters Emergency Committee (UK)

Flying Start (UK)

Save the Children (Spain)

Lovaas Foundation (Spain)

Dublin Pride (Ireland)

Special Olympics (Ireland)

Business vs Smog (Poland)

Noble Gift (Poland)

UNICEF (global)

B. PEOPLE

Aer Lingus and Paralympics Ireland

In October 2022, Aer Lingus was announced as the Official Airline of Paralympics Ireland and will support Team Ireland as it prepares for and competes in the Paris 2024 Paralympic Games. Following the support of the team for its Tokyo 2020 campaign, Aer Lingus will continue to support Irish para-athletes to World Games in the lead up to qualification for Paris 2024.

C. Principles of sustainability governance

C.1. Sustainability strategy

IAG's vision is to be the world's leading airline group on sustainability.

That means using its scale, influence and track record to not only transform the business but drive the system-wide changes required to create a truly sustainable aviation industry. IAG is committed to delivering best practices in sustainability programmes, processes and impacts, while executing Group strategy.

IAG aligns its environmental strategy with the three overall strategic priorities of the business described in the Strategy section.

Material issues

IAG orientates its sustainability strategy around material issues: those which are most important to key stakeholders and which have the biggest external impacts.

To identify these issues over a three-year timeframe and to 2030, IAG repeated a materiality assessment in 2021 which was facilitated by an independent third party. External stakeholders included investors, corporate customers, policy makers, trade associations, fuel suppliers, airports, and NGOs. Internal stakeholders included IAG Board members, all IAG Management Committee members, and operating company sustainability representatives.

The results inform ongoing disclosures and strategy.

Tackling climate change was identified as the most material issue in the long-term. In the short-term, as the business recovers from the COVID-19 pandemic, profitability and customer and employee engagement and well-being remain high priorities. IAG will consider use of a double materiality assessment when it next repeats this analysis, which is expected to be 2024.

IAG does not have specific risk provisions, targets or guarantees related to non-material issues such as water consumption, biodiversity, raw materials consumption or light pollution. More information on water and biodiversity is available in the Additional Disclosures section of the NFIS.

Leading net zero by 2050 roadmaps and commitments

Oct 10, 2019	**IAG commitment** (first airline group worldwide)
Nov 8, 2019	**IAG roadmap launched at Capital Markets Day**
Feb 4, 2020	**Sustainable Aviation roadmap and commitment**
Sept 11, 2020	**oneworld commitment**
Feb 11, 2021	**A4E roadmap and commitment**
Aug 31, 2021	**oneworld roadmap**
Oct 4, 2021	**IATA commitment**
Oct 3, 2022	**ICAO commitment**

Leading 10% SAF by 2030 commitments

Apr 22, 2021	**IAG (first European airline group to commit)**
Sept 22, 2021	**World Economic Forum (Cleaner Skies for Tomorrow Coalition)**
Oct 4, 2021	**oneworld alliance**
Oct 9, 2021	**UK Government**

Leading innovation

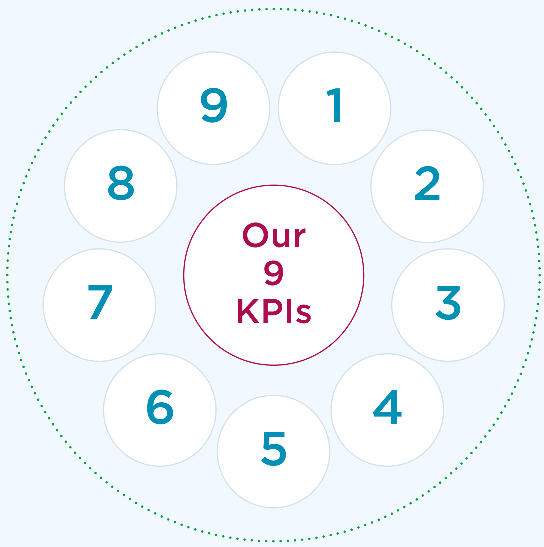
Dec 2017	**CDP A-List company**
Sept 2019	**Sustainability category added to Group accelerator programme.**
Oct 2020	**Founding member of Coalition for Negative Emissions, supporting carbon removals.**
Jan 2021	**Secures first aviation sustainability-linked loan linked to ESG targets, via British Airways**
2021	**Invests in hydrogen aircraft (ZeroAvia)**
Nov 2022	**Offers carbon removals to customers (British Airways)**

Drove/leading role

Supported

IAG-specific

Sustainability leadership KPIs



IAG drives progress based on nine strategic KPIs agreed by the Board in 2021.

1 Clear and ambitious targets relating to IAG's most material issues

2022 action

2025, 2030 and 2050 carbon targets and published transition plan. British Airways and Iberia have sustainability-linked loans related to 2025 carbon efficiency.

2 Low-carbon transition pathway embedded in business strategy

2022 action

Sustainability aspects included in one-year, three-year and 2030 business planning for operating companies.

3 Management incentives aligned to delivering a low-carbon transition plan

2022 action

Over 7,400 senior executives and managers have 10 per cent of their annual incentive linked to annual carbon intensity targets.

4 Leadership in carbon disclosures

2022 action

A-List company in CDP climate ratings in 2022 (Top 3 per cent). Highest-ranked airline in TPI climate ratings (Score: 17/18).

5 Accelerating progress in low-carbon technologies including aircraft technology, SAF, carbon offsets and carbon removals

2022 action

Sustainability remains a focus area within the IAG accelerator programme Hangar 51.

6 Accelerating innovation in low-carbon technology as above

2022 action

LanzaJet Freedom Pines SAF plant was the first project worldwide to receive a catalyst grant from the Breakthrough Energy Catalyst Grant.

7 Industry leadership in the innovation and deployment of SAF including power-to-liquids

2022 action

250,000 tonnes of SAF secured for 2030, 25 per cent of target.

8 Stepping up our social commitments including on diversity, employee engagement and sustainability as a core value

2022 action

34% women in senior executive roles, a 1 percentage point increase on 2021.

9 Industry leadership in stakeholder engagement and advocacy

2022 action

Leadership roles across multiple trade associations. See A.1.7.

CDP
DISCLOSURE INSIGHT ACTION
A LIST
2022
CLIMATE

Leadership in carbon disclosures

IAG leads the aviation industry in external ratings of climate action.

For four of the past six years, IAG has been awarded Leadership grades by The Carbon Disclosure Project (CDP), which assesses almost 15,000 companies globally on climate action. CDP awarded IAG a prestigious A-List award in 2022, placing the Group in the top 3 per cent of respondents worldwide.

For the past two years, IAG has also been the highest ranked airline in the global Transition Pathway Initiative (TPI) ratings, which assess 600 companies across 47 countries on their readiness for the low-carbon transition.

IAG is in the top 10 per cent of airlines assessed by Sustainalytics, which gives ESG risk ratings to around 15,000 companies worldwide based on public disclosures.

IAG continues to engage with other relevant ESG rating agencies to enable more accurate calculations of IAG's scores and to identify actions to improve these scores.

Governance spotlight: Jet Zero Council

Overview

In 2021, the UK Government created a new initiative called the Jet Zero Council (JZC), to provide advice on the Government's ambitions to deliver net zero aviation and zero-emission flights.

IAG support

IAG staff chaired two subgroups – a COP26 Group and the SAF Delivery Group – and the British Airways CEO is a member.

In 2022 the work of the JZC supported the launch of an ambitious 'Jet Zero Strategy' for UK aviation.

Scope

The JZC is a partnership between industry and Government to bring together ministers and CEO-level stakeholders, with regular meetings and subgroups to drive the ambitious delivery of new technologies and innovation to cut aviation emissions.

Next steps

The Government also committed to reviewing the strategy every five years, and adapting its approach based on the progress made.

The JZC model has been so successful that it is being replicated in other countries.

C.2. Governance frameworks

Relevant standards: GRI 102-46/-48

Overview

IAG has robust governance in place to ensure joined-up and progressive decisions on sustainability.

This also helps to ensure that wider stakeholder engagement is consistent with material issues and environmental priorities and goals. An annual meeting planner for the Board ensures sustainability governance processes fit within the reporting and disclosure framework of the Group.

The Group's unique structure means that each individual operating company has a distinct sustainability programme. These are regularly reviewed to ensure alignment with the Group sustainability strategy and principles, which covers material issues, KPIs and engagement plans.

Relevant forums and levels of responsibility are indicated below. Information flows between groups is covered in Sections C.6., on the second page of the Risk Management and Principal Risk factors section, and in the Corporate Governance section.

Board/management committee	Frequency of meetings	Responsibility in relation to sustainability
Board	At least quarterly	Approval for strategy, major investments, risk management and controls and review of progress against environment and people plans including climate-related goals and targets
Board Safety, Environment and Corporate Responsibility (SECR) Committee	At least quarterly	Dedicated oversight of Group sustainability programme and alignment with strategic priorities, review of progress against environment and people plans. Provides a link between operating company management committees and the IAG Board
IAG Audit and Compliance Committee	At least quarterly	Ensures compliance with relevant regulation and reviews Annual Report and Accounts and Non-Financial Information Statement
IAG Management Committee	At least quarterly	Reviews and challenges Group programmes, the alignment of operating company-specific programmes with Group priorities and strategy, and progress against plans
Operating company management committee	At least quarterly	Reviews and challenges operating company-specific environment and people programmes

Forum	Frequency of meetings	Responsibility in relation to sustainability
IAG Sustainability Steering Group (SSG)	At least quarterly	Comprised of senior representatives from across the Group who provide oversight of environmental and social initiatives and reporting
IAG SAF Steering Group	At least quarterly	A cross-Group meeting focusing on SAF projects and progress
IAG Sustainability network	Monthly	Sharing sustainability updates and ideas across all business units and over 30 sustainability representatives. In 2022, three Group workshops were also hosted: in Spain, Ireland and Poland
Hangar 51 Governance Committee	At least bi-annually	Reviews new potential investments to consider emerging climate technologies and partnerships with sustainability start-ups Members include the Chief Strategy Officer, Chief Financial Officer, Chief Information Officer and General Counsel

Individual	Frequency of reporting	Responsibility in relation to sustainability
IAG CEO	At least quarterly	Chairs the IAG Management Committee, updates the Board, and ensures Board-level decisions are directed into action across the Group
IAG Chief People, Corporate Affairs and Sustainability Officer (CPCASO)	At least quarterly	Reports into the IAG CEO. A member of IAG Management Committee. Chairs the SSG and provides approval and direction of Group programmes
IAG Group Head of Sustainability	Regularly as relevant	Reports into IAG CPCASO. Chairs the Sustainability network
IAG Group Head of People	Regularly as relevant	Reports into IAG CPCASO

Wider governance

Wider governance processes integrate sustainability aspects. As part of the Group-wide ERM process, sustainable aviation and people, culture and employee relations risks are presented bi-annually to the Audit and Compliance Committee and annually to the Board. One-year financial plans and three-year business plans are coordinated by Group Finance and include sustainability aspects.

In 2022, Group Sustainability representatives also attended the away days of other teams to support the embedding of sustainability.

C.3. Workforce governance

Relevant standards: GRI 403-4, 408-1, 409-1.

IAG aims to create an environment in which employees feel motivated, safe and able to thrive as this is central to the continued success of the Group.

Working policies and rights at work

Core principles in the IAG Code of Conduct include fair and equal treatment, non-discrimination, fairness and respect for human rights. This Code applies to all directors, managers and employees of the Group and e-learning training to support it is mandatory and applicable to all employees and directors. In addition to the Code of Conduct, individual operating companies have responsibility for policies and procedures relating to their employees, including appropriate reward frameworks to ensure they can continue to attract and retain the best talent for every role.

IAG has employees based in European countries which comply with the conventions of the International Labour Organization (ILO), covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Outside the EU, IAG recognises trade unions in many jurisdictions, has collective agreements and meets/exceeds all relevant labour standards.

Collective bargaining arrangements are in place for 89 per cent of our workforce. In addition, IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG completed the election and appointment process for the new Select Committee and Chair in early 2022, and the transition was completed in May this year.

Training and development

Within the Group, individual operating companies have responsibility for the policies and procedures relating to their employees to ensure they can continue to attract and retain the best talent for every role.

Measures to support employee satisfaction and talent management are primarily managed within operating companies and each operating company has its own established methods of measuring employee satisfaction. In addition, IAG has introduced an organisational health survey, initially focused on management populations across all operating companies to benchmark management practices against a globally recognised metric. This survey was run initially in November 2020 and repeated every six months since. Insights from the survey are used to shape and prioritise cultural development plans.

Individual operating companies are responsible for learning, development and talent within their business, to enable them to ensure they have the right skills and capabilities required to support their strategy. In May, IAG completed a detailed review of succession planning and talent for all critical and senior roles which has been used to shape the Group's talent and leadership development priorities and plans. Due to the diverse nature of Group businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level. Each is responsible for determining the specific courses offered within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following mandatory corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Diversity

At IAG, we believe diversity is key to innovation and to the future growth and success of our business. IAG is proud of the diversity of its workforce, with colleagues having joined from across the world, working in 77 countries, speaking dozens of languages and representing every element of the communities we live and operate in. It is this richness of backgrounds, of experiences, of cultures and ideas that makes our business tick.

We want our workforce to reflect the full diversity of the communities we live and work in. We want everyone to see role models they can identify with and to have the same chance of progression and development, and we want everyone who works for IAG to feel that their unique difference is recognised and valued. This means a focus on equity, diversity and inclusion. This allows us to be a place where everyone's talents are recognised, where skills and capabilities grow, and where future leaders are nurtured and developed.

IAG has recently published a revised Group-wide Diversity, Equity and Inclusion Policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

At Group level, IAG also has a Directors' Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the IAG Management Committee. These policies have been approved by the Board of Directors.

See Section B.3. for more diversity initiatives.

C.4. Supply chain governance

Relevant standards: GRI 308-2, GRI 414-2.

Overview

IAG Global Business Services (IAG GBS) continues to engage with, support and monitor suppliers to ensure all products and services provided to IAG are on a path to net zero by 2050.

The IAG GBS Group Procurement team leads the Supply Chain Sustainability Programme by delivering in four key areas:

- The Supplier Code of Conduct (SCoC)
- Independent risk screening and sustainability assessments
- Corporate Social Responsibility (CSR) Audits
- Embedding sustainability as standard in the procurement process

From insight to action in 2022

The SCoC has been issued to the existing supply chain and integrated into the new supplier onboarding process. New suppliers are requested to acknowledge their commitment to achieving net zero emissions by 2050, and the need for a roadmap, supported by deliverable plans, to achieve this target.

IAG GBS is also partnering with EcoVadis, a market-leading provider of business sustainability ratings, to assess suppliers using a holistic environmental, social and governance (ESG) scorecard.

This gives IAG and its suppliers a baseline for improvements across ESG issues, and suppliers can share them with customers and other stakeholders, which benefits wider industry sustainability.

As a minimum, IAG requires its suppliers to provide a safe and healthy environment for their workforce. Supplier selection considers potential industry and geographical risk and, where necessary, on-site audits are carried out. These audits are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2022, 32 of these audits were completed.

All suppliers also undergo annual screening for any legal, social, environmental and financial risks. The Group Procurement and Compliance teams assess any suppliers identified as having potentially higher levels of risk and implement mitigation plans where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In 2022, IAG GBS embedded sustainability aspects into the day-to-day operation of the organisation and included sustainability targets in the performance objectives of all IAG GBS employees.

IAG GBS has verified the existing, active supplier base and IAG's airlines' interline relationships in Russia and Belarus in order to determine the potential implications of, and actions to be taken, due to the trade sanctions issued as a response to the war in Ukraine. Follow-up and support have been provided to IAG's operating companies with regard to mitigation actions taken in response to the findings (e.g. payment stop/blockage) in coordination with the relevant Compliance Teams.

Building a sustainable future in 2023

IAG GBS plans to assess the sustainability performance of suppliers representing at least 80 per cent of IAG's total spend, and include sustainability aspects in the category planning process and additional measures into the selection and contract award process.

2019 – Issued Supplier Code of Conduct

2020 – All suppliers screened for sustainability risks

2021 – Net Zero Scope 3 commitment

2022 – EcoVadis partnership and supplier sustainability clause

2023 (planned) – Embedding sustainability into category planning

Tracking metrics and progress

	GRI Standard	vly	2022	2021	2020	2019	2018
Total number of suppliers		6%	**14,045**	13,272	22,947	27,033	nr
Suppliers screened		6%	**14,045**	13,272	22,947	18,369	nr
Suppliers with additional compliance assessments	308-2, 414-2	(63%)	**557**	1,510	1,818	2,912	nr
Critical suppliers under regular risk monitoring		(6%)	**32**	34	35	n/a	nr
Independent CRS audits		7%	**32**	30	25	28	nr

Related risk: Supply chain sustainability compliance

Risk and/or opportunity description and potential financial impact	Mitigating actions
Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial penalties, legal, environmental, social and/or reputational impacts.	• IAG GBS procedures above as well as integrity, sanctions and IAG Know Your Counterparty due diligence for higher-risk third parties • Internal governance on supplier management to identify challenges and mitigation • Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability

C.5. Ethics and integrity governance

Relevant standards: GRI 102-16/-17, 205-1/-2/-3

Overview

All directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

IAG's Group Code of Conduct (CoC), last revised in 2019 and approved by the Board, sets out the general guidelines that govern the conduct of all directors and employees of the Group when performing their duties in their business and professional relationships. Mandatory CoC training and communications activities are carried out for directors, employees and third parties on a regular basis to maintain awareness and understanding of the principles that govern the conduct of the Group. This policy is available on the IAG website.

In 2022, a new Group-wide Whistleblowing Policy was issued and all the Group channels consolidated to one whistleblowing channel provided by an independent third-party provider, EthicsPoint, where concerns can be raised on an anonymous and confidential basis.

This channel is available to members of staff as well as suppliers, with information on how to access it published in the CoC and SCoC. If any employee has a concern about unethical behaviour or organisational integrity, they are encouraged to first speak with their manager or a member of the Legal, Compliance or Human Resource teams. Similarly, suppliers are encouraged to contact their primary contact within the business.

IAG will not tolerate any retaliation against individuals using the whistleblowing channel or contributing to investigations arising from reports to the whistleblowing channel.

Whistleblowing reports received for each Operating Company are triaged by the Compliance teams to direct to the most appropriate area for investigation, maintaining independence in this investigation process.

The IAG Audit and Compliance Committee reviews the effectiveness of the whistleblowing channel on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; process and responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements or reputation of the Group or other areas of compliance.

In 2022, whistleblowing reports concerned issues relating to employment matters (64 per cent), dishonest behaviour/reputation (29 per cent), health and safety (6 per cent) and regulatory matters (1 per cent). All reports were followed up and investigated where appropriate, and no material concerns were identified.

Anti-corruption and anti-money laundering

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in the Group CoC and supporting policies which are available to all directors and employees. An anti-bribery policy statement is also set out in the SCoC.

In 2022, a Group-wide anti-bribery and corruption policy was issued. This sets out the minimum standards that are expected by the Group, its directors and employees, including definitions and guidance for bribery, gifts and hospitality guidance, political and charitable donations, public officials, facilitation payments amongst others.

Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams from across the Group meet regularly through Working Groups and Steering Groups, under the IAG General Counsel. They conduct an annual review of bribery risks at operating company and Group level.

The main risks identified for 2022 were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. No material compliance breaches were identified in 2022, as in 2021.

Anti-bribery and corruption training is mandatory for all relevant personnel in IAG operating companies, Group functions and the Board. Individual training requirements are set by each operating company and function and are determined by factors such as the level and responsibilities of an employee.

Revised Group-wide anti-bribery e-learning was rolled out in 2019 and is required to be completed every three years.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

There were no legal cases regarding corruption brought against the Group and its operating companies in 2022, as in 2021, and management is not aware of any impending cases or underlying issues.

IAG has processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls, which help to combat money laundering in the business.

	vly	2022	2021	2020	2019	2018
Employees completing anti-bribery e-learning	248%	**4,880**	1,404	1,984	7,933	nr
Speak Up (whistleblower) reports	54%	**252**	164	193	nr	nr

C.6. ESG risk management

Relevant standards: GRI 102-11/-15.

Overview

Sustainable aviation risks and People, culture and employee relations risks are reported as principal risks to IAG.

These risks are considered and assessed under the Group ERM framework which is presented bi-annually to the Audit and Compliance Committee and annually to the SECR Committee and Board. More details on this framework, risk identification and assessment, and risk management can be found in the Risk management and principal risks factors section.

All principal risks are linked to the Group strategic priorities which includes environmental sustainability.

Sustainability risks and opportunities, including climate-related risks and opportunities, are also identified and assessed by the Group Sustainability team, in conjunction with the Group ERM team, and presented to the IAG CPCASO, IAG MC and SECR Committee. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business, with agreed initiatives included in relevant operating company business plans.

People, culture and employee relations risks are managed by the Group's operating companies with guidance from the Group as appropriate.

Impact on operations and strategy

Sustainability risk assessments have informed specific decisions related to business operations and strategy, and IAG allocates significant resources to environmental risk management. Examples include:

- In 2018, TCFD-aligned scenario analysis identified a need for more ambitious action on climate change, which contributed to the 2019 decision to design and adopt the industry-leading Flightpath Net Zero strategy to deliver net zero emissions by 2050.
- In 2021, IAG set a new net zero target by 2050 for Scope 3 emissions and IAG GBS appointed EcoVadis to help to track supplier sustainability performance and mitigate supply chain-related sustainability risks.
- In 2022, IAG expanded its commitment to invest in SAF development, production and supply, from US$400 million to the equivalent of US$865 million based on assumed energy prices, to manage climate policy risks and take advantage of energy-related opportunities.

IAG is committed to mitigating the impacts of hazards which, if they occur, have uncertain but potentially negative outcomes on the environment or people.

As such, IAG adopts precautionary measures to mitigate these hazards, an approach known as the precautionary principle. For example, the precautionary principle is applied to the planning of operations and the development and launch of new services, by integrating climate considerations into three-year business plans and one-year financial forecasts and aligning activities with the Flightpath Net Zero strategy.

IAG also manages risks via the use of ISO-14001-aligned environmental management systems and is planning for all material environmental impacts across 100 per cent of flight operations and corporate activities to be covered by the IATA Environmental Management System (IEnvA) by the end of 2023.

IEnvA is the airline industry version of ISO 14001, the international standard for environmental management systems. IEnvA is tailored specifically for airlines and is fully compatible with the International Organization for Standardization (ISO).

Vueling achieved full IEnvA certification in 2022 and British Airways and Aer Lingus have achieved partial (Stage 1) accreditation.

In terms of the amount of provisions and warranties for environmental risks, IAG does not take out any specific insurance to cover environmental risks.

Related risk: Environmental regulation compliance

Risk description and potential financial impacts	Mitigating actions
An inadvertent breach of compliance requirements related to ESG reporting, emissions or waste management, or other environmental issues, leading to fines and potential reputational damage.	• Strengthening sustainability governance including reviews of annual disclosures via the Audit and Compliance Committee • Internal governance, training and assigning ownership for environmental compliance obligations • Working towards IEnvA accreditation to improve internal compliance processes

C.7.1. Reporting and data governance

The full contents of this sustainability report are included in the IAG Non-Financial and Sustainability Information Statement (NFIS), which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised)[1] standards. Compliance with specific frameworks and standards is listed under relevant section headings.

IAG complies with current and emerging standards on sustainability reporting.

These include obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, the 2018 UK Streamlined Energy and Carbon Reporting regulation, the Task Force on Climate-related Financial Disclosures (TCFD), and the EU Taxonomy Regulation (2020/852).

IAG does not align with GRI Core or GRI Comprehensive options but instead aligns with selected GRI standards based on compliance with Spanish Law 11/2018. In cases where GRI alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used and described.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU ETS, and for all flights for the UN CORSIA scheme. Any material changes to key metrics are highlighted in future Annual Reports.

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, GRI Standards for material issues, and relevant criteria from external ESG rating agencies. IAG supported IATA and the GRI to develop the IATA handbook.

The scope of environment performance data in this report includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This is also the scope of the net zero targets. Some exceptions for non-material business units have been applied for specific metrics, and these are clearly stated with rationale provided.

The scope of workforce and ethics and integrity data includes all IAG operating companies and support functions. Some exceptions have been applied and these are clearly stated with rationale provided.

The scope of human rights and modern slavery reporting is as above and includes data from all suppliers in the IAG supply chain.

For any specific cases where full-year data was not available for selected metrics, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust. Any prior-year restatements are indicated next to relevant metrics with reasons provided.

C.7.2. Alignment with GRI and SASB standards

Key: **Green** is GRI CORE

Sustainability section	Sustainability subsection	GRI	SASB
A.1. Planet – climate change	A.1.3. Metrics and progress	305-1/2/3/4/5, 301-1, 302-1	TR-AL-110a.1.
	A.1.4. Emissions reduction initiatives	305-5	TR-AL-110a.2.
	A.1.7. Stakeholder engagement	**102-13/-43/-44**	
A.2. Planet – wider issues	A.2.1. Waste	306-1/-2/-3 (2020)	
	A.2.2. Noise and air quality	305-7	
B. People and prosperity	B.2. Workforce metrics	102-7/8, 401-1, 405-1, 102-41, 404-1, 403-9	TR-AL-310a.1.
	B.6. Community engagement and charitable support	**102-13**, 201-1	
C. Principles of sustainability governance	C.2. Governance frameworks	**102-46/-48**	
	C.3. Workforce governance	**403-4**, **408-1**, **409-1**	
	C.4. Supply chain governance	308-2, 414-2	
	C.5. Ethics and integrity	**102-16**, 102-17, 205-1/-2/-3	
	C.6. ESG risk management	**102-11**, 102-15	

1 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

Managing risk to protect the business and support delivery of sustainable change

Agility in Enterprise Risk Management (ERM)

The Group's ERM framework continues to adapt and evolve to the needs of the business and our stakeholders. This allows the Group and its businesses to both respond to changes in the external risk environment and support the pace and scale of business transformation to achieve sustainable change.

In the year, the Group has reviewed the macroeconomic and geopolitical landscape to identify emerging risks and implications for existing principal risks as well as competition and market risk changes, particularly those that could impact operational resilience. By continuing to develop the Group's assessment of the interdependencies of risks; scenario planning to quantify risk impact under different combinations and assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the Group, its Board and management are better informed and can react more quickly. Where further action has been required the Board has considered potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks or retain them within the Board's determined Group risk appetite.

New guidance from regulators and investors is reviewed on an ongoing basis and best practice sought from other risk management sources.

Emerging risks and longer-term threats

Consideration is given to emerging risks and longer-term threats that the Group or the industry could face. Where emerging risks are identified, they are within the overall risk framework as "on watch" until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact over the next two or three years can be made, and appropriate mitigations can be put in place or the risk becomes a principal risk. Other high-impact, low-likelihood risks are also considered and discussed.

ERM policy and framework

The Group Enterprise Risk Framework is set out in the ERM policy, which has been approved by the Board. The comprehensive risk management process and methodology ensures a robust identification and assessment of the risks facing the Group, including emerging risks. The risk management framework is embedded across all of the Group's businesses. Enterprise risks are defined as any risk that could impact the three-year Strategic Business Plan ("the plan"). They are assessed and if the impact is above a threshold, plotted on an enterprise risk heat map, based on probability and impact. Consideration is given to changes in the speed of potential impact. Risks are also considered in combining events where a number of risks could occur together. This process is led by the Management Committee supported by the ERM function.

The Group considers risks to the plan over the short-term up to two years, also medium-term from three to five years and in the longer-term beyond five years.

Risk outcomes are quantified as the potential cash impact to the plan over two years. Non-financial considerations include the Group's sustainability commitments, potential for increased regulatory scrutiny, as well as damage to customer and employee trust impacting the Group's brand and share price.

Key controls and mitigations are documented, including appropriate response plans. Where risk treatments require time to implement, short-term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every principal risk has clear Management Committee oversight.

Risk heat maps for each operating company and central functions are also reviewed by their operating company's management committee or function leadership team.

Where the Group's operating companies have a reliance on other parts of the Group for services delivery, risks are reflected appropriately across risk heat maps to ensure accountability is clear.

The ERM function also works with other compliance and Group functions, such as Government Affairs, Investor Relations, Legal and Sustainability, leveraging their frameworks and assessments where appropriate.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk heat map.

Risk appetite

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, of the Board's appetite for certain risks. Each risk appetite statement applies either on a Group-wide basis or for specific programmes, initiatives or activity within the Group. The framework has continued to operate throughout the year, with the Board assessing its appetite across all of the framework statements at the half year and year end against the Group's performance and its anticipated delivery of the Board-approved strategic business plan priorities and initiatives. The Board is satisfied that the Group continued to perform and deliver initiatives throughout 2022 as planned to mitigate risk as set out in its framework statements or necessary additional mitigations to risks have been addressed as they occurred.

The appetite framework has been subject to review and a new framework will be implemented in 2023. This will allow the setting of tolerances more dynamically across the business plan period. The framework will also allow consideration of trade offs to allow appropriate prioritisation of initiatives to seek opportunities and manage risk within the defined appetite tolerances. The new framework is aligned to the Group strategy approved by the Board in 2022 which sets the level of ambition and investment across the business plan period.

Viability assessment

The Board's assessment of the viability of the Group is directly informed by the outputs of the ERM framework. Full details of our approach, scenarios modelled and the viability assessment are shown at the end of this report.

Risk management roles and responsibilities

Risk owners and management

Across the Group, risk owners are responsible for identifying potential risks and appropriately managing decisions within their area of responsibility that could impact business operations and delivery of the plan.

As the Group undertakes transformation activities within its operating companies, the pace and agility of the changes required creates risks and opportunities. For transformational risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders.

Emerging risks are assessed and risk owners consider and identify any potential impact to plans. Longer-term 'on watch' risks are subject to review as part of the framework.

Management is responsible for the effective operation of the internal controls and execution of the agreed risk mitigation plans.

Operating companies' management committees

Operating companies review risk during the year including risk heat map reviews semi-annually, in advance of the Group risk heat map reviews.

They escalate risks that have a Group impact or require Group consideration in line with the Group ERM framework.

They confirm to their operating company board and audit committees, where they have them, as to the identification, quantification and management of risks within their operating company at least annually.

Local risk heat maps are in place for subsidiary businesses, together with Group support platforms including Group Business Services and IAG Tech.

IAG Management Committee

The IAG Management Committee reviews risk during the year, including the Group risk heat map semi-annually in advance of reviews by the Audit and Compliance Committee, in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Management Committee reviews the performance of the Group at half year and full year against the risk appetite framework and reports any near tolerance or out of tolerance assessments to the Audit and Compliance Committee.

The Management Committee recommends scenarios for stressing the strategic business plan as part of the annual Group viability assessment.

IAG Board and Audit and Compliance Committee

The IAG Board has overall responsibility for ensuring that the Group has an appropriate, robust and effective risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives.

The IAG Audit and Compliance Committee discusses risk and considers the risk environment regularly throughout the year, as does the IAG Board as part of wider Board discussions, in addition to the IAG Audit and Compliance Committee's bi-annual risk heat map review, including a review of the assessment of the Group's performance against its risk appetite, scenarios for assessment of viability and the outputs from the viability modelling. The Audit and Compliance Committee has early sight of management consideration of scenarios to enable it to challenge subjectivities and confirm rationale. It then reviews the outputs at year end and makes recommendations on the viability assessment and statement to the Board.

The IAG Board reviews the Group's risk heatmap annually and it has completed a robust assessment of the Group's emerging and principal risks in the year.

Enterprise Risk Management function

The Enterprise Risk Management function provides support across the Group to ensure risk management processes are appropriately embedded and applied consistently, as well as working with management to identify risk, challenge assessments and strengthen the risk culture across the Group. The function provides enterprise risk management guidance and shares best practice across the Group and its operating companies, keeping them informed of any risk-related regulatory developments. The function is responsible for ensuring that the Enterprise Risk Management framework remains agile and responsive to meet the needs of the business and its stakeholders.

Year in review

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, expose the Group to a number of risks.

The Group's exposure to the external risk environment and the weaknesses in the resilience of the aviation sector's supply chain and inflation impacts, combined with an ambitious transformation and change agenda has required assessment of how risks are evolving and responding to mitigating actions.

With the return of operations as markets have re-opened, the Group has reviewed macroeconomic and geopolitical events to identify emerging risks and implications for existing principal risks.

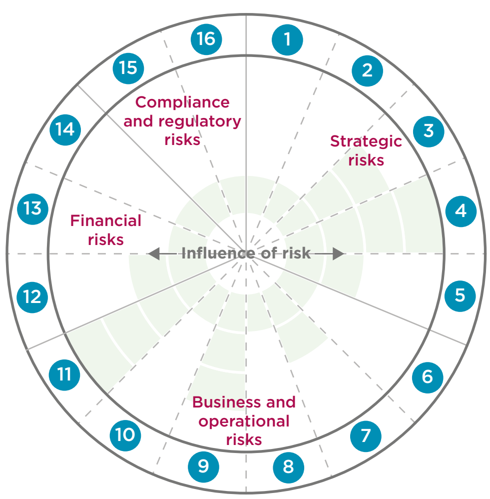
The Group has also considered operational resilience, competition and market risk changes, the status of the financial markets and access to finance, people and culture across the Group and customer satisfaction and trust. Macroeconomic uncertainty and impacts on inflation, interest and exchange rates have been reflected in the principal risk assessments. Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature.

Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in the Group's latest business plan and related risk scenarios.

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

Principal risks influence

The relative level of influence each principal risk has on the other principal risks



Principal risk radar

The assessed likelihood of risk materialisation for each principal risk

Key

Stakeholder impact

Customers
Employees
Suppliers
Governments and regulators
Shareholder, lenders and other financial stakeholders

Link to principal risk

Strategic priorities

1 2 3

Risk trend

Increase
Stable
Decrease

Considered in viability assessment scenarios

V 1 2 3 4

Strategic

Principal risk	Strategic priorities	Risk trend 2022	Risk trend 2021	Viability scenario
1 **Brand and customer trust** Chief Strategy Officer	1 2 3	=	↓	2
2 **Competitive landscape** Chief Strategy Officer	1 2 3	=	↑	1 2
3 **Critical third parties in the supply chain** Chief Transformation Officer	1 2 3	↑	↑	2
4 **Economic, political and regulatory environment** Chief Strategy Officer/Chief People, Corporate Affairs & Sustainability Officer	1 2 3	=	=	1
5 **Sustainable aviation** Chief People, Corporate Affairs and Sustainability Officer	1 2 3	↑	↑	2 4

Business and operational

Principal risk	Strategic priorities	Risk trend 2022	Risk trend 2021	Viability scenario
6 **Cyber attack and data security** Group CIO	1 2 3	=	=	3
7 **IT systems and IT infrastructure** Group CIO/Chief Transformation Officer	1 2 3	=	↑	3
8 **Operational resilience** Chief Strategy Officer/Operating company CEOs	1 2 3	↑	=	1 2 3
9 **People, culture and employee relations** Chief People, Corporate Affairs and Sustainability Officer/Operating company CEOs	1 2 3	=	↑	2
10 **Safety or security incident** Operating company CEOs	1 2 3	=	=	
11 **Transformation and change** Chief Transformation Officer	1 2 3	=	NEW	2

Financial risk including tax

Principal risk	Strategic priorities	Risk trend 2022	Risk trend 2021	Viability scenario
12 **Debt funding** Chief Financial Officer	1 2 3	=	=	1
13 **Financial and treasury-related risk** Chief Financial Officer	1 2 3	=	=	1
14 **Tax** Chief Financial Officer	1 2 3	=	=	

Compliance and regulatory

Principal risk	Strategic priorities	Risk trend 2022	Risk trend 2021	Viability scenario
15 **Group governance structure** General Counsel	1 2 3	=	=	
16 **Non-compliance with key regulation and laws** General Counsel	1 2 3	=	=	

Principal risk register

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the Board and Management Committee believe to be the most likely to have a potential material impact on the Group.

Strategic

1 Brand and customer trust

Chief Strategy Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The Group's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the Group airlines' brands and their associated reputation for customer service and value. The Group airlines' brands are, and will continue to be, vulnerable to adverse publicity regarding events impacting service and operations. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. Where customers have been impacted as a result of operational resilience issues in the year, all airlines have worked directly with their customers to resolve the issues and ensure, where possible, that customers have been able to complete their travel plans. IAG remains focused on strengthening its customer-centricity to ensure that its operating companies continue to adapt and focus their business models to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. The resilience and engagement of our people as customer service ambassadors to deliver excellent customer service is critical to retaining brand and customer trust.

Risk description

Erosion of the brand and customer trust through poor customer service or lack of reliability in operations, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.

If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.

Failure to meet customer expectations on sustainability and the Group's impact on stakeholders and society could impact the Group and its brands.

Strategic relevance

- The Group's brands are positioned in their respective markets to meet their customer propositions and deliver commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.
- IAG will continue to focus on its customer propositions to ensure competitiveness in its chosen priority customer demand spaces and to ensure that it adapts to meet changing customer expectations.
- The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.

Mitigations

- All IAG airlines are considered within the brand portfolio review.
- Brand initiatives for each operating company have been identified and are aligned to the plan.
- Product investment to enhance the customer experience supports the brand propositions and is provided for in the plan.
- All airlines track and report to IAG on their Net Promoter Score (NPS) to measure customer satisfaction.
- IAG Customer Steering Group meets monthly and shares initiatives.
- Hygiene and travel protocols have been implemented across the Group's airlines to address regulatory requirements resulting from the COVID-19 pandemic.
- Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.
- Enhanced flexibility in airline booking policies.
- Increased focus on the end-to-end customer journey from flight search through to arrival and baggage reclaim.
- The Group's global loyalty strategy builds customer loyalty within IAG airlines.
- The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.
- Robust portfolio process to determine the right investments across the Group.
- The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.
- Additional focus on customer feedback.

Strategic

2 Competitive landscape

Chief Strategy Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The recovery of demand in the year has seen a significant return of capacity into the market. The distortionary effects of the governmental support and aviation-specific state aid measures on the competitive landscape, including those provided in response to the COVID-19 pandemic, continue to be assessed. The Group is investing in new fleet and products to maintain its competitive position in the markets in which its airlines operate.

IAG acquired 20 per cent of Air Europa by converting its convertible loan in August 2022 and has agreed the acquisition of the remaining 80 per cent as at February 23, 2023, subject to relevant regulatory approvals.

See Financial review section

The Group continues to lobby over the negative impacts of government policies on aviation or policy asymmetry, such as increases in Air Passenger Duty (APD).

Risk description

Competitor capacity growth in excess of demand growth could materially impact margins.

Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.

Strategic relevance

- The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.
- Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

Mitigations

- The IAG Management Committee meets weekly and undertakes regular operating company-specific reviews.
- The Board discusses strategy throughout the year and dedicates two days per year to undertake a detailed review of the Group's strategic plans.
- The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit opportunities and accelerate change.
- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.
- The Group maintains rigorous cost control and targeted investment to remain competitive. The Group Procurement function reviews all critical contracts.
- The Group's airlines are focused on customer-centricity and operational resilience.
- The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.
- The IAG Management Committee regularly reviews market share and the commercial performance of joint business agreements.
- The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.
- The Group's Government Affairs function monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.

Strategic

3 Critical third parties in the supply chain

Chief Transformation Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3		↑	↑	v

Status The aviation sector has been affected by global supply chain disruption which has impacted aircraft deliveries, component availability, resource availability and/or threat of employee industrial action in critical third parties and airport services such as Border Force. It has also been impacted by the high inflationary environment driving additional costs. Operational staffing shortages at hubs and airports have required capacity adjustments, including managing the impact on British Airways' customers and operations of the decision by Heathrow Airport to cap passenger numbers during the summer of 2022. The Group proactively assessed its schedules to ensure our customers had sufficient notice of any changes to their flight plans wherever possible and within our airlines' control. Learnings from the summer disruptions were identified and actions to improve resilience have been implemented. The Group continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource or production delays which could delay the availability of new fleet, engines or critical goods or services, in some places. This has led to increased costs to secure such services. Additional focus was placed on key suppliers given the inflationary environment impacting wages and costs of goods, to understand any business or operational continuity impacts.

The Group continues to lobby and raise awareness of the negative impacts of air traffic control (ATC) airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly with the capacity recovery and continued closure of Russian airspace. The Group relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities. The Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow.

Risk description

IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group sustainability programme.

IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.

IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.

IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.

IAG is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which the Group operates.

Strategic relevance

- Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers and impacting our brand and reputation.
- Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside the Group's control.
- London Heathrow has no spare runway capacity.
- An uncontrolled increase in the planned cost of expansion could result in increased landing charges.
- Airport charges represent a significant operating cost to the airlines and have an impact on operations.
- Inflationary cost pressures within the supply chain may increase the cost of travel.

Mitigations

- The Group mitigates engine and fleet performance risks, including delays to delivery and unacceptable levels of carbon emissions, to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
- The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
- The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
- The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary and inflation minimised.
- The Group procurement function has oversight of all critical contracts across the Group's businesses.
- Alternative suppliers are identified where feasible.
- Transformation initiatives to offset inflation.

Strategic

4 Economic, political and regulatory environment

Chief Strategy Officer
Chief People, Corporate Affairs and Sustainability Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The economic impact of energy shortages and increases in commodity and wage costs have driven significant inflation and uncertainty over the economic outlook. The Group is closely reviewing the impacts of wage and supplier inflation on margins and customer demand. The Group will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required and where possible.

The Group airlines have utilised the slot alleviation waivers granted by regulatory bodies in 2022. Impacts and consequences of the pandemic have continued in 2022, such as the gradual opening of China and with restrictions remaining in countries with varying degrees of passenger and airline operational complexity to comply with.

Wider macroeconomic trends are being monitored such as a potential economic recession, tone of dialogue between the US, Russia, China and the EU and UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to the Group is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered across the Group. The Group also considers changes in government in key markets and the implications for trade, respective economic health and how it views the aviation industry, with elections expected in the UK, Ireland, Spain and the US over the next two years.

Developments in relevant international relationships, in particular as they affect air services agreements to which the EU or UK are party, are monitored throughout the year and IAG operating companies' positions advocated with national governments. Any further macroeconomic trends or potential requirements arising from Brexit are monitored by the IAG Government Affairs function.

See the Regulatory environment section

Risk description

Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.

Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.

Changes in government may result in a change in sentiment to aviation and access to markets.

Government policy asymmetry impacting a domestic market could increase the burden of regulation and cost to our passengers.

Strategic relevance

- IAG remains sensitive to political and economic conditions in the markets globally, particularly in our hub markets. All of the following can be influenced by political and economic change
  - Business and leisure demand for travel
  - Inflation impacts on the cost base
  - Access to markets for new or existing routes
  - Increasing levels of regulation
  - Supply of products

Mitigations

- The Board and the Management Committee review the financial outlook and business performance of the Group through the monthly trading results, financial planning process and the quarterly reforecasting process.
- Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.
- External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring.
- IAG Government Affairs function monitors governments' initiatives, represents the Group's interest and gives the Group and its operating companies early sight of likely changes to laws and regulations, e.g. any review of slot allocation policy in the UK or EU.
- The Group engages with its regulators, governments and other political representatives and trade associations to help represent the views and contribution of the Group and aviation to society and economies.

Strategic

5 Sustainable aviation

Chief People, Corporate Affairs and Sustainability Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3		↑	↑	V

Status IAG is committed to a target of net zero carbon emissions across its operations and supply chain by 2050 along with 2025 and 2030 targets. The Global Business Services (GBS) procurement function will have a key role to play in ensuring its delivery of the Scope 3 commitment for the Group with supplier sustainability ratings and sustainability clauses in supplier contracts key considerations for future contract negotiations and renewals. IAG has also committed to 10 per cent Sustainable Aviation Fuel (SAF) usage on average across its fleet by 2030.

In July 2021, the EU announced its 'Fit for 55' package of proposals. The Group continues to model potential impacts and costs, which includes the removal of aviation jet fuel tax exemption from 2024, with mitigation plans embedded into financial and strategic planning.

All of the Group's airlines have agreed new deals for the production of SAF to meet the Group's target on the path to decarbonisation. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by the Group in the medium to longer-term, where markets may not have such strict eco targets or government set policy.

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. The Group continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. The Group has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes and is resilient to material climate-related impacts.

See the Sustainability risk and opportunities section

Risk description

Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.

New taxes, the potential removal of aviation jet fuel exemptions and increasing price of carbon allowances impact on demand for air travel. Customers may choose to reduce the amount they fly.

The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity, particularly with policy asymmetry in key markets.

Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.

Strategic relevance

- IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.
- Our stakeholders and potential investors seek confirmation over our sustainability agenda and may link their purchasing, investment or lending decisions to our commitments and progress against them.
- Our customers look to ensure that our airlines allow them to offset their flight emissions.

Mitigations

- IAG climate change strategy to meet target of net zero carbon emissions by 2050.
- Annual incentive plans link manager bonuses to annual carbon intensity targets to enable 2025 target.
- All of the Group's airlines have platforms to offset or mitigate passenger flight emissions over time.
- British Airways and Iberia have loans linked to 2025 carbon intensity targets.
- Embedded climate impacts into the financial statements, balance sheet and other relevant disclosures.
- British Airways customer proposition for carbon renewal credits on BA.com which uniquely offers offsets, removals or SAF.
- IAG investment in SAF with operating companies securing deals in 2022.
- Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.
- EcoVadis partnership with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.
- Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.
- Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes.
- Horizon scanning of potential partners and technology.
- Engagement across UK, EU and global trade associations to shape effective climate policy and drive support for low-carbon solutions.

Business and operational

	Strategic priorities	Stakeholder impact	Risk trend 2022	2021	Viability scenario
6 Cyber attack and data security Group CIO	1 2 3				V

Status The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The threat of ransomware attacks on critical infrastructure and services has increased as a result of the war in Ukraine and the potential for state-sponsored cyber attacks. The Group continues to focus its efforts on appropriate monitoring to mitigate the risk.

The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. The Group airlines are subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).

Investment in cyber security systems and controls continues as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to a Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the cloud across the Group's airlines will further help to improve the security controls environment. As the Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.

Risk description

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.

If the Group does not adequately protect customer and employee data, it could breach regulations and face penalties and loss of customer trust.

Changes in working practices and environments for the Group's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.

Strategic relevance

- The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.
- The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews its own cyber projects at least quarterly.
- The IAG Chief Information Security Officer provides assurance and expertise around strategy, policy, training and security operations for the Group.
- Detection tools and monitoring are in place. The Group-wide security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the Group's defences.
- External attack surface monitoring and threat intelligence is used to analyse cyber risks to the Group.
- External benchmarking on cyber posture.
- There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure, and regulations are adhered to.
- Data Protection Officers are in place in all operating companies, coordinated through a Group-wide Privacy Steering Group.
- Working practices are reviewed to ensure the integrity of the cyber and data security.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.
- Security architecture team embedded into Datacentre migrations programmes.
- Desktop exercises to test business response plans have been held across the Group airlines during the year.

Business and operational

	Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
7 IT systems and IT infrastructure Group CIO Chief Transformation Officer	1 2 3				V

Status The Group recognises the importance of technology to business transformation and growth. The Chief Information Officer (CIO) works with the Chief Transformation Officer (CTO) to ensure appropriate prioritisation and investment in the Group's transformation. Both are members of the IAG Management Committee.

The Group has reviewed its IT operating model and has moved more resources into product teams more closely aligned to business needs. All of the Group's businesses have a Chief Digital and Information Officer (CDIO) who represents their business within IAG Tech. This has strengthened IAG Tech's focus on supporting the transformation of the Group's legacy estates to deliver digital customer experiences. The IAG Tech Management Committee governance structure is mirrored across into the Group's businesses to ensure that IT investment and operating company requirements are appropriately prioritised and delivered.

The Group is reliant upon the resilience of its systems and networks for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. The Group is currently engaged in a number of major programmes to modernise and upgrade its IT systems, digital capability, customer propositions and core IT infrastructure and network where required. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans. Operational outages are tracked and root causes identified to help minimise any impact to our customers and operations.

Risk description

The dependency on IT systems and networks for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.

The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed.

Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation.

Technology disruptors may use tools to position themselves between our brands and our customers.

Strategic relevance

- IAG is dependent on IT systems for most key business processes. Increasingly, the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure, e.g. airport baggage operators.
- Competitors and new entrants to the travel market may use digital tools and technology more effectively and disrupt the Group's business model.

Mitigations

- IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.
- Operating companies' IT boards are in place to review delivery timelines.
- IAG Tech leadership and professional development framework.
- Reversion plans are developed for migrations on critical IT infrastructure.
- System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
- Robust portfolio process to determine the right investments across the Group.
- IAG Tech CIO and MC have strategic relationships with all critical IT suppliers and oversight of all critical IT contracts across the Group's businesses.
- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.
- IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

Business and operational

8 Operational resilience

Chief Strategy Officer
Operating company CEOs

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3		↑	=	V

Status The COVID-19 pandemic resulted in an unprecedented level of disruption to the aviation sector and changed the Group's perspective on how resilient it needed to be to withstand severe unexpected stresses. Potential high-impact, low-likelihood events have been considered that could have the potential to disrupt IAG and/or the aviation sector. Many of these events remain outside the Group's control such as adverse weather, another pandemic, civil unrest or a terrorist event seen in cities served by the Group's airlines.

The Group is reliant on critical third parties for services and goods, many of which have been impacted by resourcing challenges, inflation and supply chain disruption. Ongoing labour shortages, threat of strike action in the aviation sector and staff sickness have impacted the operational environment of the Group's airlines as well as the operations of the businesses on which the Group relies. Many of these events can occur within a close timeframe and challenge operational resilience. In addition, the Group has significant IT infrastructure changes to complete which could impact operations. The Group is focused on minimising any unplanned outages or disruption to customers with additional resilience built into the airlines' networks.

Risk description

An event causing significant network disruption or the inability to promptly recover from short-term disruptions may result in lost revenue, customer disruption and additional costs to the Group.

Public health concerns impacting populations at scale could see an adverse effect on the Group where governments choose to impose restrictions, as would any future pandemic outbreak or other material event impacting operations or customers' ability to travel.

The Group's airlines may not be able to resource their operations sufficiently resulting in impacts to customers and brands.

The Group's airlines are reliant on critical third parties to deliver services and any failure of the level of service may impact operational resilience and our customers.

Strategic relevance

- The Group's airlines may be disrupted by a number of different events.
- A single prolonged event, or a series of events in close succession, impact on the Group airlines' operational capability, financial status and brand strength.
- The Group needs to adhere to local governments' restrictions and regulations especially related to safety and public health and is therefore sensitive to any consequential impact on demand.

Mitigations

- Management has business continuity plans to mitigate this risk to the extent feasible, with focus on operational and financial resilience and customer and colleague safety and recovery.
- Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.
- All of the Group's airlines are focused on developing customer disruption management tools to help our customers in times of disruption.

Business and operational

9 People, culture and employee relations

Chief People, Corporate Affairs and Sustainability Officer
Operating company CEOs

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3				V

Status The resilience and engagement of our people and leaders are critical to achieving our transformation plans. Our people are a critical enabler of the Group's future success. Our leadership recognises the efforts of our staff and their resilience and commitment supporting the ramp up of operations. Resource shortages and the timelines to secure resource, particularly in the UK and Ireland, impacted operational readiness and resilience. The Group is focused on measures to attract and secure flight and ground staff into its airlines to enable them to fulfil their schedules and maintain competitiveness.

The Group is focused on staff well-being and people morale and motivation, including supporting agile and hybrid working models. Welfare support schemes are in place to support the Group's staff, and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. All operating companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description

Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.

Our people are not engaged, or they do not display the required leadership behaviours.

The Group businesses fail to attract, motivate, retain or develop our people to deliver service and brand experience.

Critical skillsets are not in place to execute on the required transformation and drive the business forward.

If the Group's airlines cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.

Strategic relevance

- The Group has a large unionised workforce with around 89% of colleagues represented by a number of different trade unions under collective bargaining agreements. IAG relies on the successful agreement of collective bargaining arrangements across its operating companies to operate its airlines.
- The right skillsets and culture are needed to transform our businesses at the pace required.
- The Group's airlines require specialist skillsets to continue to operate.

Mitigations

- Ongoing information sharing, consultation and collective bargaining with unions across the Group take place on a regular basis led by operating companies' human resources specialists, who have a strong skillset in industrial relations.
- Ensuring that remuneration is aligned to local markets in terms of productivity and pay.
- Operating companies' people strategies are in place in our businesses.
- Succession planning within and across operating companies has been reviewed by the IAG Management Committee and Board and a consistent process is being implemented across the Group.
- Focus on recruiting and developing skills to run and transform our business.
- Operating companies' engagement and organisational health surveys have been conducted with subsequent action plans developed to create a positive and inclusive culture.
- Access to support individuals' well-being.
- IAG Code of Conduct is supported by annual awareness programmes and mandatory training for all of our staff.

Business and operational

10 Safety or security incident	Strategic priorities	Stakeholder impact	Risk trend 2022	2021
Operating company CEOs	1 2 3		⊜	⊜

Status The Group's airlines were focused on a safe return to operations in the year. As capacity increased, British Airways focused on recruiting, onboarding training new cabin crew and ground colleagues, with appropriate training to build their skills and knowledge.

The IAG Safety, Environment and Corporate Responsibility (SECR) Committee of the Board and the Board of each operating company continued to monitor the safety performance of IAG's airlines. Safety and security responsibility lies with each Group airline in accordance with its applicable standards. Further detail is provided in the SECR Committee report.

Risk description

A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact the Group's brands, operations and financial performance.

Strategic relevance

- The safety and security of our customers and employees are fundamental values for the Group.

Mitigations

- The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.
- The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.
- There is ongoing security engagement with airports, regulators and public authorities across the airlines' networks.
- Incident centres respond in a structured way in the event of a safety or security incident or intelligence.

Business and operational

11 Transformation and change

Chief Transformation Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
1 2 3			NEW	V

Status The Group has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives across the Group focussed on improving customer service, revenue and cash efficiency. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board.

Risk description

Failure to transform the business to effectively deliver cost efficiency initiatives, maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions.

The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.

The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.

Further standardisation, simplification and efficiencies of the Group platforms are not delivered.

Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of the Group.

The Group focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.

Strategic relevance

- The transformation agenda is critical to the Group's ability to deliver strong returns, compete in the new competitive marketplace, where distortionary effects of aviation support schemes may have allowed competitors to accelerate their change agendas and invest to improve capabilities and customer propositions.

Mitigations

- The Chief Transformation Officer has clear oversight of all programmes acrosss the Group's businesses.
- Mirrored structures in the operating companies.
- Consistent core metrics and dashboard reporting used to assess performance against plan.
- The IAG Management Committee has regular operating company-specific meetings to assess their transformation agenda and the risks to delivery.
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.
- There is operating company-led communications to our employees on change initiatives and changes that may affect them.
- Consideration is given to the Group's sustainability commitments and agenda for all programmes.
- Any potential changes that could impact the brand are reviewed to mitigate against brand damage.

Financial risk including tax

12 Debt funding

Chief Financial Officer

Strategic priorities	Stakeholder impact	Risk trend 2022	2021	Viability scenario
1, 2, 3				V

Status Access to the unsecured debt markets may be restricted for sub investment-grade organisations, which may reduce the external funding options available to the Group for new aircraft financing or where it chooses to re-finance upcoming maturities. The Group successfully raised financing for all its aircraft deliveries during 2022, using normal long-term aircraft financing arrangements. Rising interest rates also increase the debt servicing cost for floating rate debt and new debt arrangements. As at December 31, 2022 approximately one quarter of the Group's debt was floating rate.

See Financial review section

Risk description

Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.

New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.

Higher interest rates in the market for new finance arrangements or re-financing may impact the Group's cost base.

Strategic relevance

- The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions, financial institutions' appetite for secured aircraft financing and the financial market's perceptions of the future resilience and cash flows of the Group.

Mitigations

- The IAG Board and Management Committee review the Group's financial position and financing strategy regularly.
- The Group has maintained clear focus on protecting liquidity with c.€14bn of liquidity at 31 December 2022.
- During 2022, the Group extended the availability of its $1.755 billion revolving credit facility by one year to March 2025.
- Maintain strong relationship with banks, lenders and lessors.
- Scenario planning for different financial environments.

Financial risk including tax

13 Financial and treasury-related risk Chief Financial Officer	Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
	1 2 3				V

Status Fuel cost increases have been partly mitigated by the Group's fuel hedging policy. Access to fuel hedging instruments or the ability to pass increased fuel costs on to consumers could impact the Group's profits. The Group continues to assess the strength of the US dollar against the euro and pound sterling and the potential impacts on the Group's operating results. All airlines hedge in line with the Group hedging policy.

The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography continue to be assessed to ensure the Group responds to the rapidly changing financial environment appropriately. Details are set out in the Group financial statements.

Risk description

Failure to manage the volatility in the price of oil and petroleum products.

Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airlines' local currencies of euro and sterling.

Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.

Failure to manage the financial counterparties' credit exposure arising from cash investments and derivatives trading.

Strategic relevance

- The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.
- The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.
- The volatility in floating interest rates can have a material impact on the Group's operating results.
- The Group is exposed to non-performance of financial contracts that may result in financial losses.

Mitigations

- Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.
- All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.
- The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.
- Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.
- All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.
- The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments.
- The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis.
- The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts. Any position outside of policy limits has to be approved by the IAG Audit and Compliance Committee.

Financial risk including tax

14 Tax Chief Financial Officer	Strategic priorities	Stakeholder impact	Risk trend 2022	2021
	1 2 3			

Status Tax is managed in accordance with the Tax Strategy, found in the Corporate Policies section of the IAG website. Further information about taxes paid and collected by IAG is set out in note 10 of the Group financial statements.

Risk description

The Group is exposed to systemic tax risks arising from either changes to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation.

Businesses and consumers may be subject to higher levels of taxation as governments seek to increase environmental taxes, redesign the global tax framework and recover the national debts arising from COVID-19 pandemic support measures.

The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.

Strategic relevance

- Payment of tax is a legal obligation. Changes in the tax regulatory environment, including changes in tax rates, may result in additional tax costs for the Group and in additional complexity in complying with such changes. The Group's tax strategy aims to balance the needs of our key stakeholders, recognising that tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates.

Mitigations

- The Group adheres to the tax policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities.
- Tax risk is managed by the operating companies in conjunction with the IAG Tax function.
- Tax risk is overseen by the Board through the Audit and Compliance Committee.
- The Group seeks to understand its stakeholders' expectations on tax matters, e.g. cooperative working with tax authorities and its interaction with non-governmental organisations.
- The IAG Board annually reviews the tax strategy.

Compliance and regulatory

15 Group governance structure

General Counsel

Strategic priorities 1 2 3

Stakeholder impact

Risk trend **2022** 2021

Status The aviation industry continues to operate under a range of nationality and other restrictions, some of which are relevant to market access under applicable bi-lateral and multi-lateral air service agreements, while some are relevant to eligibility for applicable operating licences. The Group will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

See Corporate governance section

Risk description

IAG could face a challenge to its ownership and control structure.

Strategic relevance

- Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences, an EU airline must be majority-owned and effectively controlled by EU nationals. British Airways is a UK carrier and not subject to the same requirement.

Mitigations

- The Group has governance structures in place that include nationality structures to protect Aer Lingus', British Airways' and Iberia's operating licences and/or route rights. These have been approved by the relevant national regulators.
- IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

16 Non-compliance with key regulation and laws

General Counsel

Strategic priorities 1 2 3

Stakeholder impact

Risk trend **2022** 2021

Status The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year. For safety- and security-related regulatory risks, please refer to the 'Safety and Security Incident' risk.

Risk description

The Group is exposed to the risk of an individual employee's or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.

Strategic relevance

- Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.

Mitigations

- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance monitored by the IAG Audit and Compliance Committee.
- There are mandatory training programmes in place to educate employees as required for their roles in these matters.
- Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.
- IAG Code of Conduct is supported by annual awareness programmes and mandatory training for all of our staff.
- Data Protection Officers are in place in all operating companies.

Viability assessment

Risk assessment across the timeline of the plan

The directors have assessed key threats and trends faced by the industry, emerging risks and opportunities, as well as other industry and Group-specific risks that could impact the Group's business plan:

- These are considered in light of their impact on our business model and relevance, operations, customers, financial status and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities, technology trends, environmental implications and infrastructure developments that could impact our operations, as well as more existential threats to aviation.
- When developing the Group's three-year business plan, longer-term considerations have been assessed by the Management Committee and the Board in conjunction with the priorities of and risks faced by the business.
- The Board has also conducted its annual strategy session in addition to progress reviews during the year. Following this process, short-, medium- and longer-term priorities, challenges and opportunities have been identified and actions agreed.

Scenarios modelled

The Group undertakes extensive analysis, forecasting and scenario modelling throughout the year. Stresses reflect specifics to markets and regions relevant to the Group's airlines as well as the analysis completed at the Group level.

When considering the viability of the Group, the directors evaluated the risk landscape and recommended the following plausible but severe downside scenarios.

1. Downside case

2 4 8 12 13

2. Business transformation and operational resilience

1 2 3 5 8 9 11

3. Cyber security and IT infrastructure

6 7 8

4. Sustainability

5

Full details of modelled scenarios provided on the next page

Link to Principal risks

Longer-term trends and risk considerations

The directors have assessed industry, Group-specific and non sector-specific longer-term trends over a timeframe beyond the plan period, such as climate change regulation, infrastructure proposals at hubs, availability and timing of technologies in fleet that will benefit the environment, move to and exploitation of the cloud and disruptive innovation. This may require the business to consider strategic responses, plans to adapt and require new skillsets to implement ahead of any potential impact to the Group plan.

- Other considerations include:
  - economic trends and shifts in the relative strengths of global economies including market dynamics and inflation, the competitive landscape and changes in customer behaviours or sentiment to travel
  - supply chains and connectivity, movement of physical goods, inflationary and availability pressures on key suppliers
  - costs of compliance to environmental and climate change regulations and/or lack of availability of infrastructure within countries to meet commitments or government mandates
  - areas of risk or opportunity for the Group, such as workforce availability, war for talent, diversity and inclusion ambitions, hybrid ways of working and different career expectations from new joiners into workforces and the aviation industry
  - structural changes in how customers travel and the potential macroeconomic consequences of rising unemployment and inflation
  - the potential longer-term economic impact of Brexit
  - the Group's resilience to future events impacting aviation or global markets, financial markets, interest rates and exchange rates, particularly the US dollar
  - stakeholder expectations over commitment to acting with integrity to protect our planet, particularly climate change and carbon impacts

Management has assessed and the Board considered the longer-term sustainability and climate risks, applying scenario analysis techniques as set out by the TCFD process. Further details can be found in the Sustainability report.

Viability scenario process

When considering the viability of the Group, for the purposes of this report, the directors have evaluated the risk landscape facing the Group and recommended plausible but severe downside scenarios that could impact the Group's refreshed three-year plan to determine the Group's resilience to such impacts. The results of these scenarios on the plan have been presented both pre and post an assessment of the likely effectiveness of the mitigations that management reasonably believes would be available over this period (and not already reflected in the plan).

- The scenarios have been defined by management and designed to consider principal risks that could materialise over the viability period and weaken the Group's liquidity position, and therefore its financial sustainability. Each scenario considered the impact on liquidity, solvency and the ability to raise financing in an uncertain and volatile environment.
- Management has also assessed mitigations that are available to the business beyond operating cost reductions including further financing, capital expenditure plans and potential disposals. Options that may not have been previously considered are presented as appropriate to the Board to assess. In reviewing and approving the scenarios, the Board considered, amongst other matters, the availability and sufficiency of potential mitigations, the expected speed of implementation in response to the uncertainty and the future flexibility required for the Group to adapt further as needed.
- Sensitivities in the scenarios' assumptions have been highlighted by management and challenged by the Board. In addition, the Board reviewed the results of capacity and margin reverse stress tests, which demonstrated the level of sustained capacity reductions, with losses capped as experienced through the pandemic and losses followed by margin decline (before mitigations) that would result in the Group using all available liquidity (including cash and currently available undrawn credit facilities) and compared this to the outputs from the scenarios.

Scenarios modelled

No.	Title	Link to principal risks
1	**Downside case**	
	Downside case stressing the plan models a combination of risks facing the Group, including risks to economies following the pandemic and as a result of the war in Ukraine. Scenario configures a blend of commercial and operational adverse impacts which would result in capacity reductions over and above the Group's business plan assumptions. In addition, a more severe downside case with increased sensitivities, including increased fuel prices, has also been considered. Economic considerations include demand impact from global economic pressures resulting in reduced revenues, and increased operating costs due to inflationary pressures. Operational considerations factor in operational disruption as a result of airport capacity, resourcing issues or strike action; and further schedule disruption as a result of severe weather, winter resourcing or other operational issues. Reduction in capacity modelled from these considerations further impacts the Group's revenues. The Downside case assumes that €350 million of the €3.3 billion of available general credit facilities are required to be drawn, assuming no further mitigating actions. As part of the modelling, consideration was given to some of the key factors that could influence the evolution of cash in the Downside case. Cost mitigations were considered across all operating cost lines, including the sensitivity to cost variability being lower than that assumed. Fuel was modelled directly, based on fuel curves and hedging plans. Working capital and capital expenditure adjustments were applied within the scenarios. The scenarios assume that the Group is able to continue to secure financing for future aircraft deliveries, having successfully financed all aircraft deliveries during 2020, 2021 and 2022 and, in addition, has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience. The Group has considered the acquisition of Air Europa Holdings for the purposes of the viability assessment. The period to June 2024 of this Downside case has also been applied as the Downside case set out in the going concern analysis (see note 2 of the Group financial statements).	**2, 4, 8, 12, 13**
2	**Business transformation and operational resilience**	
	Potential for lost revenue impact arising from delays in delivering and realising the benefits of business transformation initiatives and increased costs of securing required resourcing levels. Lost revenue within some IAG airlines from pre-emptive flight cancellations with resultant reputational impact in response to resourcing challenges. Increased staff attrition and industrial relations strike action across IAG airlines due to nature and pace of business transformation plans increases costs and impacts revenues. Further revenue impact considered from reduced capacity as a result of airport capacity and air traffic control airspace restrictions.	**1, 2, 3, 5, 8, 9, 11**
3	**Cyber security and IT infrastructure**	
	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period of one week resulting from the attack before full connectivity is restored, impacting customers and operations of the affected airline. It also assumes lost revenue due to disruption of operations at the affected airline with knock-on impacts to other IAG airlines due to need to isolate and switch off connectivity of Group shared credentials platforms. There are also further lost revenues due to reputational impact and increased EU 261 costs. Associated costs of recovering from the incident include the disruption through the investigation period including increased IT costs as well as brand impacts, and the potential for regulatory scrutiny and fines. In addition, the scenario considers an unplanned outage owing to data centre migration activity resulting in short notice flight cancellations causing further lost revenue and increased EU 261 costs.	**6, 7, 8**
4	**Sustainability**	
	An increasing revenue stress on shorthaul operations across the Group to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). Transatlantic revenues below plan expectations also modelled to reflect a potential long-term change in corporate business travel behaviours. Revenue impact from schedule disruption due to extreme weather events also considered within the scenario alongside increased costs from new taxes and additional fuel costs in years 2 and 3 due to biofuels mandate. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the implementation of new regulatory policy, carbon costs and the cost and availability of Sustainable Aviation Fuel are also subject to assessment and modelling by the Group.	**5**

Viability statement

The directors have assessed the viability of the Group over three years to December 2025. They have considered the post pandemic global macro-economic environment and uncertainty, the health of the aviation industry and its supply chain, the assumptions of the plan, the strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the directors have determined that a three-year period is an appropriate timeframe for assessment as it is aligned with the Group's strategic planning period (as reflected in the plan) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and continue to drive change in the external risk environment. The Board recognises the pace of change required within the Group to further adapt and respond to this environment in addition to the rapidly changing competitive landscape and wider global macroeconomic conditions.

The Group has modelled the impact of mitigating actions to offset further deterioration in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Further details on debt financing can be found in the Going Concern disclosures in note 2 of the Group financial statements.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2025. However, this is subject to a number of significant factors that are outside of the control of the Group. In reaching this assessment the directors have made the following assumptions when considering both the plan and the Downside case (the most severe and plausible of the viability scenarios considered):

- the Group will continue to have access to funding options and that the capital markets retain a level of stability and appetite for funding within the aviation sector;
- the Group can implement any further structural changes required in agreement with any union consultation processes and regulatory approvals;
- future COVID-19 pandemic or other public health related restrictions do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;
- any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

In the event of another risk scenario resulting in an adverse liquidity impact in excess of the Downside case and other stresses it has considered, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is forecast at February 23, 2023.

Positive engagement to support recovery

Engagement context

IAG continued to face considerable uncertainty in the political and regulatory environment during 2022, not least because travel restrictions designed to limit the spread of COVID-19 remained in place around the world to varying degrees. Throughout the year, therefore, IAG engaged with policy makers to understand and manage changes to travel rules, as well as to explain the benefits of a return to normal travel. We encouraged focus on key issues, in particular sustainability, where policy intervention can provide mutual benefit to customers and all stakeholders in wider society as well as to IAG itself.

The impacts of the pandemic in 2022 have been felt not just in the practical implications of travel restrictions but in impacts on other specific areas of aviation policy and in the approach of regulators. The pace of political change in the UK, with its wider impacts on business, has also required monitoring and re-engagement with new ministerial teams.

IAG aims to make the case for the economic and social benefits of aviation through connecting people and businesses, facilitating trade and enabling positive international relationships. To do so, the Group directs its engagement largely towards governments and regulators in the countries of its operating airlines and with the institutions of the European Union, working closely with our trade association Airlines 4 Europe. We have also contributed to supra-national policy fora such as ICAO (through IATA) and directly with governments in key world markets to support market access or manage doing business issues for our operating companies.

COVID-19

Travel restrictions

The removal of travel restrictions has been a staged process through the year, with changes at irregular intervals. For example, while the European Commission advised on March 1 that all EU countries should essentially allow all travel by those with an approved vaccination, a variety of requirements existed across the EU through 2022. While travel to Spain in the summer season was enabled, full entry restrictions were not lifted until September.

Ireland saw the removal of requirements for passenger locator forms and proof of vaccination for inbound travel to Ireland on March 6. This was followed by the withdrawal of the Irish Government's Aviation Protocol covering remaining COVID-19-related restrictions on May 16.

In the UK, all travel requirements were lifted on March 18 with the UK Government explicitly recognising the importance of travel to the country by removing them in time for the busy Easter holidays.

The requirement for travellers to be vaccinated against the disease remains a standard one in many key markets, including the US. The necessary customer communications have been embedded in IAG's operating companies but variations in the details of rules around the world continue to mean monitoring of changes is needed.

In some countries, largely in Asia, restrictions on travel still present significant barriers to resuming normal operations. In these cases, where there are complex requirements on airlines, IAG and its operating companies continue to engage, both directly and through their relevant national regulators, with the relevant authorities to simplify and lift legacy rules.

Other impacts in 2022

Although the safety-critical and strategic nature of international aviation has always meant there is a role for government and regulators in the sector, IAG observes that one legacy of the pandemic is the tendency for governments to seek to be more closely involved in the operation of the aviation industry than before. In the UK this has resulted in increased scrutiny and demands for information. IAG has worked with British Airways and its other operating companies to reduce the associated administrative burden through positive and regular engagement.

During 2022, demand returned largely as IAG had anticipated but, in contrast, the very significantly increased time that it took to provide resources to meet that demand could not have been foreseen and presented a serious challenge to all parts of the aviation system. Airlines, airports, ground handlers and air navigation service providers in different parts of the world saw considerable operational difficulties, resulting in delays and flight cancellations in the spring and early summer as restrictions were lifted. Airlines reduced capacity to lower the risk of short-notice impacts on customers and airports and in the case of London Heathrow and Amsterdam Schiphol, even imposed caps on passenger numbers.

IAG engaged with governments to highlight the real causes for shortages. In the UK, where the impact was felt most severely, these causes included a smaller pool of labour from which to recruit but also that the time to complete security references tripled. Variations in employment patterns, with applicants having more jobs due to the instability in the employment market, meant that very many more checks with previous employers were required and applicants often had to wait over three months for roles to be confirmed.

IAG and British Airways were also able to provide governments with a clear picture of the knock-on effects in the industry where, for example, lack of air traffic controllers in parts of Europe can cause delays at UK airports.

War in Ukraine

The impact on the aviation industry of Russian's invasion of Ukraine in February is not to be compared with the human tragedy of the war but there are significant impacts on airline operations by preventing European and UK airlines from accessing Russian airspace. IAG has engaged with its government stakeholders to keep them apprised of the impacts on both operations and on other policy areas.

Sustainability

IAG has continued to champion the cause of sustainable aviation and to share its plans for reducing carbon emissions as the industry recovers. To explain and promote its sustainability position, the Group and its individual companies have engaged with representatives of the institutions of the EU and governments of Spain, Ireland and the UK.

IAG welcomes the EU Green Deal and its objectives, with which the Group is aligned, as a powerful package for change. Accelerating the pace of decarbonisation will, however, require support from all stakeholders in the industry and the involvement of all national governments and European institutions. In this regard, a targeted design of the elements of the package, together with that of other relevant EU aviation regulations, is key to ensuring the sector's ability to invest in reducing its carbon footprint.

IAG has made clear in its advocacy that the Group does not support the removal of the current jet fuel tax exemption. This is not a solution for decarbonisation but will reduce the sector's ability to invest in more effective measures with a significant impact for citizens and the economy. Instead, we are firmly of the view that policy should focus on increasing the use of SAF and market-based measures such as the EU ETS and ICAO's Carbon Offsetting and Reduction Scheme (CORSIA).

IAG contends that increasing the use of SAF, which reduces lifecycle CO_2 emissions by 70 per cent, provides the primary near-term opportunity to drive down industry emissions. In April 2021, IAG became the first European airline group to commit to fulfilling 10 per cent of its fuel needs with SAF by 2030 and the Group supports a 10 per cent mandate for SAF for 2030 for all flights within the EU. We call for a global SAF commitment covering all international flights through ICAO. We also encourage the EU and its Member States to include a package of investment incentives to enable scaled-up production of SAF alongside the blending mandate requirement that the Green Deal introduces.

In engaging with UK policy makers, we promote the same public policy levers. We are encouraged that the UK government confirmed its commitment of £165 million to its Advanced Fuels Fund, established to support planning and production of five SAF plants in the country. In December the first £82 million of the fund was awarded to five projects, including three with which IAG is partnering. IAG also welcomed the UK's declaration in July of a mandate for 10 per cent SAF by 2030 (in line with IAG's own target) and we encourage the government to pass the necessary legislation as soon as possible.

Throughout 2022, IAG has promoted a further policy step necessary to progress towards net zero. In conjunction with industry partners, we advocate adopting a price stability mechanism in the UK for SAF. The successful development of the offshore wind sector in the UK was due to the introduction of Contracts for Difference and IAG recommends this tool should be adopted for SAF to reduce the risk for investors and so boost investment in new technology.

On the international stage IAG has long been an advocate for and contributor to the design of CORSIA. We welcomed the October commitment by ICAO to a Long-Term Aspirational Goal for international aviation of net zero carbon emissions by 2050. The Group believes the EU Green Deal must work alongside global measures, not duplicate them, and that the EU ETS should apply to intra-EU flights and CORSIA to extra-EU flights. Applying both systems to flights between EU Member States risks undermining support for CORSIA outside Europe. Similarly, we encourage the use of emissions trading system revenues (in the EU and UK) for investment in carbon reduction measures, as originally envisaged at the creation of the ETS.

Slot allocation

Regulations introduced to restrict air services during the pandemic meant that some aviation policies that are essential in normal circumstances were not effective or appropriate for crisis conditions. Rules that govern the allocation of slots at airports with scarce capacity provide a good example since low demand made them unnecessary.

Although the capacity of the sector was restored to a considerable degree in 2022, there was still need for global regulatory relief from the elements of slot rules that require airlines to operate 80 per cent of any one slot in order to retain it in the following year. The continued relief granted this year recognised that there were divergent recovery rates worldwide and continuing COVID-19 restrictions in some regions. IAG worked with IATA to advocate the adoption of industry-agreed relief measures, as developed jointly with airports and slot coordinators. These guiding principles recognised the value to consumers of allowing temporary waivers from, or more flexible application of, 'use it or lose it' rules so as to maintain long-established airline networks for future seasons.

The UK, the EU and other jurisdictions sensibly adopted a range of alleviation measures, but the patchwork of market-based approaches adopted worldwide introduced further inconsistencies and complexity to the sector during the recovery phase. Such waivers have been gradually lifted so that from summer 23 the industry is effectively returning to pre-COVID-19 rules. IAG continued to support the use of the proven and effective global policies and procedures set out in the IATA Worldwide Airport Slot Guidelines both while the need for waivers remains but also in the long-term. Through 2022 we continued to advocate this internationally agreed system as a way to provide certainty for investors and consumers as well as to maintain global networks and to introduce competition and is engaging with the European Commission in its on-going review of the Slot Regulation that launched in September.

Infrastructure charges

The effective and fair regulation of airport and air navigation service charges, set at a reasonable level, continued to be an important regulatory issue in 2022 with consultations in each of IAG's home markets.

IAG and British Airways made detailed representations to the UK CAA in response to its consultation on the price cap for Heathrow Airport's charges. Having allowed Heathrow Airport Limited (HAL) to increase charges by over 50 per cent in setting an interim price cap for 2022, subsequently extended to 2023 at the same rate, the CAA's Final Proposals required the airport to reduce its overall yield per passenger by RPI -5.75 per cent over the remaining three years of the regulatory period. This will return charges to roughly the same level in 2026 as they are in 2022. IAG considers that the 2022 and 2023 interim price cap is too high but welcomes the overall position the CAA has adopted with the trend of reducing charges. We continue to provide information to the regulator as we await confirmation of the final position, expected in at the end of the first quarter of 2023. IAG also continues to advocate the need for greater transparency of HAL's capital plans and regulatory asset base in future regulatory reviews.

In Spain, Iberia and Vueling, together with IATA, participated in the consultation process on airport charges to minimise cost increases, and secured a decision by the regulator to keep charges flat until 2026 with a specific decrease in charges for 2022 of -3.17 per cent. In Ireland, Aer Lingus engaged with the Commission for Aviation Regulation which is conducting its third interim review of the 2019 regulatory decision. In December, IAG responded to the UK CAA's consultation on an increase to NATS En Route Limited's (NERL) charges, which initially proposed an increase of up to 27 per cent.

Market access

IAG continues to support individual operating companies in securing market access, expanding partnerships with other airlines and enabling operations on new routes. This included attendance at, or contribution to, talks on international air service agreement talks and other bilateral discussions, as well as support for new Group initiatives, such as the creation of British Airways Euroflyer subsidiary at London Gatwick Airport.

Additional disclosures

Table of contents

A. Planet – Climate change

See Sections A.1. and A.2. for 2022 metrics and five-year trends.

A.1.3a. Scope 1 and 2 emissions

Relevant standards: GRI 301-1, 302-1, 303-3, 305-3/4/5

Commentary on key climate change metrics

Footprint metric	Description	Commentary on 2022 trends
Scope 1 emissions (gross)	Direct emissions associated with IAG operations including use of jet fuel, diesel, petrol, natural gas, and halon. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines. Gross emissions includes reductions from Sustainable Aviation Fuel (SAF), in line with globally recognised accounting standards.	2022 emissions increased to 21 million tonnes (MT) due to increased flying demand but remain 31% below 2019 levels. SAF use saved 30,332 tonnes of CO_2e.
Scope 2 emissions	Indirect emissions associated with electricity use in ground facilities like offices, lounges, data centres and hangars. Market-based emissions are based on the carbon intensity of electricity purchased from suppliers. Location-based emissions are based on the carbon intensity of national electricity grids. CO_2e is calculated using gCO_2e/kWh factors from national agencies in Ireland, Spain and the UK, and IEA national electricity emissions factors.	2022 market-based emissions increased to 12 kt due to increased business activity, but remain below the 2019 level of 20 kt due to lower electricity use and greener national grids compared to 2019. Where electricity data from overseas offices was not available, kWh was calculated based on leased space in m^2, multiplied by relevant kWh/m^2 factors based on historical data.
Scope 3 emissions	Indirect emissions associated with products the Group buys and sells. 12 out of 15 Scope 3 categories, as defined by the GHG Protocol, are assessed to be relevant. IAG continues to review Scope 3 emissions calculations in line with the latest approaches and data.	The Group is on track to deliver the 2030 target of 6.6 MT (a 20% reduction versus 2019), based on internal forecasts. Scope 3 emissions increased to 5.5MT due to increased business activity. See Section A.1.3b. for more details.

Progress metric	Description	Commentary on 2022 trends
Flight-only emissions intensity	Grammes of CO_2 per passenger kilometre (gCO_2/pkm) is a standard industry measure of flight fuel efficiency. It is calculated by dividing total jet fuel use by total passenger-km, assuming one cargo-tonne-km is equivalent to 10 passenger-km - then multiplying this value by a conversion factor of 3.15. This calculation excludes the jet fuel used by franchises, cargo carried on other airlines, and engine testing. It excludes no-show passengers, in line with industry guidance.	The improvement to 83.5 g CO_2/pkm is driven by a recovery in passenger load factors, operational efficiency initiatives and the use of SAF. The Group is on track for the 2025 target of 80g CO_2/pkm. The passenger-km value used in the 2022 calculation is 213,376 million and the cargo-tonne-km value is 3,712 million.
Scope 1 emissions (net)	Net emissions are calculated based on gross emissions and then by subtracting any carbon savings from EU, Swiss and UK Emissions Trading Scheme (ETS) compliance obligations, volumes of offsets purchased to meet Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) compliance obligations, and the volumes of offsets voluntarily purchased by IAG. EU ETS allowances purchased from other sectors equate to a net reduction, aligned to European Commission guidance. IAG has been disclosing net emissions since 2017 using this methodology.	The Group is on track to deliver the 2030 target of 22 MT (a 20% reduction versus 2019), based on the roadmap in Section A.1.2. 2022 net emissions were reduced by 1.8 MT due to participation in ETS schemes, as well as British Airways offsetting of domestic flights and Group offsetting of staff and duty travel. Net emissions reductions will be achieved via CORSIA credits when global international emissions rise above the baseline agreed at the International Civil Aviation Organisation (ICAO) General Assembly. This is expected to be 2024.
Renewable electricity	The share of electricity generated by renewable sources such as solar power and wind, based on volumes procured from renewable electricity suppliers. In overseas offices where data on electricity sources was unavailable, the source of electricity is assumed to be the national grid.	This percentage includes electricity use from facilities partially outside IAG's operational control. The 2022 drop to 81% reflects the availability of renewable electricity at relevant airport facilities and leased overseas offices.

Description of and commentary on additional climate change metrics

Metric	Unit	Description	Commentary on 2022 trends
Emissions intensity (Scope 2)	gCO_2/pkm	Based on Scope 2 location-based emissions divided by business activity, as measured in revenue passenger-km including cargo. Complements the flight-only emissions intensity metric.	The improvement to 0.20 gCO_2/pkm is a return to pre-pandemic levels of efficiency, as passenger load factors return to normal levels.
GHG reduction initiatives	'000 tonnes CO_2e	Reductions in CO_2e as a result of specific efficiency initiatives which started in the reporting year. This excludes reductions from externally driven changes applicable to all airlines, such as airspace changes.	The 38% increase to 82 kt is due to the Group delivering efficiency initiatives across the full flight phase including take-off, cruise, approach and landing and engine washes.
Electricity	kWh	Consumption of electricity across IAG ground facilities, in millions of kWh. This includes usage in main offices, overseas offices, hub airports and maintenance facilities. A detailed description of the Scope 2 emissions calculation is on the previous page.	Electricity use remains 20% lower than 2019 due to lower-than-normal occupancy in ground facilities and offices following the COVID-19 pandemic.
Energy	kWh	The sum of the above kWh and energy use from fuel. Fuel energy use is based on volumes of jet fuel, diesel, petrol, natural gas and gasoil, multiplied by appropriate UK Government conversion factors. UK factors are used across the Group as these are considered the most robust available.	Energy use rose 93% due to increased flying activity. 0.4% of kWh is derived from renewable sources, predominantly renewable electricity. Jet fuel is over 99% of MWh and limited volumes of SAF are available.
Revenue per tonne CO_2e	€/tonne CO_2e	Calculated by dividing total Group revenue by the sum of Scope 1 emissions and Scope 2 location-based emissions.	The 2022 value improved to €1,088/tonne CO_2e, better than pre-pandemic levels.
Jet fuel use	tonnes	Jet fuel used within the aircraft fleet and for engine testing during the reporting year.	The 94% increase in jet fuel use, to 6.6 MT, is due to the recovery in flying demand. Jet fuel remains 31% below 2019 level.
Fleet age	years	The average age of aircraft in the IAG fleet as of December 31, 2022. The average age of operational aircraft increases each year. This is offset by the impact of new deliveries and retirements.	Average fleet age increased from 11.2 to 11.9 years. Those aircraft already in the fleet aged by a year, while 27 new aircraft deliveries lowered the average age.

A.1.3b. Scope 3 emissions

In 2021 IAG was the first airline group worldwide to target net zero Scope 3 emissions by 2050. This was complemented by a target of a 20 per cent reduction in net Scope 3 emissions by 2030, compared to a 2019 baseline.

These targets will be delivered in collaboration with suppliers and other stakeholders, by monitoring supplier sustainability performance, engaging with suppliers on their sustainability plans, embedding climate requirements into supplier contract clauses and product specifications, and accounting for delivery of existing supplier targets. IAG is already on track to meet the 2030 target.

IAG has assessed all 15 categories of Scope 3 emissions, as defined by the global GHG Protocol, and identified 12 relevant categories. The Group has over 13,000 suppliers and the scope of emissions calculations within these categories is based on material categories of spend – the two most material categories being jet fuel and aircraft spend, reported under Category 3 and 2 respectively. Four categories represent over 90 per cent of IAG's assessed Scope 3 impact.

IAG continues to refine Scope 3 calculations based on the latest data and assumptions. Standardised conversion factors are used where data from suppliers is not available, and as more data from suppliers becomes available, some values may be restated. Any significant restatements will be provided in future reports with explanations provided.

Total Scope 3 emissions in 2022 are 5,480,816 tonnes CO_2e, versus 3,324,992 tonnes CO_2e in 2021.

Scope 3 category in tonnes CO_2e[1]	Method[2]	versus last year	versus 2019	**2022**	2021	2020	2019
Category 3: Fuel and energy-related production	Fuel-based/ average data	93%	(31%)	**4,385,293**	2,266,561	2,284,992	6,371,621
Category 2: Capital goods	Hybrid data	(45%)	(59%)	**232,000**	424,000	912,000	568,000
Category 14: Franchises	Franchise-specific	29%	(41%)	**475,576**	369,718	235,167	810,334
Category 9: Downstream transportation and distribution	Fuel-based	(6%)	(34%)	**165,037**	174,708	157,554	248,574
Category 11: Use of sold products	Other	133%	(38%)	**152,268**	65,391	59,081	244,459
Category 7: Employee commuting	Average data	32%	(58%)	**7,294**	5,514	5,720	17,515
Category 5: Waste generated in operations	Waste-type-specific	25%	(26%)	**2,790**	2,234	2,872	3,747
Category 1: Purchased goods and services	Average data	17%	(61%)	**268**	229	525	689
Other categories: 4, 6, 8	Varies	186%	2155%	**7,330**	1,807	2,567	325
Category 13: Downstream leased assets	Asset-specific	276%	n/a	**52,860**	14,042	0	0
TOTAL Scope 3 emissions		**65%**	**(34%)**	**5,480,816**	**3,324,992**	**3,659,717**	**8,265,262**

1 Listed in order of highest to lowest climate impact in 2019. Categories less than 1,000 tonnes in 2019 are grouped together.
2 As described in the GHG Protocol "Technical Guidance for Calculating Scope 3 Emissions".

2018 data is not provided as the methodology has changed substantially since that year.

Scope 3 category	Description	Commentary on 2022 trends
Category 1: Purchased goods and services	Emissions from activities which represent material categories of spend and available data. Currently, this is based on water supply and consumption in offices and facilities, laundries, and potable water carried on-board. CO_2e values are calculated by multiplying m^3 water use by UK government conversion factors.	IAG GBS is undertaking an in-depth review of the categories of purchased goods and services and expects to revise the methodology for calculating Category 1 emissions in 2023.
Category 2: Capital goods	Emissions associated with aircraft manufacture and disposal. Calculated by multiplying the number of aircraft delivered and retired within the reporting year, by an effective tCO_2e per plane, based on disclosed operational emissions from aircraft and engine manufacturers in 2018 and 2019.	The decrease in 2022 is due to lower numbers of aircraft deliveries and retirements. 2020 is unusually high due to the number of accelerated fleet retirements related to COVID-19.
Category 3: Fuel and energy-related production	The well-to-tank emissions from jet fuel use, Scope 1 fuel use, and Scope 2 electricity kWh. CO_2e values are calculated by multiplying the weight or energy content of various fuels by the latest standardised UK Government GHG conversion factors.	This value is directly correlated to fuel use. The increase is due to a recovery in flying demand.
Category 4: Upstream transportation and distribution	Emissions from subcontracted vehicles used in hub operations or cargo operations.	Based on 2020 data but not material. The methodology will be reviewed in 2023.
Category 5: Waste generated in operations.	Emissions associated with processing waste via recycling, recovery, incineration or landfill. Calculated by multiplying total extrapolated global waste volumes by appropriate CO_2e/tonne conversion factors from the UK Government.	The increase in 2022 is driven by higher volumes of waste generated as a result of increased flying activity.
Category 6: Business travel	Emissions from jet fuel related to IAG staff travel on other airline carriers. Staff travel on IAG aircraft is captured in Scope 1 emissions. Emissions from crew hotels were included in 2022, where such data was available.	Increased in 2022, driven by an expanded scope of reporting.
Category 7: Employee commuting	Emissions from staff travelling to and from workplaces. In the absence of detailed staff travel data, this is calculated by multiplying the number of FTE employees in the reporting period by the average commuting distance (km) and average weighted carbon intensity (CO_2e/km) of commuting based on the UK Government National Travel Survey.	An increase due to higher business activity, but lower than 2019 as some staff continue to work from home.
Category 8: Upstream leased assets	Jet fuel emissions from any aircraft leased from other carriers on a seasonal basis.	Not relevant in 2022 as no leasing was carried out, but may be relevant in future.
Category 9: Downstream transportation and distribution	Emissions from the fuel use of subcontracted air or ground freight.	The increase in 2022 is due to increased cargo activity.
Category 11: Use of sold products	Emissions related to products purchased by Avios members using Avios points. Purchases of IAG flights are reported under Scope 1 emissions. Product categories reported here are flights on non-IAG carriers, hotel stays and car hire, as these are the most material categories.	The increase in 2022 is due to Avios customer purchasing behaviour returning to near pre-pandemic levels as travel demand recovers.
Category 13: Downstream leased assets	Jet fuel emissions from any aircraft leased to other carriers on a seasonal basis.	In 2022, a non-zero value is reported due to leasing of aircraft to another airline.
Category 14: Franchises	Emissions from the jet fuel burn of aircraft franchises.	The increase in 2022 is due to higher activity in franchises, as flying demand recovers.

A.2. Planet – Other

A.2.1a. Waste definitions

Relevant GRI standards: GRI 306-1/2/3 (2020)

See Section A.2.1 for 2022 waste metrics and a description of the '5 by 2025' waste targets.

Waste type	Waste metric	Description of metric
Single-use-plastic	Volume	Items made wholly or partly of plastic which are typically intended to be used just once or for a short period of time before they are thrown away. This aligns to the EU definition.
Onboard	kg/passenger	**Numerator:** Onboard waste is both cabin and catering waste. Cabin waste is defined as items collected from the cabin following flights, including newspapers, blanket and headphone wrapping, and packaging which passengers have brought onto the aircraft. Includes rubbish bins from toilets and excludes lost luggage. Catering waste is defined as food and packaging left over from onboard catering, including drinks cans, and IAG-owned waste from food preparation at catering facilities. Includes all categories of catering waste covering international and domestic flights.
		Denominator: The number of inbound passengers at hub airports, plus outbound passengers on short-haul flights whose waste was kept onboard the aircraft and offloaded at the hub when the plane returned.
Cargo	kg/tonne of cargo handled	**Numerator:** Total waste from handling and packaging cargo. This consists largely of recyclable materials such as plastic, wood and cardboard but is impacted heavily by ad hoc disposal of perishable or hazardous cargo.
		Denominator: Tonnes of cargo and mail handled in three main hubs: Dublin, Madrid, and London Heathrow.
Maintenance	kg/person-hour	**Numerator:** Materials from specific maintenance/engineering facilities including paper, metal, and hazardous waste. Excludes airport waste, aircraft disposal, construction waste and effluent.
		Denominator: Number of available person-hours at maintenance facilities, as compiled by maintenance teams.
Office	kg/employee	**Numerator:** Materials from printing, office stationery, and onsite catering. Includes offices, training facilities, and Irish, Spanish and UK call centres. Includes technology waste, defined as primarily data centre equipment and IAG-owned IT equipment.
		Denominator: Total FTE employees at the end of the reporting period.

Waste disposal method	Description (as per GRI 306 standards)
Landfilled	Defined as "final depositing of solid waste at, below, or above ground level at engineered disposal sites". **Includes:** waste sent directly to disposal. **Excludes:** waste sent to third parties.
Incinerated	Defined as "controlled burning of waste at high temperatures". **Includes:** incineration with energy recovery.
Recovered	Defined as "any operation wherein products, components of products, or materials that have become waste are used or prepared to be used to fulfil a purpose in place of new products, components, or materials that would otherwise have been used for that purpose." **Includes:** incineration including energy from waste if the incinerator meets set standards. **Excludes:** reprocessing into materials that are to be used as fuels.
Recycled	Defined as "reprocessing of products or components of products that have become waste, to make new materials". **Includes:** downcycling, upcycling, composting and anaerobic digestion, uniforms re-used, and plastics turned into new plastic products. **Excludes:** reprocessing into materials that are to be used as fuels.

A.2.2a. Noise definitions

Description and commentary of noise metrics is in section A.2.2. IAG only reports on the most stringent ICAO and ICAO Committee on Aviation Environmental Protection (CAEP) standards for aircraft. The Group has been over 97 per cent compliant with ICAO Chapter 4 and CAEP Chapter 4 standards for several years.

Metric	Unit	Description	Commentary on 2022 trends
Noise per LTO	QC/LTO	Average noise per flight considering arrival and departure noise for each aircraft type. Based on the number of flights of all aircraft which operated during the year, including leased aircraft. Quota Count (QC) values from the UK Government are used to create a relative categorisation based on certified noise levels. For example, for a single flight, a Boeing 747 would have had a score of 6.0 while an Airbus A320NEO would have a score of 0.5 or lower.	This value has improved by 12% since 2019, due to the use of newer quieter aircraft. Values can fluctuate year on year due to factors such as the mix of shorthaul and longhaul flying.
NOx per LTO	kg/LTO	Average emissions of the air pollutants nitrogen oxides (NOx) as aircraft take off and land. This calculation considers the engine certifications and aircraft types of all aircraft which operated during the year, including leased aircraft, referencing information from the ICAO emissions database.	This value continues to improve due to the use of newer aircraft.
ICAO Chapter 14	% of fleet at standard	ICAO Chapter standards compare aircraft noise against standardised limits that are a combination of lateral, approach, and flyover noise levels. Higher standards are more stringent. Chapter 14 applies to new aircraft certified from January 1, 2017.	Compliance continues to improve due to the use of newer aircraft in the fleet and retirement of older aircraft.
CAEP Chapter 6	% of fleet at standard	ICAO CAEP standards are for NOx emissions from aircraft engines. Higher standards are more stringent. The CAEP 6 NOx standard applies to engines manufactured from January 1, 2008.	The apparent worsening in 2022 is due to a more accurate calculation method. Compliance is expected to improve in 2023.
CAEP Chapter 8	% of fleet at standard	The CAEP 8 standard applies to engines manufactured from January 1, 2014.	The improvement is driven by fleet modernisation.

A.2.3. Biodiversity

Biodiversity is not currently seen as a material issue for IAG, but the business is taking steps to manage and mitigate its impacts on biodiversity where relevant. A key method of mitigating biodiversity impacts is ensuring that SAF projects align with principles from the Roundtable on Sustainable Biomaterials (RSB) or International Sustainability & Carbon Certification (ISCC) standards. Other steps to manage biodiversity impacts include:

- IAG airlines are signatories to the Buckingham Palace Declaration on preventing global wildlife trafficking.
- The Group implements active governance around overseas offset projects to account for their impact on biodiversity. Reducing Emissions from Deforestation (REDD+) projects are included in the portfolio of voluntary offsets available to customers.
- British Airways owns approximately 20 acres of 300 acres of parkland surrounding the London head office, which includes grassland, lakes and ponds and has rangers actively managing these habitats.

A.2.4. Water

Relevant GRI standards: GRI 303-3

Water consumption is not a material issue for IAG. However, water use is monitored across the Group and IAG consumed 637,738 m^3 of water in 2022 in offices, ground facilities and potable water onboard aircraft. The 2022 increase is due to the post-pandemic recovery in Group operations and an expanded scope of reporting.

Metric	Unit	vly	2022	2021	2020	2019	2018
Water consumption	’000 m^3	17%	**638**	544	525	655	nr

nr means ”not reported”.

B. People and Prosperity

Sections B.1. to B.6. are on prior pages of this NFIS.

B.2a. Key workforce metrics

Relevant standards: GRI 102-41, 403-9, 404-1

Social dialogue and trade unions

Relevant standards: GRI 102-41

Employees covered by collective bargaining agreements (CBAs)

	Employees covered by CBA			% of employees covered by CBA		
Metric	vly	**2022**	2021	vly	**2022**	2021
United Kingdom	19%	**30,253**	25,523	(2pts)	**91%**	93%
Spain	7%	**21,185**	19,749	(1pt)	**95%**	96%
Ireland	14%	**3,954**	3,473	(1pts)	**85%**	86%
Other	14%	**2,265**	1,993	(3pts)	**47%**	50%
Group total	14%	**57,657**	50,738	(2pts)	**89%**	91%

Description

Collective bargaining can cover a wide array of issues pertaining to working conditions, such as remuneration, working time, perks and benefits, and occupational safety and health. This coverage rate refers to the proportion of employees who are covered by one or more collective agreements. Calculated using headcounts at the end of the reporting period.

Commentary

Refer to Risk Management and principal risk factors section.

Coverage rates have remained stable in core markets (UK, Spain and Ireland).

Average hours of training

Relevant standards: GRI 404-1

Gender distribution

	Training hours completed			% of employees trained			Avg. Training hours		
Metric	vly	**2022**	2021	vly	**2022**	2021	vly	**2022**	2021
Men	61%	**1,420,183**	880,049	(1pt)	**91%**	92%	53%	**43.3**	28.4
Women	137%	**1,591,903**	673,263	(1pt)	**86%**	87%	113%	**67.1**	31.4
Total	94%	**3,012,086**	1,553,313	(1pt)	**89%**	90%	80%	**53.3**	29.6*

Employee category distribution

	Training hours completed			% of employees trained			Avg. Training hours		
Metric	vly	**2022**	2021	vly	**2022**	2021	vly	**2022**	2021
Cabin Crew	127%	**1,695,211**	747,228	(3pts)	**86%**	89%	103%	**92.2**	45.3
Pilots	3%	**225,151**	217,654	(1pts)	**96%**	97%	5%	**31.4**	29.9
Airport Operations	103%	**470,019**	231,442	3pts	**93%**	90%	77%	**38.2**	21.6
Corporate Function	187%	**404,992**	141,267	0pts	**84%**	84%	159%	**34.5**	13.3
Maintenance	0%	**216,712**	215,722	(4pts)	**92%**	96%	7%	**31.5**	29.4
Total	94%	**3,012,086**	1,553,313	(1pt)	**89%**	90%	80%	**53.3**	29.6*

*re-stated 2021 value

Description

All mandatory and non-mandatory training is in scope and can cover a wide array of topics, including human rights, anti-corruption, flight simulator, and e-learning courses. The "% of employees trained" rate refers to the proportion of employees who completed any training within the report period and "avg. training hours" is based on the total training hours performed per Group Full Person Equivalent (FPE), pro-rated to Full Time Equivalent (FTE).

Commentary

Overall, there has been a 94 per cent increase in total training hours undertaken across the Group – most of which is associated with substantial increases in Cabin Crew (+127 per cent).

The 2022 increase in average hours of training per employee is associated with the 8 per cent increase in FPE for the Group and associated induction training – especially in our operational roles (e.g. Airport Operations and Cabin Crew), where some of our largest recruitment campaigns have been focused. Pilot training numbers remained relatively flat, compared to other operational areas, as there were no large-scale recruitment campaigns this year and the majority of Pilot re-introduction training occurred in the first half of 2022 (e.g. British Airway's A380 re-introduction and ex-Boeing 747 re-training programmes all occurred in 2021).

Health and safety at work

Relevant standards: GRI 403-9; GRI 403-10

Lost Time Injuries

	Number of injuries			Lost Time Injury (LTI) severity rate			Lost Time Injury (LTI) frequency rate		
Metric	vly	**2022**	2021	vly	**2022**	2021	vly	**2022**	2021
Cabin Crew	135%	**523**	223	(46%)	**17.7**	32.8	106%	**4.3**	2.2
Pilots	117%	**50**	23	(55%)	**14.1**	31.2	108%	**1.0**	0.5
Airport Operations	31%	**571**	438	3%	**28.0**	27.3	13%	**5.8**	5.2
Corporate Function	106%	**33**	16	456%*	**41.4**	7.4	79%	**0.3**	0.2
Maintenance	(44%)	**102**	182	(12%)	**32.8**	37.2	(35%)	**1.9**	3.0
Total	45%	**1,279**	882	(21%)	**24.0**	30.5	33%	**3.0**	2.3

Absenteeism

	Number of instances			Hours absent			Absenteeism rate		
Metric	vly	**2022**	2021	vly	**2022**	2021	vly	**2022**	2021
Cabin Crew	72%	**15,456**	8,984	63%	**1,755,966**	1,077,390	0.6%	**7.1%**	6.5%
Pilots	42%	**5,131**	3,609	23%	**466,356**	377,671	(0.5%)	**4.5%**	5.0%
Airport Operations	31%	**11,942**	9,118	38%	**1,921,075**	1,389,921	1.4%	**8.9%**	7.5%
Corporate Function	58%	**6,181**	3,917	37%	**630,804**	459,050	0.4%	**3.0%**	2.6%
Maintenance	(3%)	**5,047**	5,257	(9%)	**590,816**	646,937	0.3%	**5.2%**	4.9%
Total	41%	**43,757**	30,885	36%	**5,365,018**	3,950,969	0.6%	**6.0%**	5.4%

Occupational illness

	Number of instances		
Metric	vly	**2022**	2021
Men	(9%)	**20**	22
Women	(76%)	**4**	17
Total	(38%)	**24**	39

Workplace fatalities

	Number of instances		
Metric	vly	**2022**	2021
Cabin Crew	-	**0**	0
Pilots	-	**0**	0
Airport Operations	-	**0**	0
Corporate Function	-	**0**	0
Maintenance	-	**0**	0
Total	-	**0**	0

* Increase in Corporate LTI severity rate is associated to two accidents related to falls and slips which resulted in long-term absence.

Description and methodology

Metric	Description	Formula for calculation
Lost Time Injury severity rate	This measures the impact of occupational accidents as reflected in time off work by the affected workers.	(Working days lost)/(Number of LTIs)
Lost Time Injury frequency rate	A lost time injury (LTI) is a non-fatal injury arising out of, or during, work, which leads to a loss of productive work time. The unit of measurement is LTI per 200,000 hours worked, using actual hours worked.	((Hours lost due to workplace injury)/(Hours worked)) x 200,000
Hours absent	For the purpose of this metric, only unplanned or unauthorised absences – which means employees missing partial or whole days of work – are included. Examples in scope are short-term and long-term sickness, time off due to injuries, and no-shows, which are absences without leave or permission.	Sum(Hours absent)
Absenteeism rate	The absenteeism rate is calculated as total employee absences divided by total scheduled hours in the reporting period, expressed as a percentage. In general, most of the Group record absence in hours. Where days are recorded (mostly in Pilots and Cabin Crew category), days are converted to hours at a rate of 7.5 hours per day (Group average full day).	(Number of hours absent)/(Number of hours scheduled)
Occupational illness:	An occupational illness is a medical condition or disease that develops gradually over time as a result of work performed and/or exposure to risk factors in the workplace. The illness must be confirmed by a medical diagnosis. Occupational illnesses in scope for the UK follow Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) standards and can be found on the Health and Safety Executive's (HSE) website. Occupational illnesses in scope for Spain are published in the Royal Decree 1299/2006.	Number of occupational illness medically diagnosed
Fatalities:	Work-related fatalities associated to an occupational illness or diseases. To align with GRI guidance, fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business, such as via a company or contracted bus or vehicle. The exception is employees in Spain, where inclusion of these types of fatalities is a legal requirement.	Number of work-related fatalities

Commentary

In 2022, the Group recorded 1,279 LTIs which is an increase versus 2021 (+397). This change reflects the increase in hours worked, especially in our operational roles (e.g., Cabin Crew and Pilots).

Overall, the Group's LTI severity rate has decreased to 24 average days per incident but the LTI frequency rate has increased to 3.0 average incidents per 200,000 hours worked. A substantial part of this evolution is associated with our Pilot and Cabin Crew employees, who have seen their LTI frequency rate increase to 1.0 and 4.3 respectively. These figures are similar to what was reported in 2019, when our crews were operating a comparable flying schedule, and is associated with the increases in hours worked by these teams.

The Group's absenteeism rates have remained consistent at 6 per cent and overall 5.3 million absence hours were recorded in 2022. Most employee groups have seen modest increases in their absenteeism rates of less than 1 percent. Airport operations seen a slightly higher increase of 1.4 per cent of their absenteeism rate.

Occupational illness in 2022 decreased to 24 incidents, with the majority of these being associated with fractures and abrasions.

There were no recorded fatalities associated with occupational injuries or illnesses in 2022.

B.2.b. Employment and working organisation

Relevant standards: GRI 102-8

Total number of employment contracts and distribution by type (annual average number of permanent, temporary and part-time contracts)

Gender distribution

	Permanent contracts			Temporary contracts		
Metric	vly	2022	2021	vly	2022	2021
Men	4%	**33,003**	31,619	92%	**1,590**	827
Women	7%	**24,941**	23,360	103%	**1,658**	819
Total	5%	**57,943**	54,979	97%	**3,248**	1,646

	Full-time contracts			Part-time contracts		
Metric	vly	2022	2021	vly	2022	2021
Men	6%	**29,602**	28,021	13%	**4,991**	4,425
Women	15%	**19,059**	16,626	0%	**7,540**	7,553
Total	9%	**48,661**	44,647	5%	**12,531**	11,977

Age distribution

	Permanent contracts			Temporary contracts		
Metric	vly	2022	2021	vly	2022	2021
Under 30	10%	**7,748**	7,030	97%	**1,697**	860
30–50	2%	**29,938**	29,489	93%	**1,438**	744
Over 50	10%	**20,256**	18,460	158%	**108**	42
Total	5%	**57,943**	54,979	97%	**3,248**	1,646

	Full-time contracts			Part-time contracts		
Metric	vly	2022	2021	vly	2022	2021
Under 30	19%	**8,303**	6,961	23%	**1,142**	929
30–50	5%	**24,895**	23,676	(1%)	**6,480**	6,557
Over 50	10%	**15,461**	14,010	9%	**4,903**	4,491
Total	9%	**48,661**	44,647	5%	**12,531**	11,977

Employee category distribution

Metric	Permanent contracts vly	Permanent contracts 2022	Permanent contracts 2021	Temporary contracts vly	Temporary contracts 2022	Temporary contracts 2021
Cabin Crew	7%	**18,768**	17,567	113%	**1,478**	692
Pilots	1%	**7,710**	7,652	-	**0**	0
Airport Operations	11%	**12,923**	11,660	103%	**1,155**	568
Corporate Function	7%	**11,648**	10,889	216%	**524**	166
Maintenance	(4%)	**6,894**	7,210	(58%)	**92**	219
Total	5%	**57,943**	54,979	97%	**3,248**	1,646

Metric	Full-time contracts vly	Full-time contracts 2022	Full-time contracts 2021	Part-time contracts vly	Part-time contracts 2022	Part-time contracts 2021
Cabin Crew	14%	**14,780**	12,988	4%	**5,465**	5,271
Pilot	(10%)	**5,682**	6,312	51%	**2,028**	1,340
Airport Operations	27%	**10,506**	8,286	(9%)	**3,572**	3,942
Corporate Function	11%	**10,928**	9,829	1%	**1,244**	1,227
Maintenance	(6%)	**6,765**	7,232	12%	**222**	197
Total	9%	**48,661**	44,647	5%	**12,531**	11,977

Description

Average numbers for each employment contract and type are based on the FPE (Full Person Equivalent). FPE looks at how much of the (whole) person's working time is engaged in a particular activity. For instance, an employee working half of the reporting period would be a 0.5 FPE, no matter the type of contract or working-day hours.

Commentary

Refer to 'Composition' commentary in 'Description and commentary for key workforce metrics' in section B.2. Key metrics and progress.

B.2.c. Employee turnover

Relevant standards: GRI 401-1

Relevant CNMV title: Total number of dismissals and voluntary leavers (distribution by gender, age and job category)

Total number of leavers and turnover rate by gender

	% of voluntary leavers			Voluntary attrition rate			% of non-voluntary leavers			Non-voluntary attrition rate		
Metric	vly	2022	2021	vly	2022	2021	vly	2022	2021	vly	2022	2021
Men	4pts	**53%**	49%	4.6pts	**8.9%**	4.3%	6pts	**60%**	54%	0.2pts	**1.4%**	1.2%
Women	(4pts)	**47%**	51%	3.3pts	**7.7%**	6.0%	(6pts)	**40%**	46%	0.3pts	**1.6%**	1.3%
Total	-	**100%**	100%	3.2pts	**8.4%**	5.2%	-	**100%**	100%	0.3pts	**1.5%**	1.2%

Total number of leavers and turnover rate by age

	% of voluntary leavers			Voluntary attrition rate			% of non-voluntary leavers			Non-voluntary attrition rate		
Metric	vly	2022	2021	vly	2022	2021	vly	2022	2021	vly	2022	2021
Under 30	5pts	**40%**	35%	8.6pts	**21.1%**	12.5%	24pts	**32%**	8%	2.4pts	**3.1%**	0.7%
30 – 50	(4pts)	**42%**	46%	2.3pts	**6.7%**	4.4%	(13pts)	**34%**	47%	(0.1pts)	**1.0%**	1.1%
Over 50	(1pts)	**18%**	19%	1.5pts	**4.5%**	3.0%	(11pts)	**34%**	45%	(0.2pts)	**1.5%**	1.7%
Total	-	**100%**	100%	3.1pts	**8.4%**	5.1%	-	**100%**	100%	0.3pts	**1.5%**	1.2%

Total number of leavers and turnover rate by employee category

	% of voluntary leavers			Voluntary attrition rate			% of non-voluntary leavers			Non-voluntary attrition rate		
Metric	vly	2022	2021	vly	2022	2021	vly	2022	2021	vly	2022	2021
Cabin Crew	0pts	**27%**	27%	2.3pts	**6.7%**	4.4%	(7pts)	**30%**	37%	(0.1pts)	**1.3%**	1.4%
Pilots	1pt	**3%**	2%	0.8pts	**1.7%**	0.9%	3pts	**8%**	5%	0.6pts	**1.0%**	0.4%
Airport Operations	9pts	**25%**	16%	5.4pts	**9.1%**	3.7%	24pts	**42%**	18%	1.7pts	**2.7%**	1.0%
Corporate Function	(8pts)	**36%**	44%	2.8pts	**14.3%**	11.5%	(18pts)	**16%**	34%	(0.9pts)	**1.2%**	2.1%
Maintenance	(2pts)	**9%**	11%	3.1pts	**6.7%**	3.6%	(2pts)	**4%**	6%	0pts	**0.6%**	0.6%
Total		**100%**	100%	3.1pts	**8.2%**	5.1%		**100%**	100%	0.3pts	**1.5%**	1.2%

Description

Refer to 'Workforce turnover' description in 'Description and commentary for key workforce metrics' in section B.2. Key metrics and progress.

Commentary

Refer to 'Workforce turnover' commentary in 'Description and commentary for key workforce metrics' in section B.2. Key metrics and progress.

B.2.d. Other social and employee-related matters and metrics

Work-life balance and support for co-parenting responsibilities

Relevant standards: GRI 103-2, 401-2

All of the Group's operating companies have taken approaches which coordinate and support the promotion of work-life balance whilst allowing employees to disconnect from work. These policies, at their core, focus on promoting a balanced and flexible working model, reflecting business needs and individual preferences and circumstances.

Our employees have also been offered substantial amounts of information and guidance on creating and managing a healthy work-life balance through digital portals and platforms (e.g., well-being platforms and employee assistance programmes).

With regard to co-parenting responsibilities, the Group's operating companies all have policies on job-sharing, maternity, adoption, paternity and shared parental leave. In addition, there are also active online platforms for working parents and carers to share ideas and to provide mutual support to one another.

Working hours

Relevant standards: GRI 103-2, 401-2

Time worked and holidays are different in each operating company as per the respective collective bargaining agreements. As a result, the Group does not have a group-wide working hours policy.

Employees with disabilities

Relevant standards: GRI 405-1

Metric	vly	2022	2021	2020
Employees with disabilities[1]	+20%	**724**	603	593
Overall share of headcount	0%	**1.1%**	1.1%	1.1%

1 Aer Lingus data is out of scope

Description

Employees with disabilities as a percentage of headcount at the end of the year.

Collecting disability information on employees is not a legal requirement in the UK or Ireland, unlike in Spain. Disabilities in scope are medically certified in Spain but self-declared in all other jurisdictions.

Commentary

The 2022 percentage has remained stable in 2022 despite the increase in employees with disabilities, this is because there has been a significant increase in headcount for the Group in parts of the business where disability status is self-declared (e.g., UK). The total number of employees with disabilities, however, has increased to 724, compared to 603 in 2021.

Social dialogue in the field of health & safety

Relevant standards: GRI 403-4

IAG operating companies comply with all relevant legislation and work hard to improve and maintain workforce engagement and representation. Operating companies use a combination of human resources and employee engagement programmes and technology, to share information about the business with employees, their representatives and trade unions. Most employees are represented through collective bargaining agreements and Group companies have well-established mechanisms for negotiation and dialogue with relevant trade unions and employee groups. These include regular reviews of matters relating to the health and safety in the workplace.

- British Airways has regular health and safety engagements with trade unions at a local, departmental and directorate level across all areas of the business.
- Iberia has well established health and safety committees in each of their relevant work centres which meet every two months.
- Aer Lingus have a Safety Engagement Programme which empowers managers and supervisors to discuss both safe and unsafe actions and behaviours they observe from their team on a daily basis to improve safety culture and reduce the risk of injuries occurring.
- Vueling holds quarterly meetings with a health and safety committee, composed of Vueling management and trade union appointed safety representatives.

Universal accessibility for people with disabilities

Relevant standards: GRI 103-2

The Group complies with all relevant legislation and, along with our operating companies, ensures universal access for employees and customers with disabilities. Our operating companies comply with all relevant legislation with regards to accessibility for disabled employees and customers in our buildings and throughout our operations.

All our operating airlines have made efforts to ensure that the customer journey is seamless for all customers, but in particular those with disabilities, whilst travelling with us. Operating airlines work with a variety of external organisations, such as the Business Disability Forum in the UK, to help inform and support efforts and strategy.

Our operating companies have also ensured universal accessibility of their booking processes through their website design. Iberia, for example, has partnered with the ONCE Foundation for Cooperation and Social Inclusion of the Disabled to ensure that all the information provided on their website about the booking process, travel requirements and other parts of the customer journey are accessible. This has also included the implementation of accessibility guidelines for Web 2.0 set by W3C-WAI.

The employee and customer accessibility strategies work in conjunction by ensuring front-line employees, such as cabin crew, are trained in disability awareness. This training has a particular focus on hidden disabilities.

B.8. Remuneration and salary gap

Relevant standards: GRI 405-2

B.8.1. Average remuneration by gender, age and job category – salary gap

Remuneration 2022 by seniority level (€) and by age band (€)

		Overall			Male			Female			Salary gap		
	Category	vly	2022	2021	vly	2022	2021	vly	2022	2021	vly	2022	2021
Seniority	Senior executives	30.5%	295,510	226,454	30.3%	302,829	232,392	57.8%	283,207	179,510	(16.3%)	6.5%	22.8%
	Other management	71.9%	242,393	141,018	56.7%	262,080	167,297	34.1%	123,364	91,981	7.9%	52.9%	45.0%
	All other employees	50.8%	52,155	34,596	41.9%	53,636	37,793	60.9%	50,512	31,396	(11.1%)	5.8%	16.9%
	Total Workforce	50.0%	55,521	37,026	39.8%	59,226	42,357	63.0%	51,758	31,759	(12.4%)	12.6%	25.0%
Age Group	<30	52.4%	41,069	26,949	35.6%	41,107	30,317	68.9%	41,018	24,291	(19.7%)	0.2%	19.9%
	30-50	56.5%	56,637	36,192	46.3%	60,507	41,378	70.7%	53,582	31,396	(12.7%)	11.4%	24.1%
	>50	50.3%	67,882	45,152	47.2%	72,421	49,214	58.0%	62,804	39,746	(6.0%)	13.3%	19.2%
	Total Workforce	50.0%	55,521	37,026	39.8%	59,226	42,357	63.0%	51,758	31,759	(12.4%)	12.6%	25.0%

The difference between the Gender Pay Gap and Pay Equity

The Gender Pay Gap is a measure based essentially on pay averages across an organisation. It takes no account of the different roles that people occupy.

Pay Equity is the principle that people doing the same work should receive the same pay, allowing for legitimate differences such as tenure, performance and experience.

It is perfectly possible for an organisation that pays its people fairly and equitably within different roles to have a Gender Pay Gap. The existence of a Gender Pay Gap does not in itself mean that there is any problem with Pay Equity.

IAG has strong pay equity principles in place, ensuring that our male and female employees are paid equitably for the work they do, based on experience and performance (within other factors).

Description

Using a consistent basis since 2019, remuneration data is presented at the median for gender, age and seniority population groupings. The reported components of remuneration continue to include basic salary, shift pay, allowances and employer pension contributions, taxable benefits and annual incentives, so that a clear view to overall, total remuneration is provided.

The presentation of remuneration values and the population included continues on an unchanged basis, in that:

- All values are shown on an annualised basis;
- All values are shown are on a full time equivalent basis;
- Values are only reported for time worked. Remuneration received for not working is excluded from reported values;
- To ensure consistency 2021 non euro remuneration have been restated using 2022 exchange rates;
- For employees who do not have a representative relationship between the value of their company-paid remuneration and the number of hours worked for that remuneration, contractual pay is reported in order to reduce the number of group of employees excluded. Supporting the aim of providing a comparable view of pay for employees with differing contractual terms and working patterns, and ensuring the report covers all employees with pay data. Presenting a clear read-across to overall fixed and variable pay relative to time worked is very important in an industry with a high proportion of seasonal, part-time and fixed-term employees with highly variable working schedules;
- The reported salary gap for each population continues to represent the difference between men's and women's median remuneration, expressed as a percentage of men's remuneration; and
- Regarding seniority population groupings 'Senior executives' includes Group management committee members, operating company management committee members, directors and other senior/executive positions. 'Other management' includes all other management roles, including pilots at the captain seniority level. The 'All other employees' grouping includes all other roles across the group, including the majority of pilots and cabin crew.

Commentary

Within IAG's operating model, employee reward is owned and managed within each operating company to enable them to deliver the right customer and employee experience. Our employees have been central to our recovery and key to delivering for our customers. Operating companies continue to put in place a range of tools that are appropriate in their respective markets and geographies to support our people through these challenging times and ensure our pay models are sustainable, fair and aligned to the Group's future success.

B.8.2. Salary gap analysis

As the Group returns to a more normalised network and flights schedule, the impact to the salary gap from interim pandemic response measures will continue to diminish. The result is that at Group level, there has been a year-on-year reduction in the median salary gap from 25 per cent in 2021 to 12.6 per cent in 2022, and from 43.6 per cent to 31.7 per cent for the mean salary gap.

There are three key drivers of this change:

- COVID-19 and associated restructuring activities had an adverse impact on workforce composition and gender pay in 2021.
- As markets re-opened and travel restriction eased, airlines built the capacity to meet increasing demands for travel. This included recruiting around 17,400 new colleagues across the Group, with the majority of new hires in Cabin Crew and Airport Operations. This changing resource profile has resulted in a change in the median pay point for men and women.
- Pilot pay remains the most significant driver of IAG's gender pay gap, reflecting both lower numbers of female pilots and the impact of seniority. This is a key area of focus across all airlines in the Group, and for example, Iberia Express improved female representation in First Officer pilot roles, up from 9 per cent to 11 per cent.

At the start of 2022 we announced our ambition for 40 per cent of women in senior leadership roles by 2025. This new ambition was underpinned by a new diversity and inclusion framework and strategy, and we have been making strong progress in making IAG a more inclusive place to work.

In 2022 we have seen the percentage of women in the IAG Management Committee increase by 8 percentage points with the appointment of Sarah Clements as IAG's new General Counsel. We ended the year at 34 per cent of women in senior leadership roles, up from 33 per cent in 2021.

Operating companies have implemented a range of initiatives to support gender equality, including reviewing its recruitment processes to ensure diverse shortlists and interview panels, setting up mentoring and networking opportunities for women, and providing educational programmes for girls and young women considering careers in aviation.

At IAG we remain committed to equity, diversity and inclusion, and have made strong progress in 2022.

Further explanations of the steps that IAG is taking to promote diversity and inclusion across the Group are set out in the 'Diversity, inclusion and equality' section of the sustainability report.

B.8.3. Board and Management Committee remuneration

Description:
Average remuneration of Board members and directors, including variable remuneration, allowances, professional indemnity, contributions to pension and welfare systems and any other parts of the remuneration broken down by gender.

	vly	2022	2021	2020	2019	2018
Board						
Men	64.0%	**836,667**	510,167	407,326	638,010	721,159
Women	20.4%	**138,000**	114,600	109,798	133,799	154,804
Management Committee						
Overall	18.3%	**1,523,328**	1,287,780	653,403	1,012,671	1,105,034

Description
- The reported components of remuneration include:
- Executive directors: basic salary, taxable benefits (Company car and private health insurance), employer pension contributions, annual incentives paid in the reporting period, long-term incentives vesting in the reporting period and personal accident and life insurance.
- Non-executive directors: all fees (Board, chair, committee membership etc) and (taxable) personal travel benefits.
- Using the methodology established in 2020, only directors or Management Committee members, who were in service for the full year reporting period are included in the year on year comparison.
- As per previous years, the remuneration of the IAG CEO is omitted from Management Committee remuneration reporting on the basis it is already reported as part of Board director remuneration.
- These figures are derived from the methodology as per the Remuneration Report filed with the Spanish National Securities Market Commission (CNMV).

Explanation for Board remuneration
The higher level of average remuneration paid to male directors compared to female directors is a direct consequence of male incumbents holding the more highly remunerated CEO and Chairman roles. Where male and female non-executive directors perform the same responsibilities, the level of remuneration paid is equivalent as a result of the Group's standardised non-executive fee framework.

In 2022 and 2021 the remuneration of ten non-executive directors and the IAG CEO is included, with the same split of six male and five females.

The key factors influencing the increased remuneration for directors, are:

- The increase in IAG CEO remuneration from 2021 to 2022, driven by:
  - First year since appointment in which the CEO received his full contractual salary (following a 10 per cent reduction in 2021 and 20 per cent reduction in 2020);
  - As the Group emerges stronger from the pandemic, 2022 was the the first year since 2019 that the IAG CEO received an Annual Incentive Award;
  - The vesting to the IAG CEO in 2022 of deferred share awards granted in 2019; and
  - The release from holding to the IAG CEO of the 2017 PSP award.
- Non-executive directories fees reverted to contractual rates in 2022 (in 2020 a 20 per cent COVID-19- related reduction operated against all directors' salaries/fees, and a similar 10 per cent reduction operated in 2021; and
- As markets re-opened and travel restriction eased, there is an increase in the take-up of personal flight benefits.

Further explanations of Board remuneration are set out in the Directors Remuneration Report section of the governance report.

Explanation for Management Committee remuneration

Both the components of remuneration and the opportunity associated with those components for Management Committee members remained unchanged from 2021 to 2022. The increase in average Management Committee member remuneration in 2022 was driven by factors such as:

- Changes in Management Committee membership between 2021 and 2022;

  For 2022, this reports the total remuneration of ten Management Committee members, eight male and two females. For comparison, last year's data set was comprised of nine Management Committee members, eight male and one female. No gender break-out is shown for confidentiality reasons, given the female data set relates to only two employees.
- The respective release and vesting of historical 2017 and 2019 deferred share awards. The performance outturn for both of these awards was assessed before the start of pandemic period and as such should be seen as trailing remuneration and not remuneration earned during the pandemic period;
- A return to contractual salary being paid to Management Committee members in 2022, versus COVID-19-related salary reductions in 2020 and 2021 (reductions of up to 50 per cent of salary were put in place in 2020, with lesser reductions in 2021); and
- Payment of approved 2022 annual incentive awards.

The awards resulting from the change in long term incentive approach from a Performance Share Plan (PSP) to a Restricted Share Plan (RSP), will be reported in the year of vesting, from 2024 onwards, at the point the realised value is known. This is consistent with our approach of reporting the value of long-term incentives in other CNMV disclosures.

B.9. Prosperity

B.9.1. Community and employment impacts

Relevant CNMV title: Impact of the Company's activities on employment and local development; impact of the Company's activities on local populations and territories; relations with actors in local communities and forms of engagement

IAG sees work experience as a valuable way of supporting local employment, by engaging young people with IAG's business and preparing them for potential careers in aviation. All our operating companies offer programmes and initiaitves which support this aim.

British Airways has a variety of graduate and apprenticeship programmes and has welcomed 125 new apprentices and 47 graduates in 2022 - with plans to increase these numbers to 50 graduates and 160 apprentices in 2023. These programmes are consistently ranked highly in the Cibyl Top 300 Graduate Employer rankings and the National Graduate Recruitment Awards for Engineering and Transport. British Airways has reviewed the entry requirements for its Apprenticeship programme to aid social mobility. This has resulted in 41.7% Female representation in STEM programmes (against government target of 23%) and, for all programmes, 23% BAME representation (against government target of 13.9%).

Iberia has continued to run its successful internship scholarship programme with Fundación Universidad Empresa, offering postgraduates students unique oportunities within the airline. In addition Iberia continues to offer vocational programmes within their MRO area and they have multiple agreements with several vocational training schools in the Madrid area for their Aeronautical Maintenance Technician programme.

Aer Lingus continues to directly engage with colleges across Ireland, running career days and recruitment fairs to inform students of career opportunities in aviation. They have also continued with their partnership with Enactus, to help students at key colleges and universities across Ireland on projects to help develop their entrepreneurial skills to address complex issues within the wider community. Aer Lingus have also continued to focus on initiatives which encourage more females to apply for apprenticeship programmes with Aer Lingus engineering.

At Vueling, they sponsor the Cranfield University Job Fair and the ESADE Brand Management Challenge which focuses on supporting and attracting the best young talent into the aviation sector. Vueling has also participated in the Disjobs job fair for people with disabilities as part of their overall EDI strategy.

IAG Loyalty have launched their Early Talent agenda which pays attention to a multitude of EDI topics, including a new partnership with Innovate Her - who's vision is to make the tech sector more equitable, by increasing diversity and creatingmore inclusive workplaces. They have also launched their first Intern programme and launched new partnerships with Greycoats school and Liverpool University. IAG Loyalty also have a strong apprenticeship programmes and currently have 6 apprentices in their Product and Data team completing their Level 7 apprenticeship.

B.9.2. Consumer relationship management

Relevant standards: GRI 102-43, 103-2

Claims systems and complaints

	Unit	vly	2022	2021	2020	2019	2018
Customer complaints	# per 1,000 passengers	(8%)	**4.5**	4.9	6.5	3.2	N/A

Description

Calculated by dividing total customer complaints for the year, by total passengers.

Commentary

IAG airline customers are able to provide feedback and details of complaints in multiple ways, including via IAG airline websites, by mail, or by phoning customer contact centres. The types of customer complaint received vary significantly but typically relate to delays and cancellations, baggage, journey experience, bookings and reservations. To handle customer complaints, IAG airlines have dedicated customer relations teams who are specially trained to deliver excellent customer service and resolve issues quickly and in a satisfactory manner. Through their complaint systems, IAG airlines actively track and monitor resolution of customer complaints using metrics which include the time between a complaint being received and the first communication provided back to the customer, or the number of cases raised that have been successfully closed.

In 2022, across the IAG airlines, an average of 4.5 complaints were received per 1,000 flown passengers. This ratio was slightly lower than in 2021 but still higher than in 2019. The volume of complaints throughout 2022 was heavily impacted by the huge level of disruption in its many forms across the group.

All IAG airlines also provide facilities for customers to exercise their rights to claim compensation under Regulation (EC) No. 261/2004 of the European Parliament and of the Council of February 11, 2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights. Customers are additionally able to use the IAG airline contact channels to submit claims for financial compensation relating to baggage incidents and other out-of-pocket expenses, which are assessed and resolved by IAG's customer relations teams.

B.9.3. Public subsidies received

Relevant standards: GRI 201-4

	Unit	vly	2022	2021	2020	2019	2018
Total public subsidies	€ million	(59%)	**293**	707	474	94	nr
UK and EU ETS allowances at zero cost	€ million	(1%)	**273**	277	122	nr	nr

Public subsidies were not reported in 2018 as they were assessed as immaterial.

Description

Public subsidies are defined as EU, Swiss and UK Emissions Trading Scheme (ETS) allowances granted at zero cost, and furlough and job retention schemes in the UK and Ireland for British Airways and Aer Lingus respectively. EU ETS allowances are valued at the carbon market prices at December 31 in the reporting year.

Commentary

Operating companies in the Group receive some EU and UK ETS emission allowances at zero cost and purchase the remainder in the EU and UK ETS markets.

The Group has also received government assistance, which is not considered as public subsidies in accordance with International Financial Reporting Standards and is therefore not included in the amount above, for the following:

- Iberia and Vueling both benefited from the Temporary Redundancy Plan (ERTE) that the government of Spain implemented in March 2020. Under this scheme, employment is temporarily suspended and designated employees are paid directly by the government and there is no remittance made to the Group.
- The Group benefited from a number of financial facilities supported by national governments of the jurisdictions in which the operating companies principally operate. These include the UK's Export Finance (UKEF), Spain's Instituto de Crédito Oficial (ICO) and the Ireland Strategic Investment Fund (ISIF).

B.9.4. Accounting profit/(loss) before tax

Relevant standards: GRI 207-4

	Unit	vly	2022	2021	2020	2019	2018
UK	€ million	(2%)	**46**	(2,417)	(4,512)	1,618	2,770
Spain	€ million	(58%)	**408**	(705)	(2,538)	489	512
Republic of Ireland	€ million	11%	**(41)**	(368)	(556)	240	272
Other countries	€ million	(14%)	**2**	(16)	(204)	(72)	(67)

Description

Profits by country – the Group's consolidated accounting profit or loss for the year split by country in which it is taxable.

Commentary

The return to profitability in most of IAG's main countries of operation reflect the recovery of the Group's businesses from the global outbreak of COVID-19.

B.9.5. Income tax paid

Relevant standards: GRI 207-4

	Unit	vly	2022	2021	2020	2019	2018
UK	€ million	9%	**3**	31	77	161	191
Spain	€ million	(135%)	**126**	(93)	(95)	(71)	92
Republic of Ireland	€ million	0%	**0**	(2)	(28)	27	61
Other countries	€ million	519%	**5**	1	1	2	(1)

Description

Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made. The numbers in brackets above represent refunds.

Commentary

The total net payment of €134 million is greater than the expected tax charge for the Group of €102 million. The difference arises primarily due to the delay between when losses are included in the accounting result, and the future period when those losses are taken into account in calculating tax payments.

"Other" comprises Belgium, Costa Rica, Dominican Republic, Germany, Guatemala, Honduras, India, Maldives, Mexico, Peru, Poland, Puerto Rico, Senegal, South Africa and the United States.

C. Governance

Sections C.1. to C.7. are on prior pages in this NFIS.

C.8. Description of EU Taxonomy and 2022 related activities

The EU Taxonomy regulation is a new framework to identify and to facilitate sustainable investment across the EU.

IAG has further developed its approach on the EU Taxonomy and has reported on its sustainable activities in line with the EU Taxonomy Regulation (2020/852) and related delegated acts, collectively referred to as the Taxonomy, which aim to identify environmentally sustainable activities linked to the Taxonomy.

This report covers the “eligible” and “aligned” economic activities undertaken by the Group in 2022. The report only considers activities relating to the Taxonomy objectives of climate change mitigation and climate change adaptation as these are the only objectives currently under the Taxonomy.

While there are draft proposals to bring aviation and other activities into the Taxonomy, these have not yet been passed into EU law and as such, there are no Taxonomy–related categories for aviation. Therefore, the majority of the expenditure incurred by the Group is taxonomy–ineligible. In 2022:

- None of the Group’s revenue was eligible under the Taxonomy;
- 0.3% of overall Capex was eligible and;
- 0.2% of Opex was eligible Taxonomy-related activity[1].

However, the categories relating to buildings infrastructure; energy; information technology; transport (ground); waste/recycling; and innovation, research and development are applicable to the activities of the Group and these have been the primary focus of our Taxonomy screening activity.

Methodology/data collection and validation

Data collection and validation have been conducted through the established governance structure described in section C.2, with IAG Group Finance performing an integral role in the design, collection and validation of the Taxonomy data. Reviews of existing and proposed Taxonomy regulation is conducted through the monthly IAG Sustainability Network throughout the year.

Using the Taxonomy regulations and the online “Taxonomy Compass” the Group Sustainability team and IAG Group Finance have co-ordinated the identification of eligible activities (i.e. those that should be screened) and their conclusions have been confirmed by further analysis at the airline/operating company level. In order to calculate the relevant Key Performance Indicators (KPI) and numerators, each airline/operating company reviewed all activities undertaken against the following categories:

Key activities
Construction and real estate activities
Renovation of existing buildings
Acquisition and ownership of buildings
Installation, maintenance and repair of energy–efficiency equipment
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
Installation, maintenance and repair of renewable energy technologies
Energy
Electricity generation using solar photovoltaic technology
Information and communication
Data processing, hosting and related activities
Computer programming, consultancy and related activities
Data-driven solutions for GHG emissions reductions
Technical, scientific and professional activities
Research into innovative low–carbon technologies
Transport
Transport by motorbikes, passenger cars and light commercial vehicles
Water supply, sewerage, waste management and remediation
Material recovery from non-hazardous waste

1 0.2% of total operating expenditure as reported in the 2022 Annual Report and Accounts

Co-ordination at Group level ensures the correct allocation of expenditure between numerators and denominators and that intra-group transactions are excluded. The Group issued guidance to ensure that the activities were apportioned appropriately between capital spend (CAPEX) and operational spend (OPEX). Operating companies were instructed regarding the determination and composition of both the CAPEX and OPEX denominators. During the 2022 data–gathering process the categories included in the OPEX denominator were widened to include all repairs and maintenance (including aircraft maintenance activity) across the business, including some activities that are sub-contracted: for example some building maintenance and cleaning activities. Most of this activity does not fit under aligned activity within the existing Taxonomy.

The Group and the operating companies listed all possible Taxonomy–eligible activities arising in 2022. While there were no revenue Taxonomy–eligible activities identified, activities relating to CAPEX and OPEX were identified and quantified by the operating companies and subsequently reviewed for compliance with the Group guidance and the Taxonomy Compass to ensure that they have been appropriately recorded in line with the defined activities of the Taxonomy.

Following the identification of eligible spend, each airline/operating company undertook an assessment of compliance against the "substantial contribution" criterion for each activity as outlined in the Taxonomy Compass in order to establish alignment. Where overall OPEX or CAPEX per activity was below €2 million per airline/operating company, this was immaterial and therefore no further action was taken. For those activities where spend was over €2 million, further screening was performed, assessing each project undertaken.

At a Group level, IAG undertook a climate vulnerability risk assessment as specified in line with the relevant Annex of the Delegated Regulation (EU) 2021/2139 defining the criteria for "do no significant harm" and minimum safeguards criteria.

Taxonomy–eligible and aligned activities

The Group incurred limited Taxonomy–eligible spend in 2022. Areas of spend included:

- The maintenance and refurbishment of buildings - this expenditure was minimal;
- Activity in the category of transport relating to electric vehicles, vehicle charging and maintenance of the ground vehicle fleet;
- Electricity generation from solar photovoltaic technology; and
- The programme to migrate a number of data centres to cloud-based systems and some computer programming expenditure.

The Group's multiple investments and offtake agreements in Sustainable Aviation Fuel (SAF) manufacture and hydrogen propulsion are presently not eligible activities under existing Taxonomy regulation.

IAG's final Taxonomy Report and associated data are reviewed through the Group's sustainability governance process with final sign–off by a Taxonomy sub-group of the Sustainability Steering Board, with senior representation from the Chief People, Corporate Affairs and Sustainability Officer and the Group Financial Controller.

KPI – Revenues

The Group continues to work to develop more sustainable products and services as detailed in the At a Glance section of this NFIS. However, IAG generated no revenues from Taxonomy–eligible products and services during 2022. Group airlines presently offer customers the opportunity to fly more sustainably through sponsoring SAF flights or through the purchase of carbon offsets and removals. These are ineligible under present Taxonomy rules. During 2023 to 2025 the airlines' sustainable product offers will be enhanced and made more widely available to customers including the broader provision of SAF which may be eligible as revenue once aviation becomes part of the Taxonomy.

The denominator has been determined in line with Article 2, point (5), of Directive 2013/34/EU.

The KPI for revenue is that zero per cent of total revenue (€23.1 billion) is currently aligned under the Taxonomy.

KPI – CAPEX

In determining the denominator for Capex, the calculation of relevant spend was carried out in accordance with Annex I, section 1.1.2.1 of the Delegated Regulation (EU) 2021/2178. All spend aligning to Group reporting aligned to IFRS rules has been collated – including fleet-related expenditure.

The table below shows the specific activities that were carried out across the Group that align with the Taxonomy as defined in the Climate Delegated Act 2021/2139.

Table of Taxonomy-eligible and aligned CAPEX

				Substantial Contribution Criteria		DNSH criteria (Does no significant harm)				
Economic activities	Taxonomy codes	Absolute Capex	Proportion of Capex	Climate Change Mitigation	Climate Change Adaptation	Climate Change Mitigation	Climate Change Adaptation	Taxonomy-aligned proportion of CapEx, 2022	Category (enabling activity)	Category (transitional activity)
	Unit	€'m	%	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY ELIGIBLE ACTIVITIES										
A1, CAPEX of Environmentally Sustainable Activities (Taxonomy-aligned)	n/a		0%	n/a	n/a	n/a	n/a	0%		
A2, CAPEX of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		**15**	**0.3%**							
Computer programming, consultancy and related activities	8.3	10	0.2%					n/a		T
Renovation of existing buildings	7.2	5	0.1%					n/a		T
Total (A1+A2)		**15**	**0.3%**					**0%**		
B. CAPEX of Taxonomy non-eligible activities		5,120	99.7%							
Total (A+B)		**5,135**	**100.0%**							

The denominator for this calculation includes aircraft-fleet-related expenditure, although the Group is unable to report any direct or associated eligible expenditure related to the fleet. Given the largest proportion of our expenditure relates to fleet, the percentage of Taxonomy-eligible CAPEX reported is not material. The proportion of Taxonomy-aligned spend was zero per cent.

KPI – OPEX

The Group has identified the following OPEX activities associated with the Taxonomy: buildings and plant maintenance and repair, vehicles and vehicle charging, maintenance of solar photovoltaic equipment, computing and data processing and hosting. This has resulted in limited activities being Taxonomy-eligible or aligned. Small amounts of expenditure have been incurred in building maintenance. In addition, there are certain third-party outsourced expenses directly associated with the energy transition the Group is committed to undertake, that have been incorporated into OPEX. The Group's multi-year expenditure on IT data transformation activities has continued and will continue through 2023, with a particular focus on finalising the migration to cloud environments.

In determining the denominator for OPEX, the overall calculation of relevant spend was carried out in accordance with Annex I, sections 1.1.3.1 and 1.1.3.2 of the Delegated Regulation (EU) 2021/2178. The following table shows the eligible activities at Group level that are above €2 million. The expenditure related to short-term leases was negligible as most of this was associated with aircraft rather than buildings.

Table of Taxonomy- eligible and aligned OPEX

				Substantial Contribution Criteria		DNSH criteria (Does no significant harm)				
Economic activities	Taxonomy codes	Absolute Opex	Proportion of Opex	Climate Change Mitigation	Climate Change Adaptation	Climate Change Adaptation	Climate Change Mitigation	Taxonomy-aligned proportion of Opex, 2022	Category (enabling activity)	Category (transitional activity)
	Unit	€'m	%	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY ELIGIBLE ACTIVITIES										
A1, OPEX of Environmentally Sustainable Activities (Taxonomy-Aligned)	n/a		0%	n/a	n/a	n/a	n/a	0%		
A2, OPEX of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)		**51**	**3.5%**							
Data Processing, Hosting and Related Activities	8.1	31	2.1%					n/a		T
Computer programming, consultancy and related activities	8.3	20	1.4%					n/a		T
Total (A1+A2)		**51**	**3.5%**					**0%**		
B. OPEX of Taxonomy non-eligible activities		1,400	96.5%							
Total (A+B)1		**1,451**	**100.0%**							

1 Total OPEX for the purpose of meeting the definitions of the Taxonomy does not align with the Group's consolidated financial statements prepared under IFRS.

The Group's overall OPEX Taxonomy-aligned KPI for 2022 was zero per cent, reflecting the limited scope of eligible and aligned Taxonomy activities applicable to the operations of the Group.

C. Table of contents

(F) means fully compliant, (P) means partially compliant. (1) means internal framework: see corresponding pages.

* difference between men's and women's median pay, divided by men's median pay.

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Area	Reporting criteria/ GRI standard	Page
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LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 23, 2023, the directors of International Consolidated Airlines Group, S.A. state that, to the best of their knowledge, the individual and consolidated financial statements for the year to December 31, 2022, prepared in accordance with the applicable set of accounting standards and in single electronic format, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the individual and consolidated management reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

February 23, 2023

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

FORMULATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2022

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 23, 2023 the consolidated financial statements and the consolidated management report of the company for the year to December 31, 2022, in single electronic format according with the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 23, 2023:

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