INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Financial statements for the year to December 31, 2022

CONTENTS

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Balance sheet at December 31, 2022
(Expressed in thousands of euros)

	Note	2022	2021
ASSETS			
NON-CURRENT ASSETS		**9.713.312**	9.527.555
Property, plant and equipment	**6**	83.046	8.156
Investments in Group companies			
Equity instruments	**7**	7.573.190	7.573.190
Loan receivable from Group companies	**8,15**	2.011.922	1.926.037
Non-current financial assets			
Equity instruments	**8**	41.423	17.708
Deferred tax asset	**11**	3.731	2.464
CURRENT ASSETS		**2.488.528**	3.654.795
Trade and other receivables			
Clients, Group companies	**8,15**	205.789	146.591
Current tax receivable	**11**	40.032	690
Other receivables	**8**	9.565	16.289
Investments in Group companies			
Loan receivable from Group companies	**8,15**	91.885	3.639
Cash and cash equivalents			
Cash	**8, 9**	147.200	45.516
Cash equivalents	**8, 9**	1.994.057	3.442.070
TOTAL ASSETS		**12.201.840**	13.182.350

	Note	2022	2021
EQUITY AND LIABILITIES			
EQUITY		**8.676.719**	8.623.613
SHAREHOLDERS' FUNDS			
Capital			
Registered share capital	**10**	497.147	497.147
Share premium	**10**	7.770.439	7.770.439
Reserves			
Legal and statutory reserves	**10**	99.429	205.799
Other reserves	**10**	222.821	12.841
Own shares and equity holdings	**10**	(28.012)	(24.000)
Profit for the year	**3**	50.586	51.359
Other equity instruments	**10**	75.312	111.257
VALUATION ADJUSTMENTS			
Currency differences	**10**	(11.003)	(1.229)
LIABILITIES			
NON-CURRENT LIABILITIES		**2.481.312**	3.741.498
Non-current debt			
Bond and other marketable securities	**8**	2.272.312	2.920.822
Group companies, non-current	**8,15**	209.000	820.676
CURRENT LIABILITIES		**1.043.809**	817.239
Current provisions	**11**	600	600
Current debt			
Bond and other marketable securities	**8**	557.328	542.709
Group companies, current	**8,15**	408.704	213.197
Trade and other payables			
Suppliers, Group companies	**8,15**	9.051	11.390
Various creditors	**8**	29.939	26.923
Current tax payable	**11**	17.339	8.086
Other amounts due to tax authorities	**11**	20.848	14.334
TOTAL EQUITY AND LIABILITIES		**12.201.840**	13.182.350

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Income statement for the year to December 31, 2022
(Expressed in thousands of euros)

	Note	2022	2021
Continuing operations			
Revenue from operations	**12,15**	**181.053**	162.665
Rendering of services to Group companies		71.226	66.062
Finance income receivable from debt with Group companies and associates		109.827	96.603
Employee costs	**12**	**(59.918)**	(47.684)
Wages, salaries and other costs		(52.075)	(41.066)
Social security costs		(7.843)	(6.618)
Other operating expenses		**(31.973)**	(26.080)
External services received		(29.368)	(23.797)
Other operating expenses		(2.605)	(2.283)
Finance costs		**(14.993)**	(16.550)
Payable on debt with Group companies and associates	**15**	(14.993)	(16.550)
Impairment and (losses)/gains on disposal of financial instruments	**7,15**	**-**	(1.083)
Impairment losses on equity instruments, Group companies		-	(110.000)
Impairment gain on loans receivable from Group companies		-	108.917
OPERATING PROFIT		**74.169**	71.268
Finance income		**10.767**	858
Receivable from third parties	**12**	10.767	858
Finance costs		**(92.714)**	(83.652)
Payable on debt with third parties	**12**	(92.714)	(83.652)
Impairment and (losses)/gain on disposal of financial instruments	**7,12**	**(1.950)**	166
Impairment and gain on disposal of other equity investments		(1.950)	166
Change in fair value of financial instruments	**8,12**	**72.895**	68.838
Currency differences		**1.607**	165
NET FINANCE EXPENSE		**(9.395)**	(13.625)
PROFIT BEFORE TAX		**64.774**	57.643
Taxes	**11**	(14.188)	(6.284)
PROFIT FOR THE YEAR	**3**	**50.586**	51.359

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Statement of changes in equity for the year to December 31, 2022

(Expressed in thousands of euros)

A) Statement of other comprehensive income

	Note	2022	2021
PROFIT FOR THE YEAR	**3**	**50.586**	51.359
Income and expenses recognised directly in equity			
Fair value movements on other equity investments	**8**	**1.870**	-
Currency differences		**(11.644)**	(4.638)
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY	**10**	**(9.774)**	(4.638)
TOTAL INCOME AND EXPENSES RECOGNISED		**40.812**	46.721

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Statement of changes in equity for the year to December 31, 2022
(Expressed in thousands of euros)

B) Statement of changes in equity

	Issued share capital	Share premium	Reserves	Own shares and equity holdings	(Loss)/profit for the year	Other equity instruments	Valuation adjustments	TOTAL
BALANCE AT DECEMBER 31, 2020	497.147	7.770.439	514.945	(39.168)	(296.305)	130.338	3.409	8.580.805
Total recognised income and expense	-	-	-	-	51.359	-	(4.638)	46.721
Transactions with shareholders and owners	-	-	-	15.168	-	(42.077)	-	(26.909)
Acquisition of treasury shares	-	-	-	(24.098)	-	-	-	(24.098)
Vesting of share-based payment schemes	-	-	-	39.266	-	(42.077)	-	(2.811)
Other movements in equity	-	-	-	-	-	22.996	-	22.996
Share-based payments charge (note 16)	-	-	-	-	-	22.996	-	22.996
Appropriation of prior year loss	-	-	(296.305)	-	296.305	-	-	-
BALANCE AT DECEMBER 31, 2021	497.147	7.770.439	218.640	(24.000)	51.359	111.257	(1.229)	8.623.613
Total recognised income and expense	**-**	**-**	**-**	**-**	**50.586**	**-**	**(9.774)**	**40.812**
Transactions with shareholders and owners	**-**	**-**	**(9.785)**	**(4.012)**	**-**	**(12.703)**	**-**	**(26.500)**
Acquisition of treasury shares	-	-	-	(22.674)	-	-	-	(22.674)
Vesting of share-based payment schemes	-	-	(9.785)	18.662	-	(12.703)	-	(3.826)
Other movements in equity	**-**	**-**	**62.036**	**-**	**-**	**(23.242)**	**-**	**38.794**
Redemption of convertible bond (note 8,2)	-	-	62.036	-	-	(62.036)	-	-
Share-based payments charge (note 16)	-	-	-	-	-	38.794	-	38.794
Appropriation of prior year profit	**-**	**-**	**51.359**	**-**	**(51.359)**	**-**	**-**	**-**
BALANCE AT DECEMBER 31, 2022	**497.147**	**7.770.439**	**322.250**	**(28.012)**	**50.586**	**75.312**	**(11.003)**	**8.676.719**

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Cash flow statement for the year to December 31, 2022
(Expressed in thousands of euros)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax			
Profit from continuing operations		64.774	57.643
Adjustments to profit			
Finance income		(120.594)	(97.461)
Finance expenses		107.707	100.202
Change in fair value of financial instruments		(72.895)	(68.838)
Currency differences		(1.609)	(81)
Share-based payments	**16**	8.722	3.256
Impairment charge	**7,15**	1.950	917
Changes in working capital			
Trade and other payables		(18.412)	17.421
Trade and other receivables		30.957	1.047
Other cash flows from operating activities			
Interest paid		(12.112)	(24.446)
Taxation (paid)/received		(48.459)	93.587
CASH FLOWS FROM OPERATING ACTIVITIES		**(59.971)**	83.247
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts paid			
Purchase of other equity instruments		(2.115)	(58)
Purchase of Property, plant and equipment	**6**	(112.383)	(8.040)
Amount paid to Group companies		(300.000)	(285.000)
Increase in Other financial assets	**8**	(100.000)	-
Amounts received			
Decrease in other current financial assets		-	451
Interest received		10.123	845
Amount received from Group companies		235.697	213.808
CASH FLOWS FROM INVESTING ACTIVITIES		**(268.678)**	(77.994)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts and payments on equity instruments			
Issue of equity instruments	**8**	-	2.018.326
Acquisition of treasury shares		(22.674)	(24.098)
Repayment of equity instruments		(562.406)	(17.766)
Repayment			
Debt with Group companies		(424.976)	(25.289)
CASH FLOWS FROM FINANCING ACTIVITIES		**(1.010.056)**	1.951.173
IMPACT OF EXCHANGE DIFFERENCES		(7.624)	3.922
INCREASE IN CASH AND CASH EQUIVALENTS		**(1.346.329)**	1.960.348
Cash and cash equivalents at the beginning of the year	**8,9**	3.487.586	1.527.238
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**8,9**	**2.141.257**	3.487.586

1. CORPORATE INFORMATION AND ACTIVITY

International Consolidated Airlines Group S.A. (hereinafter the 'Company' or 'IAG') is a Spanish company formed to hold the interests of airline and ancillary operations, and is registered in Madrid and was incorporated on December 17, 2009. IAG is the parent Company of British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo Ltd (hereinafter 'IAG Cargo'), Veloz Holdco S.L.U. (hereinafter 'Veloz'), IAG GBS, AERL Holding Limited (hereinafter 'AERL Holding'), LEVEL and IAG Connect all collectively defined as the 'Group'. The Group presents consolidated financial statements separately. These will be deposited at the Madrid Mercantile Registry and the FCA in London on March 1, 2023.

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. (hereinafter 'Vueling') was acquired on April 26, 2013 and Aer Lingus Group DAC (hereinafter 'Aer Lingus') was acquired on August 18, 2015. During 2017, the Group incorporated FLY LEVEL S.L. and FLYLEVEL UK Limited (hereinafter 'LEVEL') and IAG Connect Limited (hereinafter 'IAG Connect'), with a 100 per cent investment by the Company. The objective and main activity, among others, of the Company is the acquisition, ownership, management and disposal of shares or other equity interests in other companies, provision of management services to those companies, and significant Group investments including aircraft procurement.

IAG is a Spanish Private Law entity, incorporated for an indefinite period by virtue of a public deed granted before the Public Notary of Madrid Ignacio Martínez-Gil Vich on December 17, 2009 under number 3.866 of his files, with its registered office in Madrid, at El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid, Spain and entered at the Madrid Mercantile Registry with registration number M-492129 in Volume 27312, Book 0, Section 8, Folio 11.

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

The Company's presentation currency is euro. The United Kingdom ('UK') branch's functional currency is pound sterling as this is the currency of the economic environment in which it operates.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

Applicable financial reporting framework

The financial statements have been prepared in accordance with the accounting principles approved by Royal Decree 1514/2007, of November 16, which was amended in 2016 by Royal Decree 602/2016 of December 2, and in 2021 by Royal Decree 1/2021, and the remaining prevailing mercantile law.

These financial statements have been prepared by the Directors of the Company for submission to and for approval at the General Shareholders' Meeting, where it is expected they will be approved without modification.

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

Going concern

At December 31, 2022, the Company had cash and cash equivalents of €2.141 million and a further €47 million of committed and undrawn general facilities and the Group had cash 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 Company has no financial covenants associated with its loans and borrowings.

In its assessment of going concern the Company and the Group have 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 Company and the Group have 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;

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

- the Company and the Group have assumed that the €500 million bond that matures in July 2023 will not be refinanced;
- €4,4 billion of capital commitments are 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 Company 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 Company and the Group have 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 have also considered further mitigating actions, such as reducing operating and capital expenditure and deferring currently forecast early repayments of loans and borrowings. The Company and the Group expect to be able to continue to secure financing for future aircraft deliveries and in addition have further potential mitigating actions, including asset disposals, they would pursue in the event of adverse liquidity experience.

Having reviewed the Base Case, Downside Case and additional sensitivities, the Directors of the Company have a reasonable expectation that the Company and the Group have sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the financial statements for the year to December 31, 2022. In adopting the going concern basis of accounting, the financial statements have been prepared without the inclusion of a material uncertainty, which has been removed since the 2021 financial statements were approved. 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.

2.1 True and fair view

The accompanying financial statements have been prepared from the Company's accounting records in accordance with prevailing Spanish accounting legislation to give a true and fair view of its equity, financial position and reserves. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets, such as cash and cash equivalents.

The annual accounts for 2022 are submitted for the approval in the Shareholders Meeting in June 2023, and it is expected that they will be approved without any modification.

2.2 Comparative information

According to corporate law, the prior year information in the Balance sheet, Income statement, Statement of other comprehensive income, Statement of changes in equity and Cash flow statement is presented for comparison purposes, in addition to figures for 2022. The notes to the financial statements also include quantitative information for the prior year, unless an accounting standard specifies that it is not necessary.

The notes to the financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

2.3 Critical accounting estimates and assumptions

The Directors have prepared the financial statements using estimates and assumptions based on current and historical experience and various other factors that affect the reported value of the assets and liabilities, and are considered reasonable under the circumstances. The carrying amount of assets and liabilities, which are not readily apparent from other sources, were established on the basis of these estimates. The Directors are not aware of any specific risks that might significantly alter the value of the assets or liabilities in the following year and, therefore, considers that it is not necessary to make estimates of uncertainty at the end of the reporting period.

Impairment of investments in Group companies
The Company assesses whether there are any indicators of impairment for equity investments in Group companies. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amounts of equity investments in Group companies have been determined based on the future forecast cash flows of the investments, which require the use of estimates and assumptions, including three year business plan assumptions, long-term growth rates and discount rates.

Impairment losses can be reversed and recognised in the Income statement if there is any indication that the impairment loss no longer exists. The reversal is limited to the carrying value of the asset that would have been recognised on the reversal date had the original impairment not occurred.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

2.3 Critical accounting estimates and assumptions continued

Share-based payments
The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Company for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model. The resulting cost in respect of employees of the Company, 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 which influences 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.

Determining whether the Company has significant influence over Air Europa Holdings

The Company 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. Such judgement includes the consideration as to the ability of the Company 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 Company; enable the interchange of management personnel; and provide essential technical information.

In forming its judgement, the Company 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 Company 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 Equity instrument and measures it at fair value through Other comprehensive income. At December 31, 2022, the fair value of its shareholding in Air Europa Holdings was €24 million. Further information is given in note 8.1.2.

3. APPROPRIATION OF PROFIT

The appropriation of the 2021 result was approved in the Shareholders' Meeting dated June 16, 2022.

The Board of Directors will submit the following proposed appropriation of the 2022 result for approval at the Shareholders' Meeting in June 2023:

€'000	**2022**	2021
Proposed appropriation:		
Profit for the year	50.586	51.359
	50.586	51.359
Appropriation to:		
Voluntary reserve	50.586	51.359
	50.586	51.359

3.1 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.

3.2 Limitations on the distribution of the profit

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 UK Export Finance (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 dividends 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 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.

3. APPROPRIATION OF PROFIT continued

3.2 Limitations on the distribution of the profit continued

The Company is obliged to transfer 10 per cent of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20 per cent of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders. The distributable reserves at December 31, 2022 are €7.821.025.000 (2021: €7.821.798.000). The non-distributable reserves at December 31, 2022 are €174.741.000 (2021: €317.056.000).

Once the guidance provided by the law or the statutes has been covered, dividends can only be distributed from profit for the year, or from distributable reserves, if the value of equity is not or, does not become as a result of the distribution, lower than share capital. In this case, the profit charged directly to equity cannot be distributed, directly or indirectly. If losses from previous years existed, that make the Company's equity lower than share capital, the profits would be used to compensate those losses.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2022 financial statements are the following:

4.1 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other lease arrangements are classified as operating leases.

For operating leases, the total minimum payments, measured at inception, are charged to the Income statement in equal annual amounts over the term of the lease.

4.2 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The Company depreciates property, plant and equipment on a straight-line basis at annual rates over their useful economic lives.

4.3 Investments in Group Companies

Equity investments in Group companies include investments in entities over which the Company has control. On intial recognition the investments are measured at fair value, which generally is equal to the fair value of the consideration paid, plus directly attributable transaction costs. Equity investments are subsequently measured at cost less, where appropriate, provisions for impairment, or distributions received recognised against the cost of the investment.

4.4 Impairment of non-financial assets

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.

Equity investments in Group companies are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to dispose and the equity value, which is based on the associated future cash flows of the related investment. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date

4.5 Financial instruments

The Company classifies financial instruments on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

The Company recognises a financial instrument when it becomes party to the contract or legal transaction, in accordance with the terms set out therein, either as the issuer or as the holder or acquirer thereof.

The Company classifies financial instruments into the following categories: financial assets and financial liabilities at fair value through profit or loss and financial assets and financial liabilities measured at amortised cost.

The Company classifies investments in equity instruments of Group companies and associates, and investments in equity instruments whose fair value cannot be determined by reference to a quoted price in an active market for an identical asset, or cannot be reliably estimated, at cost.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.5 Financial instruments continued

All other financial assets are classified at fair value through profit or loss.

The Company designates a financial liability at initial recognition as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency or mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company classifies all other financial liabilities at amortised cost.

(i) *Offsetting principles*

A financial asset and a financial liability are offset only when the Company currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Financial assets and financial liabilities*

Financial assets and financial liabilities are classified, upon initial recognition, as measured at amortised cost, 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.

(iii) *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 Company has no alternative other than to settle the convertible bonds into a fixed number of ordinary shares of the Company, then the bonds are classified as a compound financial instrument. Where the Group has an alternative settlement mechanism to the convertible bonds that permits settlement in cash, then the convertible instrument is classified as a hybrid financial instrument.

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

Convertible bonds that are classified as hybrid financial instruments consist only of a liability component recognised within Long-term borrowings. At the date of issue, the entirety of the convertible bonds is accounted for at fair value with subsequent fair value gains or losses recorded within Finance cost in the Income statement. The fair value of such financial instruments is obtained from their respective quoted prices in active markets.

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.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.5 Financial instruments continued

(iv) <u>Investments in Group companies and associates</u>

Equity investments in Group companies and associates are measured at the fair value of the consideration given, plus any directly attributable transaction costs (except fees paid to legal advisors or other professionals, which are taken directly to the income statement), less any accumulated impairment. Such impairment is calculated as the difference between the carrying amount and the recoverable amount, which is the higher of fair value less costs to sell and the present value of future cash flows from the investment. In the absence of better evidence of the recoverable amount, the investee's equity is taken into consideration, corrected for any unrealised gains existing at the measurement date (including any goodwill).

(v) <u>Equity instruments</u>

Equity instruments are non-derivative financial assets including unlisted investments, excluding interests in associates and joint ventures. On initial recognition, these equity instruments 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 Equity instruments. Dividends received on equity instruments 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.

(vi) <u>Reclassification of financial instruments</u>

The Company reclassifies financial assets when it changes the business model for their management or when they meet or cease to meet the criteria for classification as an investment in Group companies or associates, or the fair value of an investment ceases to be or is once again reliable, except for equity instruments classified at fair value through equity, which cannot be reclassified. The Company does not reclassify financial liabilities.

(vii) <u>Interest and dividends</u>

The Company recognises interest and dividends accrued on financial assets after their acquisition as income.

The Company accounts for interest on financial assets carried at amortised cost using the effective interest rate method and recognises dividends when the Company’s right to receive payment is established.

If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investee itself or by any investee thereof since acquisition have been distributed, the carrying amount of the investment is reduced. This criterion applies irrespective of the measurement criterion used to measure equity instruments.

Therefore, in the case of equity instruments at fair value, the value of the investment is also reduced, and any subsequent increase in value is recognised in the income statement or in equity, depending on the instrument’s classification.

(viii) <u>Impairment of financial assets</u>

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company recognises impairment on financial assets at amortised cost when estimated future cash flows are reduced or delayed due to debtor insolvency.

For equity instruments, objective evidence of impairment exists when the carrying amount of an asset is uncollectible due to a significant or prolonged decline in its fair value.

- Impairment of financial assets carried at amortised cost.

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used. Nevertheless, the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

The impairment loss is recognised in profit or loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.5 Financial instruments continued

The Company directly reduces the carrying amount of a financial asset when it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

- Impairment of investments in Group companies, associates and equity instruments carried at cost.

Impairment is calculated by comparing the carrying amount of the investment with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

Value in use is calculated based on the Company's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

Nonetheless, and in certain cases, unless better evidence of the recoverable amount of the investment is available, when estimating impairment of these types of assets, the investee's equity is taken into consideration, adjusted, where appropriate, to generally accepted accounting principles and standards in Spain, corrected for any net unrealised gains existing at the measurement date. If the investee forms a subgroup of companies, the equity shown in the consolidated annual accounts is taken into account, provided that these accounts have been authorised for issue. Otherwise, the equity reflected in the individual annual accounts is considered.

The carrying amount of the investment includes any monetary item that is receivable or payable for which settlement is neither planned nor likely to occur in the foreseeable future, excluding trade receivables or trade payables.

In subsequent years, reversals of impairment losses in the form of increases in the recoverable amount are recognised, up to the limit of the carrying amount that would have been determined for the investment if no impairment loss had been recognised. Impairment losses are recognised and reversed in the income statement.

(ix) Derecognition and modifications of financial liabilities

The Company derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The exchange of debt instruments between the Company and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, provided that the instruments have substantially different terms. The Company considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised at amortised cost over the remaining term of the modified liability. In the latter case, a new effective interest rate is determined on the modification date, calculated as the rate that equates the present value of the flows payable under the new terms to the carrying amount of the financial liability at that date.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. If the Company transfers non-monetary assets in settlement of the debt, the difference between their fair value and their carrying amount is recognised as results from operating activities, and the difference between the value of the debt being settled and the fair value of the assets as net finance income/cost. If the Company transfers inventories, the corresponding sale transaction is recognised at their fair value and the change in inventories at their carrying amount.

4.6 Treasury shares

Shares in the Company purchased and held directly by the Company are classified as Treasury shares and shown as deductions from Shareholders' funds at cost. When these shares are cancelled, Share capital is reduced by the nominal value of the cancelled shares, with an increase in the Redeemed capital reserve. No gain or loss is recognised in the Income statement on the purchase, sale, issue or cancellation of equity shares.

4.7 Cash and cash equivalents

Cash and cash equivalents includes 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.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.8 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency of the branch using the spot exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated into euro at the rate prevailing 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.

The net assets of foreign operations are translated into euros at the rate of exchange prevailing 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 until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the Income statement.

4.9 Corporate tax

From January 1, 2015 onwards the Spanish entities International Consolidated Airlines Group S.A., Vueling Airlines S.A., Veloz Holdco S.L.U., Avios Group Limited Sucursal en España , IAG GBS Limited Sucursal en España and IAG Cargo Limited Sucursal en España, filed consolidated tax returns as part of the Spanish tax unity (0061/15, pursuant to title VII, Chapter VI of the Spanish Corporate Income Tax Law set forth in the Law 27/2014 of 27 November 2014). Fly Level S.L. joined the tax unity on November 7, 2017. Yellow Handling S.L. joined the tax unity on October 17, 2019. From January 1, 2020 Vueling and Yellow Handling S.L. ceased to be part of the Spanish tax unity due to modifications in their shareholding.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the tax rates and legislation in force.

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 the tax rates and legislation in force.

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.

4.10 Revenue and expense recognition

The Company presents the income from rendering management services to Group companies, dividend received from Group Companies and financial income from financing granted to them as Revenue from operations.

4.11 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. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

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 increase in the provision due to unwinding the discount is recognised as a finance cost.

4.12 Long-term remuneration to personnel

The Company offers a defined contribution pension plan to all IAG employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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. Current service costs are recognised within the Income statement in the year in which they arise. At each financial year end, accrued contributions payable are recognised in the Balance sheet.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.13 Share-based payment transactions

The Company operates a number of equity-settled, share-based payment plans, under which the Company awards equity instruments for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model (note 16). The resulting cost is adjusted to reflect expected and actual levels of vesting, and is charged to the Income statement over the vesting period.

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.

4.14 Dividends

Interim dividends are recognised when they are paid and final dividends are recognised when authorised in general meetings by shareholders.

4.15 Related parties

Related party transactions are carried out on an arm’s length basis and recorded according to the accounting policies set out in this note.

4.16 Classification of assets and liabilities between current and non-current

Assets and liabilities are presented in the Balance sheet as either current or non-current. The assets and liabilities are classified as current when linked to the normal operating cycle of the Company.

When an asset or liability is not linked to the normal operating cycle but the Company expects the asset or liability to mature or liquidate, or plans to dispose of the asset or liability within 12 months, then these are also classified as current when they are maintained for the purposes of operations, or the instrument is related to cash and cash equivalents.

Any asset or liability whose use is restricted to beyond one year is classified as non-current.

5. LEASES

The Company has a property in Madrid which is leased from Iberia and expires in one year. The contract has an option to review the duration of the lease on an annual basis. The Company also has an office in London which is leased from British Airways. The lease expires in 2023.

The annual cost of the leases is €574.000 (2021: €560.000). The amount of future minimum lease payment is €557.000 (2021: €564.000) for less than one year and nil (2021: nil) for between 1 year and 2 years.

6. PROPERTY, PLANT AND EQUIPMENT

€'000	Work-in-progress[1]	Total
Cost		
Balance at January 1, 2022	8.156	8.156
Additions	112.383	112.383
Exchange adjustments	(3.537)	(3.537)
Transfer to Group companies	(33.956)	(33.956)
Net book value at December 31, 2022	**83.046**	**83.046**
Balance at January 1, 2021	-	-
Additions	8.156	8.156
Net book value at December 31, 2021	**8.156**	**8.156**

[1]Relates to pre-delivery payments made on aircraft.

Capital expenditure authorised and contracted for but not provided for in the accounts was €3.203.419.000 (December 2021: €850.913.000) in relation to fleet purchases. The capital expenditure was denominated in US dollars, and as such was subject to changes in exchange rates.

7. EQUITY INVESTMENTS IN GROUP COMPANIES

The details and movement of individual items that comprise this section are:

€'000	January 1	Additions	December 31
2022			
Equity instruments			
Cost	8.185.959	-	8.185.959
Distribution received	(342.766)	-	(342.766)
Impairment	(270.003)	-	(270.003)
	7.573.190	**-**	**7.573.190**
2021			
Equity instruments			
Cost	8.075.959	110.000	8.185.959
Distribution received	(342.766)	-	(342.766)
Impairment	(160.003)	(110.000)	(270.003)
	7.573.190	**-**	**7.573.190**

7.1 Description of the main movements

There are no movements in the year to December 31, 2022.

Prior year movements
On February 4, 2021 and June 25, 2021, the Company invested €22.000.000 and €88.000.000 respectively in the equity of FLY LEVEL S.L, which is a 100 per cent owned subsidiary. The full carrying amount of the investment in LEVEL of €270.000.003 was impaired during 2021 and 2020.

7. EQUITY INVESTMENTS IN GROUP COMPANIES continued

7.2 Overview of investments

Information at December 31 on the Group companies, prepared in accordance with International Financial Reporting Standards, is as follows:

	Business activity	Percentage of ownership[1]	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Net book value €'000
2022								
€'000								
Iberia	Passenger air transport	Indirect	66.717	(157.517)	215.979	125.179	257.182	-
Iberia Opco Holding	Holding company	100%	10	2.258.920	(2.680)	2.256.250	(180)	2.388.548
Aer Lingus	Passenger air transport	Indirect[3]	28.015	707	(21.672)	7.050	45.345	-
Vueling	Passenger air transport	Indirect[2]	29.905	(889.330)	119.463	(739.962)	186.779	-
Veloz	Holding company	100%	33	213.929	(797)	213.165	(227)	166.139
Aerl Holding	Holding company	100%	760.000	528.962	(2.171)	1.286.791	-	836.000
LEVEL	Passenger air transport	100%	185.003	(182.871)	4.866	6.998	5.050	-
£'000								
British Airways	Passenger air transport	100%	290.000	2.132.000	61.000	2.483.000	322.000	4.155.397
IAG Cargo	Cargo air transport	100%	-	5.840	1.562	7.402	1.603	-
IAG GBS	Business services	100%	20.000	(29.086)	(1.324)	(10.410)	2.375	22.218
IAG Connect	eCommerce platform	100%	-	4.136	71	4.207	92	4.888
Polish złoty '000								
IAG GBS Poland	Business services	1%[4]	-	5.932	2.418	8.350	3.667	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a
								7.573.190

7. EQUITY INVESTMENTS IN GROUP COMPANIES continued

7.2 Overview of investments continued

	Business activity	Percentage of ownership[1]	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Net book value €'000
2021								
€'000								
Iberia	Passenger air transport	Indirect	743.420	(545.283)	(374.707)	(176.570)	(385.759)	-
Iberia Opco Holding	Holding company	100%	10	2.333.986	(75.066)	2.258.930	(75.066)	2.388.548
Aer Lingus	Passenger air transport	Indirect[3]	28.015	315.701	(329.628)	14.088	(338.026)	-
Vueling	Passenger air transport	Indirect[2]	29.905	(559.534)	(307.476)	(837.105)	(263.008)	-
Veloz	Holding company	100%	33	214.922	(993)	213.962	(185)	166.139
Aerl Holding	Holding company	100%	760.000	530.447	(1.485)	1.288.962	-	836.000
LEVEL	Passenger air transport	100%	185.003	(169.372)	(13.499)	2.132	(4.781)	-
£'000								
British Airways	Passenger air transport	100%	290.000	3.150.000	(1.648.000)	1.792.000	(1.769.000)	4.155.397
IAG Cargo	Cargo air transport	100%	-	1.451	4.389	5.840	2.868	-
IAG GBS	Business services	100%	20.000	(28.646)	(498)	(9.144)	406	22.218
IAG Connect	eCommerce platform	100%	-	4.049	87	4.136	137	4.888
Polish złoty '000								
IAG GBS Poland	Business services	1%[4]	-	5.478	455	5.933	1.455	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a
								7.573.190

[1]IAG directly holds 90,02 per cent and 86,45 per cent of the economic rights in British Airways and Iberia respectively. The remaining economic ownership of both companies is indirectly held by IAG through the cross-holdings between British Airways and Iberia.

IAG, including through British Airways' shareholding, holds 49,9 per cent of the total nominal share capital and of 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 per cent of the economic rights in these two companies. The remaining shares, representing 50,1 per cent of the total nominal share capital and of the total number of voting rights belong to Garanair, S.L., a Spanish company incorporated for the purposes of implementing the Spanish nationality structure.

IAG, including through Iberia's shareholding, holds 49,9 per cent of the total number of voting rights and 99,65 per cent of the total nominal share capital in British Airways Plc, such stake having almost 100 per cent of the economic rights. The remaining nominal share capital and voting rights, representing 0,35 per cent and 50,1 per cent respectively, correspond to a trust established for the purposes of implementing the British Airways nationality structure.

[2] IAG holds an indirect investment of 99,49 per cent in Vueling through its subsidiaries Iberia (50,10 per cent) and Veloz (49,39 per cent).

[3] IAG holds 49,75 per cent of the total number of voting rights and almost 100 per cent of the economic rights in Aer Lingus. The remaining voting rights, representing 50,25 per cent, correspond to a trust established for implementing the Aer Lingus nationality structure.

[4] IAG holds a direct investment of 1 per cent in IAG GBS Poland and an indirect investment of 99 per cent through IAG GBS.

7. EQUITY INVESTMENTS IN GROUP COMPANIES continued

7.2 Overview of investments continued

British Airways' registered office is at Waterside, PO Box 365, Harmondsworth, London, UB7 0GB, United Kingdom. The main activity of British Airways is the operation of international and domestic air services for the carriage of passengers and cargo. In addition it provides ancillary services, BA Holidays and aircraft maintenance services.

Iberia's registered office is at Calle Martínez Villergas 49, 28027, Madrid, Spain. The main business of Iberia is the operation of international and domestic air services for the carriage of passengers and cargo. In addition it provides ancillary services including aircraft maintenance and handling services.

Veloz's registered office is at Carrer de Catalunya 83, Viladecans, 08840, Barcelona, Spain. The main business of Veloz consists of the acquisition and holding of shares or equity interests in Vueling, as well as the management and disposition of such equity interests.

IAG Cargo's registered office is at Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS, United Kingdom. The principal activity of IAG Cargo is commercial sales, support and management services in the provision of air freight on the British Airways, Iberia and Aer Lingus networks.

IAG GBS's registered office is at Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, Middlesex, UB7 0GB, United Kingdom. The principal activity is the provision of business services to the IAG Group.

IAG GBS Poland's registered office is at ul. Opolska 114, 31-323 Kraków, Poland. The principal activity is the provision of business services to the IAG Group.

AERL Holding's registered office is at Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, Middlesex, UB7 0GB, United Kingdom. The principal activity is acquisition and holding of equity interests in Aer Lingus Group DAC and the management and disposition of such equity interests.

FLY LEVEL S.L.'s registered office is at El Caserío, Camino de la Muñoza s/n, Iberia zona Industrial no 2, 28042 Madrid, Spain. The principal activity is passenger air transport.

IAG Connect Limited's registered office is at Dublin Airport, County Dublin, Republic of Ireland. The principal activity is the provision of the Group's inflight eCommerce platform.

In accordance with article 155 of the Spanish Companies Law (Ley de Sociedades de Capital), the Company has duly notified the abovementioned subsidiaries of the acquisition of their share capital.

7.3 Impairment review

The principal equity investments in Group companies comprise British Airways, Iberia, Veloz (the holding company of Vueling) and AERL Holding (the holding company of Aer Lingus).

Basis for calculating recoverable amount

The recoverable amounts of Company's investments 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 the pre-tax discount rate for each investment.

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. 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.

Impact of climate change on the Company's investment impairment analysis

The Group's Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year of 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 expected 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.

7. EQUITY INVESTMENTS IN GROUP COMPANIES continued

7.3 Impairment review continued

As a result, the Company's investment 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 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 Company 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 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 fll thieet 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.

Given the inherent uncertainty associated with the impact of climate change, the Company and the Group have applied additional sensitivities below 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.

Key assumptions

The value-in-use calculations for each investment 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 Company's investments the key assumptions used in the value-in-use calculations are as follows:

	2022			
Per cent	**British Airways**	**Iberia**	**Veloz**	**Aerl Holding**
Operating margin[1]	5-13	5-10	0-10	4-12
ASK as a proportion of 2019[1,2]	90-105	92-107	113-123	102-127
Long-term growth rate	1,7	1,5	1,4	1,6
Pre-tax discount rate	10,4	11,2	12,8	10,1

	2021			
Per cent	**British Airways**	**Iberia**	**Veloz**	**Aerl Holding**
Operating margin[1]	3-13	2-12	2-11	0-14
ASK as a proportion of 2019[1,2]	75-103	77-100	97-119	84-115
Long-term growth rate	1,9	1,7	1,6	1,7
Pre-tax discount rate	11,8	11,4	11,1	10,1

[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.

7. EQUITY INVESTMENTS IN GROUP COMPANIES continued

7.3 Impairment review continued

The long-term growth rate is calculated for each investment, 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. The airlines' network plans are reviewed annually as part of the three-year business plan and reflect management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each investment, 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 investment. 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. Investment 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 investments 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 investment, 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 investments than that included in the impairment models.

For the British Airways, Iberia, Veloz and AERL Holding investments, while the recoverable amounts are estimated to exceed the carrying amounts by €18.775 million, €5.760 million, €674 million and €1.732 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonably 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 24 per cent; and (ii) if the fuel price had been 32 per cent higher without cost recovery;
- Iberia: if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 23 per cent; and (ii) if the fuel price had been 29 per cent higher without cost recovery;
- Veloz: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of seven per cent; and (ii) if the fuel price had been 12 per cent higher without cost recovery; and
- AERL Holding: if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of six per cent; and (ii) if the fuel price had been 12 per cent higher without cost recovery.

For the remainder of the reasonably possible changes in key assumptions applied to the British Airways, Iberia, Veloz and AERL Holding investments and for all the reasonably possible changes in key assumptions applied to the remaining investments, no impairment arises.

8. FINANCIAL INSTRUMENTS

8.1 Financial assets

Details of the Company's financial assets at December 31 by nature and classification for measurement purposes is as follows:

At December 31, 2022 €'000	Financial assets at amortised cost	Financial assets at fair value through Other comprehensive income	Total
Non-current assets			
Loan receivable from Group company (note 15.1)	2.011.922	-	2.011.922
Investment in other equity instruments (note 8.1.2)	-	41.423	41.423
	2.011.922	**41.423**	**2.053.345**
Current assets			
Trade and other receivables (note 8.1.1)	215.354	-	215.354
Loan receivable from Group company (note 15.1)	91.885	-	91.885
Cash and cash equivalents (note 9)	2.141.257	-	2.141.257
	2.448.496	**-**	**2.448.496**

At December 31, 2021 €'000	Financial assets at amortised cost	Financial assets at fair value through Other comprehensive income	Total
Non-current assets			
Loan receivable from Group company (note 15.1)	1.926.037	-	1.926.037
Investment in other equity instruments (note 8.1.2)	-	17.708	17.708
	1.926.037	17.708	1.943.745
Current assets			
Trade and other receivables (note 8.1.1)	162.880	-	162.880
Loan receivable from Group company (note 15.1)	3.639	-	3.639
Cash and cash equivalents (note 9)	3.487.586	-	3.487.586
	3.654.105	-	3.654.105

8.1.1 Trade and other receivables

The breakdown of trade and other receivables at December 31 is as follows:

€'000	2022	2021
Current		
Receivables from Group companies (note 15.1)	205.789	146.591
Other receivables	9.565	16.289
	215.354	162.880

8. FINANCIAL INSTRUMENTS continued

8.1 Financial assets continued

8.1.2 Non-current investments in other equity instruments

Non-current investments in other equity instruments at December 31 is as follows:

€'000	2022	2021
Cost		
Unlisted investments	41.423	17.708
	41.423	17.708

Investment in Air Europa Holdings
On June 15, 2022, the Company 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.U. ('Air Europa Holdings'). The loan was accounted for at fair value through profit or loss and recorded as an Other non-current financial asset.

In determining the fair value of the financing arrangement, the Company 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 Equity instrument representing a 20 per cent shareholding in Air Europa Holdings.

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.

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 basis of the stand-alone value 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 charge, which arises from the loss on disposal of the loan made 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.

As 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.

8.2 Financial liabilities

Details of the Company's financial liabilities at December 31 by nature and classification for measurement purposes is as follows:

€'000	2022	2021
Non-current liabilities		
Bonds and other marketable securities	2.272.312	2.920.822
Group companies (note 15.1)	209.000	820.676
	2.481.312	3.741.498
Current liabilities		
Trade and other payables (note 8.2.1)	29.939	26.923
Group companies (note 15.1)	417.755	224.587
Bond and other marketable securities	557.328	542.709
	1.005.022	794.219

8. FINANCIAL INSTRUMENTS continued

8.2 Financial liabilities continued

In November 2015, the Group issued a senior unsecured bond of €500 million fixed rate 0,625 per cent raising net proceeds of €494 million and due in 2022, which was redeemed at maturity in 2022 with no conversion to ordinary shares.

In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due 2023 and €500 million due 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.

On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1,2 billion; €500 million fixed rate 2,75 per cent due in 2025, and €700 million fixed rate 3,75 per cent due in 2029.

On May 11, 2021, the Group issued an €825 million senior unsecured convertible bond due 2028. The convertible bond bears a fixed rate of interest of 1,125 per cent per annum, receiving net proceeds, after transaction costs, of €818 million. The Group recognised €825 million within non-current debt.

Details of the 2028 convertible bond
The convertible bond provides bondholders with dividend protection and includes a total of 244.850.715 options at inception and at December 31, 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, with a corresponding amount recorded within changes in fair value of financial instruments in the Income statement.

8.2.1 Trade and other payables

The breakdown of trade and other payables at December 31 is as follows:

€'000	2022	2021
Current trade and other payables		
Various creditors	29.939	26.923
	29.939	26.923

8. FINANCIAL INSTRUMENTS continued

8.2 Financial liabilities continued

8.2.2 Average payment days to suppliers

The information on average period for payment to suppliers in commercial transactions at December 31, is as follows:

Days	2022	2021
Average days for payment to suppliers	65	57
Ratio of transactions paid	65	57
Ratio of transactions outstanding for payment	40	47

€'000	2022	2021
Total payments made	36.825	34.010
Total payments outstanding	482	1.886

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	10.062	4.859
Percentage share of total payments to suppliers	27%	14%
Number of invoices paid	506	247
Percentage share of total number of invoices paid	45%	25%

8.3 Fair value of financial assets and financial liabilities

The fair values of the Company'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.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets.

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

8. FINANCIAL INSTRUMENTS continued

8.3 Fair value of financial assets and financial liabilities continued

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

2022	**Fair value**				**Carrying value**
€'000	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Loan receivable from Group companies	-	2.103.807	-	2.103.807	**2.103.807**
Equity instruments	-	-	41.423	41.423	**41.423**
Financial liabilities					
Bond and other marketable securities	2.483.003	-	-	2.483.003	**2.829.640**
Loan payable to Group companies	-	617.704	-	617.704	**617.704**

The carrying amounts and fair values of the Company's financial assets and liabilities at December 31, 2021 were as follows:

2021	**Fair value**				**Carrying value**
€'000	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Loan receivable from Group companies	-	1.929.676	-	1.929.676	1.929.676
Equity instruments	-	-	17.708	17.708	17.708
Financial liabilities					
Bond and other marketable securities	3.355.521	-	-	3.355.521	3.463.531
Loan payable to Group companies	-	1.033.873	-	1.033.873	1.033.873

Bonds and other marketable securities, with the exception of the IAG €825 million convertible bond due 2028 which is measured at fair value, are measured at amortised cost. Loans with Group companies are measured at amortised cost.

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

€'000	**2022**	2021
Opening balance for the year	**17.708**	17.945
Addition of Air Europa Holdings	21.730	-
Additions - other	2.115	58
Disposals	-	(295)
Impairment	(1.950)	-
Gains recognised in Other comprehensive income	1.870	-
Exchange movements	(50)	-
Closing balance for the year	**41.423**	17.708

9. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as at December 31 is as follows:

€'000	2022	2021
Cash at bank	147.200	45.516
Cash equivalents	1.994.057	3.442.070
	2.141.257	3.487.586

There are no restrictions on the use of the amounts included in these captions.

At December 31, 2022 and 2021, the Company had no outstanding bank overdrafts.

10. EQUITY – CAPITAL AND RESERVES

10.1 Share capital

At December 31, 2022, the share capital of the Company amounts to €497.147.000, divided into 4.971.476.000 ordinary shares of the same class and series and with a nominal value of 0,10 € each, fully subscribed and paid.

Details of shareholders and their equity based in their declararion at December 31 is as follows:

Per cent	2022	2021
Significant shareholders:		
Qatar Airways (Q.C.S.C.)	25,143	25,143
Lansdowne Partners International Limited	-	1,996
Other shareholders	74,857	72,861
	100	100

10.1.1 Rights issue

On October 2, 2020, the Company raised €2.741.088.000 (and incurred related transaction costs of €69.661.000) through a rights issue of 2.979.443.376 new ordinary shares at a price of 92 € cents per share on the basis of 3 shares for every 2 existing shares.

The share capital and premium for the Company is as follows:

	Number of shares '000s	Share capital €'000	Share premium €'000
At December 31, 2022: Ordinary shares of 0,10 € each	**4.971.476**	**497.147**	**7.770.439**
At December 31, 2021: Ordinary shares of 0,10 € each	4.971.476	497.147	7.770.439

10. EQUITY – CAPITAL AND RESERVES continued

10.2 Reserves and prior year results

Details of movements through reserves for the years to December 31 is as follows:

€'000	January 1	Appropriation of prior year profit/(loss)	Vesting of share based payments	Redemption of convertible bond	Reallocation of legal reserve	December 31
2022						
Legal reserve	205.799	-	-	-	(106.370)	99.429
Other reserve	12.841	51.359	(9.785)	62.036	106.370	222.821
	218.640	**51.359**	**(9.785)**	**62.036**	**-**	**322.250**
2021						
Legal reserve	205.799	-	-	-	-	205.799
Other reserve	309.146	(296.305)	-	-	-	12.841
	514.945	**(296.305)**	**-**	**-**	**-**	**218.640**

According to the Spanish Companies Law, the legal reserve is not distributable to shareholders until it exceeds 20 per cent of the share capital, and may only be used in the case that no other reserves are available to offset losses. This reserve may also be used to increase the share capital in excess of 10 per cent of the increased capital stock.

As permitted by the Spanish Companies law, the Company may decrease its share capital without granting its creditors the right of objection legally contemplated in connection with such capital reduction if it records from unrestricted reserves a reserve for redeemed capital for an amount equal to the nominal value of the cancelled shares. This reserve can only be used if the same requirements as those applicable to the reduction of share capital are met.

Other reserves include a Redeemed capital reserve of €70.478.000 (2021: €70.478.000) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €796.813.000 (2021: €796.813.000) associated with a reduction in the nominal value of the Company's share capital in 2020.

10.3 Equity – valuation reserve

A breakdown of movements through the valuation reserve for the years to December 31 is as follows:

€'000	January 1	Valuation adjustment	December 31
2022			
Fair value movements on other equity investments (note 8.1.2)	-	1.870	1.870
Currency translation differences	(1.229)	(11.644)	(12.873)
	(1.229)	**(9.774)**	**(11.003)**
2021			
Fair value movements on other equity investments	-	-	-
Currency translation differences	3.409	(4.638)	(1.229)
	3.409	(4.638)	(1.229)

The currency differences include the impact of converting the functional currency of the UK branch into the Company's presentation currency.

10. EQUITY – CAPITAL AND RESERVES continued

10.4 Treasury shares

The Company has authority to acquire its own shares, subject to specific conditions. The treasury shares balance consists of shares held directly by the Company. A total of 8.100.000 shares (2021: 5.444.000) were issued to employees during the year as a result of vesting of employee share schemes. During the year the Company purchased 15.000.000 shares, which are held as treasury shares. These shares were purchased at an average price of €1,51 per share. At December 31, 2022 the Group held 17.053.000 shares (2021: 10.153.000) which represented 0,34 per cent of the issued share capital of the Company.

€'000	January 1	Purchase of treasury shares	Share-based payment scheme vesting	December 31
2022				
Treasury shares	(24.000)	(22.674)	18.662	(28.012)
	(24.000)	**(22.674)**	**18.662**	**(28.012)**
2021				
Treasury shares	(39.168)	(24.098)	39.266	(24.000)
	(39.168)	(24.098)	39.266	(24.000)

10.5 Other equity instruments

The detail of balances related to other equity instruments at December 31 is as follows:

€'000	January 1	Equity instruments movement for the year	December 31
2022			
Share-based payments charge (note 16)	262.732	38.794	301.526
Vesting of share-based payment	(213.511)	(12.703)	(226.214)
Redemption of convertible bond (note 8.2)	62.036	(62.036)	-
	111.257	**(35.945)**	**75.312**
2021			
Share-based payments credit (note 16)	239.736	22.996	262.732
Vesting of share-based payment	(171.434)	(42.077)	(213.511)
Equity portion of convertible bond (note 8.2)	62.036	-	62.036
	130.338	(19.081)	111.257

11. TAXES

11.1 Current taxes

11.1.1 Tax receivables and payables

The detail of balances related to tax assets and liabilities at December 31 is as follows:

€'000	2022	2021
Corporate income tax receivable/(payable) to Tax Authorities:		
Spain	22.023	(8.086)
UK	670	690
Total corporate income tax receivable/(payable)	22.693	(7.396)
Intercompany payable relating to UK corporate income tax	(8.332)	(10.317)
Provisions for taxes	(600)	(600)
Social security payable	(20.848)	(14.334)
Value added tax receivable	4.246	9.836
	(2.841)	**(22.811)**

11.1.2 Reconciliation of accounting profit for corporate income tax

The reconciliation between the accounting profit and tax (charge)/credit is as follows:

€'000	2022	2021
Profit after tax for the year from continuing operations	50.586	51.359
Current tax	12.530	11.487
Deferred tax	(978)	(33)
Impact of rate change	(356)	(220)
Adjustments in respect of prior years	2.992	(4.950)
Profit before tax	**64.774**	57.643
Permanent differences	11.837	110.987
Timing differences	2.974	(106.657)
Taxable profit	**79.585**	61.973

11. TAXES continued

11.1 Current taxes continued

11.1.3 Reconciliation of accounting profit to taxable profit for corporate income tax

€'000	2022 Total	2021 Total
Profit before tax	64.774	57.643
Tax at the standard rates in Spain (25%) and the UK (19%)	(13.767)	(14.137)
Permanent differences increasing the tax (charge)/credit	(2.326)	(115)
Permanent differences decreasing the tax (charge)/credit	-	(27.451)
Share based payments	413	(365)
Adjustment in respect of prior years	(2.992)	4.950
Impact of rate change	356	220
Current year tax asset not recognised	-	27.229
Prior year tax assets not recognised	4.128	3.385
Tax charge	**(14.188)**	(6.284)

From January 1, 2015 onwards the Spanish companies International Consolidated Airlines Group, S.A., Vueling Airlines S.A, Veloz Holdco S.L.U., Avios Group Limited Sucursal en España, IAG GBS Limited Sucursal en España and IAG Cargo Limited Sucursal en España filed consolidated tax returns as part of the Spanish tax unity (0061/15, pursuant to title VII, Chapter VI of the Spanish Corporate Income Tax Law set forth in the Law 27/2014 of 27 November 2014). Fly Level S.L. joined the tax unity on November 7, 2017. Yellow Handling S.L. joined the tax unity on October 17, 2019. Vueling and Yellow Handling S.L. are no longer part of the Spanish tax unity since January 1, 2020 due to modifications in their shareholding. IAG will be responsible for filing consolidated tax returns on behalf of the other companies that belong to this tax unity.

Permanent differences increasing/decreasing the tax charge primarily relate to non-deductible expenses and other non taxable income.

11.1.4 Taxable profit

The taxable profit for the year to December 31, arises as follows:

€'000	2022	2021
Profit/(loss) before tax	**64.774**	57.643
Spain	77.544	53.078
UK	(12.770)	4.565
Permanent differences	**11.837**	110.987
Timing differences	**2.974**	(106.657)
Taxable profit	**79.585**	61.973

11. TAXES continued

11.2 Current provisions and tax audits

€'000	2022	2021
Provisions for taxes	600	600
	600	600

Under prevailing tax regulations, tax returns in Spain may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. A tax provision in the balance sheet of €600.000 (2021: €600.000) has been made as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

Under prevailing tax regulations, tax returns in the UK may not be considered final until they have either been inspected by tax authorities or until the six-year inspection period for discovery assessment has expired. In December 2016 the UK Tax Authority opened an audit into corporate income tax for the year to December 31, 2014. Audits into subsequent years have since been opened each year for all years up to and including December 31, 2020. As the UK branch is part of the Group's UK tax group, the tax provision relating to the UK tax audit is included in "Corporate income tax receivable/(payable) with group companies – UK" in the balance sheet.

11.3 Deferred tax asset

The detail and movements of balances related to deferred tax assets at December 31 is as follows:

€'000	January 1	Variations reflected in Income statement	Equity	Exchange difference	December 31
2022					
Temporary differences on share-based payments	2.464	1.333	-	(66)	3.731
	2.464	**1.333**	**-**	**(66)**	**3.731**
2021					
Temporary differences on share-based payments	2.036	33	-	395	2.464
	2.036	33	-	395	2.464

The deferred tax asset has been booked at the UK tax rate. On March 3, 2021 the UK Chancellor of the Exchequer announced that legislation would be introduced in the Finance Bill 2021 to increase the main rate of corporation tax from 19 per cent to 25 per cent from April 2023. On May 24, 2021 the increase in the rate of corporation tax in the UK was substantively enacted, which has led to the remeasurement of deferred tax balances where these are expected to unwind after April 2023.

11.4 Unrecognised tax assets

The Company has €78 million of unrecognised tax losses that arose in Spain in 2014 (before the tax unity was formed) and in 2020. In addition, the Company has €23,5 million of unrecognised deductible temporary differences that arose in Spain in 2015 and 2016.

11.5 Tax related contingent liabilities

The Company has certain contingent liabilities, across all taxes, which at December 31, 2022 amounted to €98 million. No material losses are likely to arise from such contingent liabilities. As such the Directors do not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liability is the following:

11. TAXES continued

11.5 Tax related contingent liabilities continued

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, 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 Directors and its advisors believe that the Company has strong arguments to support its appeals. The Directors do not consider it appropriate to make a provision for these amounts and accordingly has recognised this matter as a contingent liability.

12. INCOME AND EXPENSES

12.1 Revenue

The Company's activity as described in note 1, is the acquisition, ownership, management and disposal of shares or other equity interests in other companies and provision of management services to those companies. Details and distribution of the revenue for the year to December 31, from continuing operations by geographical segments can be represented by the following information:

€'000		2022	2021
Revenue from operations			
Rendering of services to Group companies	(note 15.1)	71.226	66.062
Receivable from debt with Group companies	(note 15.1)	109.827	96.603
		181.053	162.665

€'000	2022	2021
Revenue by area of geographical sale		
UK	133.668	128.420
Spain	36.895	19.276
Rest of the World	10.490	14.969
	181.053	162.665

12. INCOME AND EXPENSES continued

12.2 Finance income and costs

The breakdown of finance income and cost is as follows:

€'000	**2022**	2021
Finance income		
Receivable from third parties	10.767	858
	10.767	858
Finance costs		
Payable interest on convertible bond and other securities payables	(79.680)	(57.714)
Payable to third parties	(13.034)	(25.938)
	(92.714)	(83.652)
Changes in fair value of financial instruments		
Net change in fair value of convertible bond	151.165	-
Net fair value losses on financial assets at fair value through profit and loss	(35.270)	-
Net fair value losses on derecognition of financial assets and recognition of other equity investment	(43.000)	68.838
	72.895	68.838
Impairment and (losses)/gains on financial instruments		
Impairment and (losses)/gains on disposal of other equity investments	(1.950)	166
	(1.950)	166

12.3 Employee costs

The breakdown of personnel expenses is as follows:

€'000	**2022**	2021
Wages, salaries and other costs		
Salaries and wages	43.353	34.998
Share-based payments charge (note 16)	8.722	6.068
Social security costs		
Social security	4.955	3.828
Other social costs	2.888	2.790
	59.918	47.684

The Company offers a defined contribution pension plan to all IAG employees. The contributions paid into the defined contribution scheme during the year to December 31, 2022 totalled €2.888.000 (2021: €2.790.000), and have been recognised as Other social costs.

13. FOREIGN CURRENCY

IAG is a Spanish Company with a UK branch which has a pound sterling functional currency. The breakdown of assets and liabilities of the UK branch, all denominated in pound sterling, is as follows:

Pound sterling '000	**2022**	2021
Assets		
Property, plant and equipment	72.631	6.931
Investment in other equity instruments	39.039	39.017
Current tax receivable	586	586
Deferred tax asset	3.263	2.093
Amounts owed by Group companies	117.499	143.842
Other receivables	44.265	1.318
Cash and cash equivalents	226.681	219.077
	503.964	412.864
Liabilities		
Other taxes and social security	13.947	11.954
Accruals and others payables	27.285	19.316
Amounts due from Group companies	212.816	224.451
	254.048	255.721

The Income statement, all denominated in ‘000 pound sterling, of the branch is as follows:

Pound sterling '000	**2022**	2021
Revenue	52.691	56.994
Finance income	4.654	1.095
Employee costs	(44.739)	(37.321)
Other costs	(18.456)	(14.483)
Finance costs	(2.765)	(2.324)
(Loss)/profit for the year before tax	**(8.615)**	3.961

14. FINANCIAL RISK MANAGEMENT

The nature of the Company's business model and its ability to pay dividends to shareholders means the Company is primarily exposed to capital and credit risk.

Counterparty risk

The Company 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. 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 carrying amount of financial assets represents the maximum exposure to counterparty risk.

Foreign currency risk

The Company undertakes external foreign exchange derivatives trading activity to mitigate the exposure arising from potential dividends received in currencies other than the euro.

Liquidity risk

The Company 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 Company has also committed revolving credit facilities. At December 31, 2022 the Company had an undrawn revolving credit facility of $50 million (€47 million) (2021: $50 million (€44 million)) denominated in US dollar expiring in 2023.

Capital risk

The Company'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.

15. RELATED PARTY TRANSACTIONS

The Company has the following related parties at December 31:

	Nature of relationship
British Airways Plc	Other Group companies
Iberia Líneas Aéreas de España S.A. Operadora	Other Group companies
IB Opco Holding, S.L.	Other Group companies
Veloz Holdco S.L.U.	Other Group companies
Vueling Airlines, S.A.	Other Group companies
IAG Cargo Ltd	Other Group companies
IAG GBS Ltd	Other Group companies
IAG GBS Poland sp. z o.o.	Other Group companies
Aerl Holding Limited	Other Group companies
Aer Lingus Group DAC	Other Group companies
Avios Group (AGL) Limited	Other Group companies
IAG Connect	Other Group companies
FLY LEVEL S.L.	Other Group companies
FLYLEVEL UK Limited	Other Group companies
Qatar Airways (Q.C.S.C.)	Significant shareholder
Key management personnel	Directors and Management Committee

15. RELATED PARTY TRANSACTIONS continued

15.1 Related entities

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

€'000	2022	2021
Revenue from operations		
Rendering of services to Group companies	71.226	66.062
Receivable from debt with Group companies	109.827	96.603
Purchases of services		
Purchases from Group companies	4.062	5.360
Costs		
Payable on debt with Group companies	14.993	16.550

December balances

	2022	2021
Receivables from related parties		
Amounts owed by Group companies	205.789	146.591
Loan receivable from Group companies	2.103.807	1.929.676
Payables to related parties		
Amounts owed to Group companies	9.051	11.390
Loan payable to Group companies	617.704	1.033.873

The details of the loans receivable from Group companies is as folllows:

€'000	Amount outstanding December 31 2022	2021	Due date	Interest rate	Finance income 2022	2021
AERL Holdings	69.964	67.232	2023	3 year mid swap vs 3 months EURIBOR +4,00 per cent	2.732	2.632
LEVEL	-	-	2021-2023	5 year euro mid swap rate +6,00 per cent	-	1.673
LEVEL	-	-	2021-2023	5 year euro mid swap rate +6,00 per cent	-	2.219
British Airways	1.643.828	1.637.156	2026	3 months EURIBOR + 4,60 per cent	87.461	84.097
Aer Lingus	-	50.013	2023	3 months EURIBOR + 4,70 per cent	3.440	3.925
Aer Lingus	-	50.235	2023	3 months EURIBOR + 4,70 per cent	366	2.017
Aer Lingus	-	50.040	2023	3 months EURIBOR + 2,90 per cent	347	40
Iberia	77.922	75.000	2026	margin 3,5 per cent fixed	3.388	-
Iberia	312.093	-	2026	12 months EURIBOR + EBIT component	12.093	-
	2.103.807	1.929.676			**109.827**	96.603

15. RELATED PARTY TRANSACTIONS continued

15.1 Related entities continued

In February 2022, Iberia borrowed €300.000.000 from IAG to strengthen its capital. The borrowed balance as at December 31, 2022 was €312.093.000 (2021: nil).

During the year Aer Lingus repaid the principal and interest outstanding totalling €154.442.000 to the Company. The borrowed balance as at December 31, 2022 was nil (2021: €150.288.000).

Prior year movements:
In February 2021 and December 2021 Aer Lingus borrowed €50.000.000 respectively from IAG for general corporate purposes. The borrowed balance as at December 31, 2021 was €150.288.000.

In December 2021, IB Opco Holding borrowed €75.000.000 from IAG for general corporate purposes. The borrowed balance as at December 31, 2021 was €75.000.000.

The details of the loans payable to Group companies is as follows:

€'000	Amount outstanding December 31				Finance costs	
	2022	2021	**Due date**	**Interest rate**	**2022**	2021
Veloz	109.044	109.044	2024	1,20 per cent	1.308	1.308
Avios	211.753	217.938	2023	2 year GILT + 1,25 per cent	2.854	2.160
Iberia	-	200.294	2022	6 months euro mid swap rate + 1,75 per cent	860	2.482
Iberia	100.506	100.657	2023	5 year euro mid swap rate +1,95 per cent	2.210	2.210
Aer Lingus	-	100.447	2023	5 year euro mid swap rate +2,00 per cent	1.981	2.320
Aer Lingus	-	100.027	2023	5 year euro mid swap rate +2,00 per cent	2.273	2.410
Aer Lingus	100.068	100.014	2024	5 year euro mid swap rate +1,03 per cent	1.142	1.086
British Airways	40.541	44.416	2021-2023	5 year euro mid swap rate +2,00 per cent	1.034	1.124
British Airways	55.792	61.036	2021-2023	5 year euro mid swap rate +2,00 per cent	1.331	1.450
	617.704	1.033.873			**14.993**	16.550

In April 2022, the Company repaid to Iberia the principal and interest outstanding of €201.411.000. The outstanding balance as at December 31, 2022 was nil (2021: €200.294.000).

In December 2022, the Company repaid to Aer Lingus the principal and interest outstanding of €204.730.000. The outstanding balance as at December 31, 2022 was nil (2021: €200.474.000).

Prior year movements:
There were no new loans payable or repayments of principal in the year to December 31, 2021.

Ordinary transactions with Group companies were carried out on an arm’s length basis in accordance with the Group’s transfer pricing policies. Outstanding balances that relate to trading balances are placed on intragroup accounts with payment terms of 90 days.

15. RELATED PARTY TRANSACTIONS continued

15.2 Board of Directors and Management Committee remuneration

A breakdown of the remuneration received by the Board of Directors and Management Committee for the years to December 31 is as follows:

€'000	2022	2021
Board of Directors		
Salaries (fixed and variable)	4.442	2.547
Benefits in kind	527	464
Life insurance policies	9	8
	4.978	3.019
Management Committee		
Salaries (fixed and variable)	13.570	9.576
Benefits in kind	2.163	1.220
Life insurance policies	29	26
Pension contributions	15	12
Share-based payments	869	747
	16.646	11.581

The pension obligation outstanding, which represents the transfer value of the accrued pension was €4.480.000 (2021: €8.692.000) for the Management Committee.

Information regarding share-based remuneration can be found on the Report of the Remuneration Committee in the Group Annual Report and Accounts 2022.

At December 31, 2022 and 2021, no advances or loans had been given to members of the Board of Directors.

The members of the Board of Directors of the Company and persons related to them are as defined per Article 229 of the Spanish Capital Companies Act approved by Royal Decree 1/2010 dated 2 July, amended by Law 31/2014 dated 3 December, amending the Spanish Capital Companies. They have also confirmed that they have not engaged in activities on their own behalf or on behalf of others that involve effective competition, whether actual or potential, with the Company or that in any other way places them in permanent conflict with the interests of the company.

16. SHARE-BASED PAYMENTS

The Company 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 nil cost and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

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 granted 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.

16. SHARE-BASED PAYMENTS continued

IAG Restricted Share Plan

During 2021, the Group revised its approach to long-term incentives, replacing the existing PSP with a Restricted Share Plan proposal under the new Executive Share Plan (RSP) approved by shareholders in June 2021. The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. Awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options 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.

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.

IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It is 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 receives 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.

Share-based payment schemes summary

	Outstanding at January 1, 2022	Granted number	Lapsed number	Vested number	**Outstanding at December 31, 2022**	Exercisable December 31, 2022
	000s	000s	000s	000s	**000s**	000s
Performance Share Plans	8.740	-	1.954	1.813	4.973	851
Restricted Share Plans	3.140	6.478	592	527	8.499	-
Full Potential Incentive Plan	4.946	1.025	932	-	5.039	-
Incentive Award Deferral Plans	2.105	-	22	1.174	909	-
	18.931	**7.503**	**3.500**	**3.514**	**19.420**	**851**

	Outstanding at January 1, 2021	Granted number	Lapsed number	Vested number	**Outstanding at December 31, 2021**	Exercisable December 31, 2021
	000s	000s	000s	000s	**000s**	000s
Performance Share Plans	12.217	-	2.398	1.079	8.740	409
Restricted Share Plans	-	3.163	23	-	3.140	-
Full Potential Incentive Plan	-	5.037	91	-	4.946	-
Incentive Award Deferral Plans	3.623	-	94	1.424	2.105	-
	15.840	**8.200**	**2.606**	**2.503**	**18.931**	**409**

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2022 was €1,56 (2021: €2,04).

In 2022, there were no equity-settled share-based payment plan grants made with a fair value determined using the Monte Carlo method of valuation.

The Company recognised a share-based payments charge of €8.722.000 for the year to December 31, 2022 (2021: €6.068.000). A credit of €38.794.000 (2021: €22.996.000) representing the total Group charge was recognised in Reserves including no deferred tax entry (2021: credit of €26.000). Group companies are recharged for the grants made to employees of those Group companies.

17. OTHER DISCLOSURES

17.1 Employee numbers

	Number of employees at year end			Average number
Professional category	**Men**	**Women**	**Total**	**of employees**
2022				
Management Committee	9	3	12	12
All other employees	76	47	123	121
	85	**50**	**135**	**133**
2021				
Management Committee	9	2	11	11
All other employees	71	47	118	121
	80	49	129	132

There are no employees with a certified disability greater than 33 per cent.

At December 31, 2022, the Board consisted of 11 people, including 6 men and 5 women (2021: 12 people, including 7 men and 5 women).

17.2 Audit fees

The fees for the audit of the Company's financial statements, the audit of the Group consolidation and non-audit services provided to the Company by the auditor KPMG Auditores S.L. are as follows:

€'000	**2022**	2021
Fees for the audit of the financial statements	1.652	1.214
Other audit related services	496	428
All other services	1.022	766
	3.170	2.408

Information on services provided to the Company and its subsidiaries by KPMG and other network firms is included in the Group's consolidated financial statements.

17.3 Contingent liabilities

At December 31, 2022 the Company had certain contingent liabilities that could be reliably estimated, amounting to €3 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.

17.4 Information on environmental issues

The undersigned, as Directors of the Company, hereby state that the accounting records relating to these financial statements do not contain any item of an environmental nature that should be included pursuant to point 5 of the Valuation Standard 4ª Financial Statements, or Section 3 of the Spanish National Chart of Accounts (Royal Decree 1514/2010, of 16 November). Please refer to the Group Consolidated Statement of Non-Financial Information within the Group Annual Report and Accounts 2022 for Group disclosures on enviromental matters and climate change.

18. POST BALANCE SHEET EVENTS

On February 23, 2023, the Company 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 Company 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 Company 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 the accounting principles, and no accounting has been made for the transaction in these 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 8.1.2. 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.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Management report for the year to December 31, 2022

MANAGEMENT REPORT

International Consolidated Airlines Group, known as International Airlines Group or IAG is the parent company of British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo, Veloz, IAG GBS, AERL Holding, LEVEL and IAG Connect. The Group was formed on January 21, 2011 when the merger between British Airways and Iberia was completed.

Business review
IAG is a Spanish registered company with the majority of its Board meetings held in Spain. IAG operates a head office through its UK branch in London, with an average staff of 133 (2021: 132) managing key support functions for the Group. The Company's focus is on the Group strategy, synergies, digital and connectivity, and support of finance, legal and communications functions as well as the administration of the Company.

Costs in relation to work carried out for the operating companies of the Group are recharged back to those companies.

It is expected that the Company will remain relatively small within the Group, whilst continuing to provide support to the operating companies where required and providing leadership of the Group strategy.

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.

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.

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

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

These strategic priorities are achieved through:
- An unrivalled customer proposition;
- Value-accretive and sustainable growth; and
- Efficiency and innovation

The Board believes that IAG can achieve its purpose and vision by promoting the Group's key values, which are innovation, commitment, care for people, responsibility, pragmatism, execution, ambition and resilience. In 2022, the Board reviewed how these values are embedded in the organisation and how this is linked to the ongoing work on corporate culture and on people. The Board considers the work and focus on corporate culture and values to be essential elements in the transformation and execution of the Group's strategy.

By connecting people, businesses and countries, the Group is able to provide the jobs, prosperity and cultural benefits that travel has always created. While a number of important new initiatives and projects have been launched during the year, there is more to be done to achieve the aspirations the Group has set for itself.

Finance review

Income statement
Revenue derived from charging the airline companies for the services that IAG provides to them totalled €71 million for the year to December 31, 2022 (2021: €66 million). Such services cover financial control over treasury policy, treasury support including hedging, financing and refinancing, major capital investments, co-ordination and delivery support of the synergies, strategy and general management of the Group. Revenue from services in 2022 was 8 per cent higher than in the prior year in line with the increase in operating costs, reflecting higher activity in 2022. Revenue also includes finance income received from lending provided to operating companies within the Group. Finance income from debt with Group companies in the period was €110 milllion compared to €97 million in 2021, reflecting a new loan provided to Iberia during 2022.

The Company did not receive dividend income from its operating companies during the year (2021: nil).

The Company's expenses are split between employee costs, services received and other operating expenses.

Employee costs for the year were €60 million (2021: €48 million). The increase in employee costs reflects the higher number of employees at year end. The share-based payment cost was €9 million for the year, compared with €6 million in 2021.

Services received largely relate to supporting the activities of the key departments. Other expenses reflect the cost of operating the IAG offices and IT costs, as well as the costs supporting the Group's market listings with the CNMV and UKLA. Operating expenses increased to €32 million in 2022 from €26 million in 2021, reflecting higher activity. 2022 also saw expenditure in relation to the Group's transformation strategy and planning activities.

Finance costs payable on debt with third parties of €93 million (2021: €84 million) include interest expense on bonds, and include a full year of interest on bonds issued in 2021.
Profit before tax for the year was €65 million (2021: €58 million).

The tax charge of €14 million (2021: €6 million charge) reflects:

- UK tax on the losses of the Company's UK branch at the tax rate of 19 per cent;
- Spanish tax on the profit of the Company's head office after offsetting tax losses at the tax rate of 25 per cent; and
- an adjustment in respect of prior years.

The profit after tax for the year from continuing operations was €51 million (2021: €51 million).

Balance sheet
IAG's primary assets are its subsidiaries. IAG's investments in British Airways and Iberia were created at the time of the merger on January 21, 2011 and amounted to €6.208 million. At December 31, 2022, IAG held an investment of €4.155 million in British Airways, €2.389 million in Iberia, €836 million in AERL Holding, €166 million in Veloz, €22 million in GBS and €5 million in IAG Connect, totalling €7.573 million (2021: €7.573 million). It also holds an investment in Cargo.

2021 Redemption of convertible bond
In November 2022, the €500 million fixed rate 0,625 per cent convertible bond was redeemed at maturity with no conversion to ordinary shares.

Treasury shares
At December 31, 2022 the Company held 17,1 million shares (2021: 10,2 million).

During the year the Company purchased 15 million shares, and a total number of 8,1 million shares vested in relation to share-based payment schemes. The total number of the Company's treasury shares as at December 31, 2022 accounts for 0,34 per cent (2021: 0,20 per cent) of the total issued capital at that date.

Dividends
No dividends were proposed by the Board of Directors during the year.

Post balance sheet events
On February 23, 2023, the Company 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. See note 18 of the financial statements for further detail.

Research and development
The Company does not undertake any research or development activity.

Financial risk management
The nature of the Company's business model and ability to pay dividends to shareholders means the Company is primarily exposed to capital and credit risk. The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure in order to reduce the cost of capital and to provide future returns to shareholders.

Principal risks and uncertainties
The Company has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks have been assessed, including reviewing the macroeconomic and geopolitical landscape to identify emerging risks and implications for existing principal risks as well as market risk changes as the Company and Group move back into recovery. The Directors of the Company believe that the risks and uncertainties described below are the ones that may have the most significant impact on the day to day operations of IAG as a parent company. These risks are considered by the IAG Management Committee as part of its wider consideration of Group risks under the IAG Enterprise Risk Management framework. Management remains focused on mitigating risks whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature. The list is not intended to be exhaustive.

Cyber-attack and data security
The Company could face financial loss, disruption or damage to brand reputation arising from an attack on the Company's systems. There is significant oversight of critical systems and suppliers to ensure that the Company understands the data it holds, that it is secure and regulations are adhered to.

Financial risk and interest rate risk
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. Rising interest rates also increase the debt servicing cost for floating rate debt and new debt arrangements. The failure to manage the financial counterparties credit exposure arisen from cash investments and derivatives trading may result in financial losses. The Company is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. 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.

Group Governance Structure
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. IAG could face a challenge to its ownership and control structure. IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU and will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

IT systems and IT infrastructure
The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption. Obsolescence within IAG's IT estate could result in service outages and/or operational disruption or delays in implementation of transformation activities. IAG's Group IT and digital function, IAG Tech works with the Company to deliver digital and IT change initiatives to enhance security and stability. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure

Non-compliance with key regulation and laws
The Company is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses. The Company has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. There are mandatory training programmes in place to educate employees in these matters, including training in respect of the IAG Code of Conduct framework. Compliance and legal professionals advise the Group's businesses as needed.

People risk
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. The Company may fail to attract, motivate, retain or develop its people with critical skillsets not being in place to execute on the required transformation. The Group is also at risk of our people not being engaged or not displaying the required leadership behaviours. The Company is focused on staff well-being and people morale and motivation, including supporting agile and hybrid working models. Enhancing leadership capability, delivering on the Group's diversity and inclusion plans, succession planning and action plans from engagement surveys mitigate these risks.

Reputation
As a listed entity in Spain and the United Kingdom, and as owner of British Airways, Iberia, IAG Cargo, Vueling, Aer Lingus, Avios and LEVEL, the Company is exposed to reputational risk and consequent impact to the Group's brands. The Company's Investor Relations and Media Relations teams work with stakeholders to understand their concerns or update on specific matters.

Tax
The Company 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. The Company may be subject to higher levels of taxation as governments seek to redesign the global tax framework and recover the national debts arising from pandemic support measures. 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 IAG tax department and overseen by the Board through the Audit and Compliance Committee.

The Annual Corporate Governance Report is part of this Management Report but has been presented separately together with the Group Annual Report and Accounts. This report has been filed with the CNMV, together with the required statistical annex, in accordance with the CNMV Circular 2/2018, dated June 12. The Annual Corporate Governance Report and the statistical annex are also available on the Company's website (www.iairgroup.com).

The Non-Financial Information Statement in response to the requirements of Law 11/2018, of December 28, (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), is part of this Management Report and is available on the Company's website (www.iairgroup.com).

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