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

(Together with the consolidated financial statements and consolidated management report of International Consolidated Airlines Group, S.A. and subsidiaries for the year ended 31.12.21)

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

Independent Auditor's Report on the Consolidated Financial statements

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A (the Parent) and subsidiaries (together the "Group") which comprise the consolidated balance sheet at 31 December 2021 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

Going Concern	Our response
We draw your attention to note 2 to the accompanying consolidated financial statements, which states that the pandemic triggered by COVID-19 has had a significant impact on the Group's results and its cash flows. In this regard, in its assessment of the going concern principle, the Group has considered three different scenarios, one using base case assumptions and two other downside scenarios. The base case considers the expected recovery during the period encompassed by the going concern analysis. However, the downside scenarios take into account stress case assumptions, with one considering a more gradual recovery compared to the base case and the other considering a further period of lockdown followed by recovery. The Directors consider that the Group has sufficient liquidity to continue operations in the foreseeable future, and thus the going concern principle has been applied in the preparation of these consolidated financial statements. Nonetheless, as indicated in note 2 to the accompanying consolidated financial statements, a number of factors are beyond the Group's control, and should a more severe scenario come about than those envisaged, the Group would need to obtain the necessary additional financing. These events and conditions indicate the existence of material uncertainty which could cast significant doubt as to the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter. The risk Clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area.	Our procedures included: *Assessing transparency:* Assessing the completeness and accuracy of the matters covered in the going concern disclosure by: - Funding assessment: Assessing the financing arrangements currently in place and the actions taken by Group to maintain liquidity and the headroom. - Key dependency assessment: Using our knowledge of the business and the audit work performed on the areas such as revenue, operating costs, pensions to identify critical factors within the Group's financial forecasts and in our assessment of the severe but plausible downside scenarios. - Sensitivity analysis: Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. - Benchmarking assumptions: Critically assessing the key assumptions in Group's financial forecasts in relation to specific risks with reference to market trends (ASKs, PRASKs, fuel prices), third-party economic and industry forecasts, and the Group's recovery pattern versus industry expectations, Group's ability to raise finance throughout the pandemic period, as well as our findings in relation to the work performed on other areas of the audit. - Historical comparisons: Assessing the directors' track record of forecasts vs actual cashflows by analysing actual monthly results since January 2021 and actual results for the three years preceding the pandemic. - Evaluating Directors' intent: Evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which included mitigation actions to reduce operating and capital expenditure, and asset disposal.

Key Audit Matters

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

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the risks described below as those of most significance in the audit which should be communicated in our report.

Recoverability of property, plant and equipment and intangible assets, including goodwill (€20,400 million; 2020: €20,739 million)

See note 17 to the financial statements, refer further to accounting policy and financial disclosures.

Key audit matter	*How the matter was addressed in our audit*
Forecast-based assessment Property, plant and equipment, intangible assets and goodwill are significant and at risk of irrecoverability due to continuing economic uncertainty arising from the effects of COVID-19 and its impact on the aviation industry. The estimated recoverable amount of the Group's cash generating units (CGUs) to which property, plant and equipment, and intangible assets including goodwill are allocated is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Changes in the key assumptions in cash flow forecasts can have a material impact on the available headroom and so whether any impairment is required. The most significant assumptions are revenue growth and operating profit margins recovery, ASK, PRASK, fuel prices and discount rate. Based on the headroom available the risk is specifically associated with British Airways, Iberia and Aer Lingus CGUs. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the British Airways, Iberia and Aer Lingus CGUs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 17b) disclose the sensitivity estimated by the Group.	Our procedures included: - **Our sector experience:** Assessing the Group's identification of impairment indicators and considering whether further indicators should have been assessed based on our knowledge of the business, its operating environment, industry knowledge, current market conditions and other information obtained during the audit. Assessing the Group's determination of the cash generating units (CGUs) based on the same factors. - **Benchmarking assumptions**: Evaluating assumptions applied, including forecast revenue growth and operating profit margins recovery, ASK, PRASK and fuel prices and comparing to externally derived data. We also assessed, how the impact of climate change risk has been incorporated into the forecasts, discount rates applied and long term growth rates, including the impact of the cost of sustainable aviation fuel (SAF) on the cost base, demand and the Group's ability to recover the additional costs. - **Benchmarking assumptions**: With the assistance of our valuation specialists, assessing the methodology applied by the Group to derive its discount rates and the basis for the calculation of the key components such as debt/equity ratio, risk free rates and market risk premium. - **Sensitivity analysis**: Performing breakeven analysis on the key assumptions, including assessing the impact of downside scenarios with reference to the speed of recovery post Covid and potential further travel restrictions. - **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation, including the analysis of the implied trading multiples, to assess the reasonableness of those cashflows. - **Methodology implementation**: Assessing mathematical accuracy of the model and whether the calculation has been prepared in accordance with IAS 36. - **Assessing consistency:** Assessing the consistency with the forecasts used in impairment testing with those applied for going concern assessment and deferred tax recoverability assessment. - **Assessing transparency**: Assessing whether the Group's disclosures, and specifically about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the recoverable amount of goodwill and other intangibles with indefinite useful life, and the impact of the current economic environment on the valuation of property, plant and equipment and intangible assets.

Valuation of the gross defined benefit pension obligation (DBO) (€30.9 billion; 2020: €29.9 billion) See note 32 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's gross defined benefit pension scheme obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness. A small change in assumptions can have a material financial impact on the Group's gross defined benefit pension obligations and so net employee benefit assets. The significant risk relates to New Airways Pension Scheme and British Airways Pension Scheme which represent 97.8% (2020: 97.7%) of pension scheme obligations. The most significant assumptions are discount rate, inflation rate and mortality/life expectancy. The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension scheme obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 32) disclose the sensitivity estimated by the Group.	Our procedures included: - **Benchmarking assumptions**: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data in the context of market practice and the uncertainties related to the future impact of COVID. - **Assessing transparency**: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Customer loyalty programmes - revenue recognition for deferred revenue liabilities (€2,820 million; 2020: €2,725 million) See note 23 to the financial statements, refer further to page accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Subjective estimate Significant estimates are made in determining the assumptions applied in calculating the value of points issued under customer loyalty programs (including the allocation of contract revenue between points issued and brand / marketing services) and the number of points not expected to be redeemed (breakage). Relatively small changes in these assumptions could result in significant adjustments to revenue and deferred revenue. The effect of these matters is that, as part of our risk assessment, we determined that deferred revenue liabilities arising on customer loyalty programs have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, [and possibly many times that amount]. The financial statements (note 23) discloses the sensitivity estimated by the Group.	Our procedures included: - **Control design:** Testing the design and implementation of controls around customer loyalty revenue recognition and estimation of breakage. - **Assessing principles**: Assessing the Group's accounting policies in determining customer loyalty revenues by reference to the revenue accounting standard. - **Assessing application**: Assessing the allocation of income received from the Group's loyalty partners between the points issued and the brand and marketing services provided to assess whether these are accounted for in accordance with the Group's accounting policy. - **Methodology implementation**: With the assistance of our own actuarial specialists, assessing the methods applied to estimate future redemption and breakage rates in the Group's statistical model. - **Our sector experience:** With the assistance of our own valuation experts, we have assessed the risk over brand loyalty assumptions set in previous periods to recognise upfront brand revenue on partner contracts. - **Re-performance**: With the application of our Data Analytics techniques, reconciling the Avios activity back to the operational systems, including for the data migration to the new loyalty system for the BA Executive club in November and investigating material variances. - **Tests of detail**: On a sample basis, testing the value of an Avios derived by the Group to defer revenues when points are initially issued. Agreeing the balance sheet reconciliation to income statement movements, issuances and redemption data and the closing Avios position. - **Assessing transparency**: Assessing the Group's disclosures in respect of revenue, including over the key judgements and estimation uncertainty and the associated sensitivity disclosures.

Accounting for aircraft maintenance, restoration and handback costs (liabilities of €1,832 million (2020 €1,588 million)) See note 26 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Subjective estimate Maintenance provisions are determined via complex calculations which use budgeted cost rates and an estimated timetable of required checks. There are a number of individually significant judgements and assumptions to be made when calculating the provision and associated asset balances. The key assumptions used include: expected future utilisation patterns of the aircraft (which can be impacted by COVID-19 uncertainties); expected maintenance intervals and costs (future rates) of the maintenance at the time it is estimated to occur and discount rate applied to the future liability. Changes in these assumptions could result in significant adjustments to the level of provision and associated asset balances recognised.	Our procedures included: - **Assessing principles:** Determining whether the recognition of maintenance provisions and capitalised maintenance assets are in accordance with IAS 37 requirements, lease obligations and industry practice. - **Re-performance:** Assessing the maintenance model for mathematical accuracy by performing a recalculation of the year end provision held. - **Tests of detail:** Inspecting lease agreements on a sample basis for significant return obligations and checking that those lease obligations were included in the maintenance model. Agreeing budgeted and contracted rates on a sample basis to supporting documentation. - **Re-performance:** Assessing the maintenance prepayment calculation for each type of engine and performing a recalculation of the year end balance based on the latest forecast for expected forecast flying hours and contracted rates. - **Assessing consistency:** Critically assessing the forecast future flying hours assumption underpinning provisions calculations, against the Board approved forecasts and changes in the future fleet plans. - **Historical comparisons:** Assessing whether past estimates have been historically accurate by comparing actual cost to previously recognised provisions. - **Assumptions assessment:** Assessing the future utilisation assumptions in light of past experience and considering changes in fleet utilisation, including the grounding of aircraft for extended periods of time, due to COVID 19. - **Assessing transparency:** Assessing the Group's disclosures in relation to the key judgements around the accounting for aircraft maintenance, restoration and handback costs.

Passenger and cargo revenue recognition (€7,508 million (2020 €6,818 million)) See note 5 to the financial statements, refer further to accounting policy and financial disclosures.	
Key audit matter	*How the matter was addressed in our audit*
Processing errors Passenger and cargo revenues are made up of a high volume, low value number of transactions. They are recorded via a highly automated, but complex, transactional process including third party booking management systems as well as operational data such as when a flight has flown thus triggering the revenue recognition point. Passenger revenues include tickets containing multiple flights, booking classes and a variety of surcharges and taxes which vary by route. Revenue accuracy depends on the correctly applying appropriate rules. Due to the travel restrictions and flight cancellations during the COVID-19 pandemic, there are a higher number of refunds and vouchers issued. Due to limited judgement and estimation involved, passenger and cargo revenues are not at a high risk of significant misstatement. However, due to materiality in the context of the Group financial statements, this is considered to be one of the areas where significant audit effort was spent.	Our procedures include: - **Assessing principles:** Assessing Group's revenue recognition policy by reference to the accounting standards Passenger revenue (€5,835m (2020: €5,512m)): - **Control operation:** Testing the design and implementation, and the operating effectiveness of General IT Controls over the key revenue accounting systems considering appropriate configuration and prevention of unauthorised access and changes. Testing design and implementation, and the operating effectiveness of manual and automated controls underpinning the recognition of revenue. - **Testing application:** Using our Revenue Data Analytics programme to recreate the revenue flow through the accounting systems for the key revenue accounts and assess whether the entries pass through the expected stages and accounts. - **Tests of detail:** Testing revenue journals to determine whether they are recorded based on our understanding of the revenue process. Testing revenue transactions on a sample basis by re-calculating the appropriate fare rules and verifying flight flown status. - **Tests of detail:** Testing revenue by tracing a sample of passenger events, such as bookings, departures, voucher issuances and cancellations, back to the revenue data. - **Tests of detail:** Testing year end trade receivables to cash received post year end. Testing on a sample basis for flights departing close to the year end whether revenue was recorded in the correct period. - **Historical comparisons:** For passenger breakage revenue, we have evaluated the Group's accounting policy, assessed the methodology applied and challenged key assumptions by comparing against the Group's airlines' past experiences. - **Tests of details:** Testing on a sample basis vouchers and refunds issued during the year to assess whether such transactions have been appropriately recognised. - **Outsourcing controls:** Inspecting the third party Service Organisation Control reports to determine whether General IT controls over certain passenger revenue systems operated effectively during the year. Cargo revenue (€1,673m (2020: €1,306m)): - **Tests of detail:** Testing on a sample basis cargo revenue transactions to external support and cash received.

Other matters

On March 2, 2021, other auditors issued their audit report on the consolidated financial statements for the year 2020 in which they expressed a favourable opinion including a paragraph of material uncertainty related to going concern.

Other Information: Consolidated Management Report

Other information solely comprises the 2021 consolidated management report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated financial statements.

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

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

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

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated management report is consistent with that disclosed in the consolidated financial statements for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

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

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

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

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

– Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of International Consolidated Airlines Group S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated financial statements for the aforementioned year and the XBRL files tagged by the Parent, which will form part of the annual financial report.

The Directors of International Consolidated Airlines Group S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Directors' Remuneration Report by means of a reference thereto in the consolidated management report.

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

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

Additional Report to the Audit and Compliance Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Compliance Committee dated 2 March 2022.

Contract Period

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

Review of the Corporate Governance Statement

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

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

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

2 March 2022

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated financial statements
for the year ended
December 31, 2021

El Caserío, Iberia Zona Industrial, nº 2 (La Muñoza), Camino de la Muñoza, s/n
28042 Madrid, Spain

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

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

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

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

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

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

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

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.
2 The 2020 results include a reclassification to conform with the current year presentation regarding settlement of derivative financial instruments. Further information is given in note 2.
3 Other investing movements include the Air Europa settlement payment. Refer to note 3i for further information.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2021

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2020

€ million	Issued share capital (note 29)	Share premium (note 29)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2020 (reported)[1]	996	5,327	(60)	(2,579)	3,139	6,823	6	6,829
Change in accounting policy[1]	–	–	–	–	291	291	–	291
January 1, 2020 (restated)	996	5,327	(60)	(2,579)	3,430	7,114	6	7,120
Loss for the year	–	–	–	–	(6,935)	(6,935)	–	(6,935)
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	50	–	50	–	50
Fuel and oil costs	–	–	–	356	–	356	–	356
Currency differences	–	–	–	18	–	18	–	18
Finance costs	–	–	–	12	–	12	–	12
Discontinuance of hedge accounting	–	–	–	1,435	–	1,435	–	1,435
Net change in fair value of cash flow hedges	–	–	–	(2,216)	–	(2,216)	–	(2,216)
Net change in fair value of equity investments	–	–	–	(53)	–	(53)	–	(53)
Net change in fair value of cost of hedging	–	–	–	10	–	10	–	10
Cost of hedging reclassified and reported in net profit	–	–	–	(19)	–	(19)	–	(19)
Currency translation differences[1]	–	–	–	(213)	–	(213)	–	(213)
Remeasurements of post-employment benefit obligations[1]	–	–	–	–	(587)	(587)	–	(587)
Remeasurements of long-term employee-related provisions	–	–	–	–	(9)	(9)	–	(9)
Total comprehensive income for the year	–	–	–	(620)	(7,531)	(8,151)	–	(8,151)
Capex hedging reclassified and reported in property, plant and equipment	–	–	–	(18)	–	(18)	–	(18)
Cost of share-based payments	–	–	–	–	(10)	(10)	–	(10)
Vesting of share-based payment schemes	–	–	20	–	(22)	(2)	–	(2)
Share capital reduction	(797)	–	–	797	–	–	–	–
Rights issue	298	2,443	–	–	(70)	2,671	–	2,671
December 31, 2020 restated[1]	497	7,770	(40)	(2,420)	(4,203)	1,604	6	1,610

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

1 Background and general information

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

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

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and other equity investments that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

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

Presentation of results

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

Change in accounting policy

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

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

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

Going concern

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

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

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

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

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

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

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

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

The Group has modelled the impact of further deteriorations in capacity operated and yield, but also considered further mitigating actions, such as reducing operating and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience.

Having reviewed the Base Case, Downside Case, Downside Lockdown Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern period and hence continue to adopt the going concern basis in preparing the consolidated financial statements for the year to December 31, 2021.

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

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

2 Significant accounting policies continued

Consolidation

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

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

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

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

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

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

Unconsolidated structured entities

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

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

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

Segmental reporting

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

Foreign currency translation

a Functional and presentation currency

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

b Transactions and balances

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

c Group companies

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

Property, plant and equipment

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

a Capitalisation of interest on progress payments

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

b Fleet

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

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

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

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

c Other property, plant and equipment

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

d Leases

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

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

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

Right of use assets

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

Lease liabilities

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

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

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

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

2 Significant accounting policies continued

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

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

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability are recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counter-party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within Property, plant and equipment and an asset financed liability recognised equal to the financing proceeds. The principal criteria for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred, and; if no such repurchase option exists, then a sale is deemed to have occurred.

Cash flow presentation
Lease payments are presented as follows in the Consolidated cash flow statement: the proceeds received from sale and leaseback transactions are presented within cash flows from investing activities; the repayments of the principal element of lease liabilities are presented within cash flows from financing activities; the payments of the interest element of lease liabilities are included within cash flows from operating activities; and the payments arising from variable elements of a lease, short-term leases and low-value assets are presented within cash flows from operating activities.

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

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

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

Intangible assets

a Goodwill

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

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

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract-based intangibles

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

f Software

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

g Emissions allowances

Where an operating company purchases emissions allowances, such that it has a surplus of allowances when compared to the amount required to discharge its obligations to the relevant authorities, these amounts are recognised at cost and recorded within Other intangible assets. Emissions allowances recorded within Other intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. Where an operating company has a deficit of allowances compared to the amount required to discharge its obligations to the relevant authorities, the Group recognises a provision for the outstanding amount, measured at the market price of such an allowance at the reporting date.

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

Impairment of non-financial assets

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

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

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

b Intangible assets

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

Investments in associates and joint ventures

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

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

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

Financial instruments

a Other equity investments

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

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

b Interest-bearing deposits

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

2 Significant accounting policies continued

c Derivative and non-derivative financial instruments and hedging activities

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

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

To manage foreign exchange movements on foreign currency revenues (denominated in US dollars, euros, Japanese yen and Chinese yuan), certain non-derivative repayment instalments on foreign currency-denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Revaluations arising from movements in foreign exchange rates are recorded within Other comprehensive income in the cash flow hedge reserve. Accumulated gains or losses within the cash flow hedge reserve are reclassified to Passenger revenue in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur.

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

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

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

d Cash flow hedges

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

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

Sources of ineffectiveness include the following:

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

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

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

- Where the forecast hedged item results in the recognition of revenue or expenses within the Income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the Income statement within the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised;

- Where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded within both the cash flow hedge reserve and the cost of hedging reserve are included in the initial cost of the asset. These gains or losses are recorded in the Income statement as the non-financial asset affects the Income statement (which for aircraft is through Depreciation over the expected life of the aircraft); and
- Where the forecast hedged items results in the recognition of a financial asset or liability (such as variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the cash flow hedge reserve are reclassified to Interest expense within the Income statement at the same time as the interest expense arises on the hedged item.

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

e Long-term borrowings

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

f Convertible debt

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

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

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

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

g Impairment of financial assets

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

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

h Interest rate benchmark reform

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

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

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

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

2 Significant accounting policies continued

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

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

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

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

Long-term borrowings and lease liabilities

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

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

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

Employee benefit plans

a Pension obligations

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

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

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

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

b Severance obligations

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

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

Taxation

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

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

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

Inventories

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

Cash and cash equivalents

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

Share-based payments

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

Provisions

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

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

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

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

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

Revenue recognition

Passenger revenue

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

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

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

2 Significant accounting policies continued

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

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

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

Cargo revenue

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

Other revenue

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

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

Customer loyalty programmes

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

Avios issuance

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

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

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

Brand and marketing activities

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

Upfront payments

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

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

Other considerations

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

Exceptional items

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

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

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

Further information is given in the Alternative performance measures section.

Government grants

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

Critical accounting estimates, assumptions and judgements

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

Estimates

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

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

At December 31, 2021 the Group recognised €1,775 million in respect of employee benefit assets (2020 restated: €334 million) and €285 million in respect of employee benefit obligations (2020 restated: €477 million). Further information on employee benefit obligations is disclosed in note 32.

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

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

2 Significant accounting policies continued

In February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority (UKSA). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. Following consultation during 2020, on November 25, 2020 the UK Chancellor of the Exchequer and the UKSA confirmed that from February 2030 onwards CPIH will replace RPI with no compensation to holders of index-linked gilts.

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

b Revenue recognition

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

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

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

The Group estimates the number of Avios not expected to be redeemed using modelling and historical experience. A five percentage point increase in the assumption of Avios outstanding and not expected to be redeemed would result in an adjustment to Deferred revenue from ticket sales of €100 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

c Income taxes

At December 31, 2021 the Group recognised €1,282 million in respect of deferred tax assets (2020: €1,075 million). Further information on current and deferred tax is disclosed in note 10.

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

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

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

At December 31, 2021, the Group had unrecognised deferred tax assets of €2,458 million relating to tax losses the Group does not reasonably expect to utilise. In applying the aforementioned judgement, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised deferred tax assets would have reduced by €2,068 million.

d Impairment of non-financial assets

At December 31, 2021 the Group recognised €2,439 million (2020: €2,390 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 17.

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

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

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

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

e Engineering and other aircraft costs

At December 31, 2021, the Group recognised €1,832 million in respect of maintenance, restoration and handback provisions (2020: €1,588 million). Information on movements on the provision is disclosed in note 26.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash outflow. In determining this best estimate, the Group applies significant judgement as to the level of forecast costs expected to be incurred when the aircraft is returned to the lessor. The assumptions of this significant judgement include aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. The associated forecast costs are discounted to their present value, the effect of which is not considered to be material. The Group considers that there is no reasonably possible change to a single assumption that would have a material impact on the provisions, however a combination of changes in multiple assumptions may.

Judgements

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

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

New standards, amendments and interpretations

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

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

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

- Property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after January 1, 2022;
- Reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after January 1, 2022;
- Onerous contracts – cost of fulfilling a contract – amendments to IAS 37 effective for periods beginning on or after January 1, 2022;
- Annual improvements to IFRS standards 2018–2020 – effective for periods beginning on or after January 1, 2022;
- Classification of liabilities as current or non-current – amendments to IAS 1 effective for periods beginning on or after January 1, 2023;
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after January 1, 2023;
- Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after January 1, 2023; and
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 effective for periods beginning on or after January 1, 2023.

3 Impact of COVID-19 on financial reporting

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

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

Accounting estimates, assumptions and judgements – cash flow forecast estimation

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

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

3 Impact of COVID-19 on financial reporting continued

a Discontinuance of hedge accounting

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

In the year to December 31, 2021, the Group recognised a credit of €159 million (2020: expense of €1,756 million) arising from a combination of the discontinuance of hedge accounting in the year to December 31, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at January 1, 2021. This was represented by a credit of €162 million (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

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

Further information is given in the Alternative performance measures section.

b Long-term fleet plans and associated impairment

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

During the year to December 31, 2021, the Group recognised impairment reversals of €21 million, represented by an amount of €14 million relating to the reversal of aircraft impairment and an amount of €7 million relating to the reversal of engine impairment. The aircraft impairment reversal relates to four Airbus A320 aircraft in Vueling, previously permanently stood down in the fourth quarter of 2020, being stood up in the third quarter of 2021 following the successful slot allocation at Paris Orly and the resultant increased capacity. The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. Of the impairment reversal, €9 million was recorded within Property, plant and equipment relating to owned aircraft and €12 million was recorded within Right of use assets relating to leased aircraft.

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

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

c Impairment testing of the Group's cash generating units

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

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

d Recoverability of deferred tax assets

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

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date.

Accounting estimates, assumptions and judgements – other transactions

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

e Revenue recognition

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

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

Significant transactions as a result of COVID-19

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

f Loans and borrowings

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

- On February 22, 2021, British Airways entered into a 5-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5-year Export Development Guarantee Facility credit facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. At December 31, 2021 no amounts had been drawn under the facility;
- On March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is $1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021;
- On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1.2 billion; €500 million fixed rate 2.75 per cent due in 2025, and €700 million fixed rate 3.75 per cent due in 2029;
- On December 23, 2020, Aer Lingus entered into a financing arrangement with the Ireland Strategic Investment Fund for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million. The facility is repayable in 2023;
- On May 18, 2021, the Group issued an €825 million senior unsecured convertible bond due 2028 and bearing a fixed rate of 1.125 per cent; and
- In April 2021, British Airways fully repaid the Coronavirus Corporate Finance Facility of €350 million (£300 million), which was entered into in April 2020.

Further information is given in note 25.

g Government assistance

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

h Defined benefit pension scheme contributions

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

i Renegotiation of Air Europa acquisition and subsequent termination

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

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

Further information is given in the Alternative performance measures section.

4 Impact of climate change on financial reporting

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

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

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

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

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

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- Investment and policy regarding the development of Sustainable Aviation Fuel production facilities;
- Investment and improvements in air traffic management;
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and
- Effective market-based policy measures in addition to the EU and UK ETS and CORSIA.

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

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

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

a Long-term fleet plans and useful economic lives

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

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

With the permanent standing down of these aircraft, coupled with the future delivery of 110 fuel-efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year as a result of the Group's decarbonisation plans.

b Impairment testing of the Group's cash generating units

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

The Group adjusts the final year of the three-year business plan to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated at the reporting date and have been excluded from these adjustments. These adjustments incorporate the increased utilisation of sustainable aviation fuel as well as price assumptions relating to sustainable aviation fuels and the price of carbon (both ETS and CORSIA), which are derived from externally sourced prices. Where the Group considers such costs will be recovered through increased passenger ticket fares, then a corresponding adjustment is made to increase passenger revenue.

As detailed in note 17, the Group applies a long-term growth rate to this adjusted three-year business plan, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand impact arising from climate change. This demand impact is derived with reference to external market data.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation/regulation regarding carbon pricing and/or alternative schemes not currently enacted, such as the implementation of kerosene taxes.

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

c Valuation of employee benefit scheme assets

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

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

d Recoverability of deferred tax assets

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

5 Segment information

a Business segments

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

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

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

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

5 **Segment information** continued

For the year to December 31, 2021

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

1 Includes eliminations on total assets of €16,023 million and total liabilities of €5,833 million.
2 For details on exceptional items refer to the Alternative performance measures section.
3 Included within total assets associated with Other Group companies is €4,527 million of Cash and cash equivalents.
4 Includes €75 million of exceptional items relating to the Air Europa termination settlement payment. Refer to note 3i for further information.

For the year to December 31, 2020

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

1 Segment information for 2020 has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2 and 36.
2 For details on exceptional items refer to the Alternative performance measures section.
3 Includes eliminations on total assets of €14,998 million and total liabilities of €5,100 million.

b Geographical analysis

Revenue by area of original sale

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

Assets by area
December 31, 2021

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

December 31, 2020

€ million	Property, plant and equipment	Intangible assets
UK	11,313	1,251
Spain	4,850	1,353
USA	122	15
Rest of world	1,246	589
	17,531	3,208

6 Expenses by nature

Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

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

Cost of inventories:

€ million	**2021**	2020
Cost of inventories recognised as an expense, principally fuel	**1,038**	1,405
Impairment charge on inventories[1]	**-**	71
	1,038	1,476

1 For details regarding the impairment charge on inventories refer to note 3b.

7 Auditor's remuneration

The fees for the year ended December 31, 2021, for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, KPMG S.L. (2020: Ernst & Young S.L.), and by companies belonging to KPMG's network (2020: Ernst & Young's network), were as follows:

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

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

8 Employee costs and numbers

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

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.
2 Other employee costs include allowances and accommodation for crew.

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

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

1 The average number of employees excludes those employees on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain. For further details see note 34. The total average number of employees including these schemes is 56,618.

The number of employees is based on actual headcount. The average manpower equivalent for 2021 was 50,222 (2020: 60,612), which includes employees on furlough, wage support and equivalent schemes, including Temporary Redundancy Plan arrangements in Spain.

9 Finance costs, income and other non-operating (charges)/credits

a Finance costs

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

b Finance income

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

c Net financing (charge)/credit relating to pensions

€ million	**2021**	2020[1]
Net financing (charge)/credit relating to pensions	**(2)**	12

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

d Other non-operating charges

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

1 Refer to note 3i for further information in relation to the Air Europa termination settlement expense.
2 Includes a gain of €24 million arising from the disposal of Compañía Auxiliar al Cargo Exprés, S.A. and Auxiliar Logística Aeroportuaria, S.A. The Group previously owned 75 per cent of the share capital of these companies and disposed of them during the fourth quarter of 2021. The disposal led to the de-recognition of €12 million of net assets from the consolidated financial statements of the Group.

10 Tax

a Tax credits/(charges)

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

	2021				2020[1]			
€ million	Income statement	Other comprehensive income	Recognised directly in equity	Total	Income statement	Other comprehensive income	Recognised directly in equity	Total
Current tax								
Movement in respect of prior years	10	–	(1)	**9**	6	–	–	6
Movement in respect of current year	(9)	5	–	**(4)**	273	(17)	–	256
Total current tax	1	5	(1)	**5**	279	(17)	–	262
Deferred tax								
Movement in respect of prior years	(23)	–	–	**(23)**	(8)	–	–	(8)
Movement in respect of current year	518	(420)	–	**98**	695	124	(2)	817
Rate change / rate differences	78	61	–	**139**	(74)	44	–	(30)
Total deferred tax	573	(359)	–	**214**	613	168	(2)	779
Total tax	574	(354)	(1)	**219**	892	151	(2)	1,041

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

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

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

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

b Current tax (liability)/asset

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

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

c Deferred tax asset/(liability)

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

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.
2 Fair value gains/losses include both the Cash flow hedge reserve and the Cost of hedging reserve, of which the movement in relation to Other comprehensive income recognised in the Cash flow hedge reserve for 2021 was €142 million (refer to note 28d).
3 Movements in Other comprehensive income relating to post-employment benefit obligations increase the Group's tax losses by €20 million (tax value) at December 31, 2021 and have therefore been disclosed as tax loss carried forward and tax credits in the above table.

€ million	**2021**	2020
Deferred tax asset	**1,282**	1,075
Deferred tax liability	**–**	(40)
Balance at December 31	**1,282**	1,035

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

d Reconciliation of the total tax charge in the Income statement

The tax (charge)/credit is calculated at the domestic rates applicable to profits/(losses) in the country in which the profits/(losses) arise. The tax credit on the loss for the year to December 31, 2021 (2020: loss) is lower (2020: lower) than the notional tax credit (2020: credit). The differences are explained below:

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

1 The expected tax credit is calculated by aggregating the expected tax credits/(charges) arising in each company in the Group and changes each year as tax rates and profit mix change. The corporate tax rates for the Group's main countries of operation are Spain 25% (2020: 25%), the UK 19% (2020: 19%) and Ireland 12.5% (2020: 12.5%).
2 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

10 Tax continued

e Payroll-related taxes and UK Air Passenger Duty

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

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

f Factors that may affect future tax charges

Unrecognised deductible temporary differences and losses

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

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

Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €617 million (2020: €547 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal to a material extent.

Tax rate changes

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

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

Tax policy developments

The Group is monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation, and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate. The new framework is expected to be enacted in 2022, and effective from 2023. The implications for the Group will be determined when the relevant legislation is available.

g Tax-related contingent liabilities

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

Merger gain

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

The Company appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On October 23, 2019 the TEAC ruled in favour of the Spanish Tax Authorities. The Company subsequently appealed this ruling to the *Audiencia Nacional* (National High Court) on December 20, 2019, and on July 24, 2020 filed submissions in support of its case. The Company does not expect a hearing at the National High Court until the second half of 2022 at the earliest.

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

11 Earnings per share

€ million	2021	2020[1]
Losses attributable to equity holders of the parent for basic losses	**(2,933)**	(6,935)
Diluted losses attributable to equity holders of the parent and diluted losses per share	**(2,933)**	(6,935)

	2021 Number '000	2020 Number '000[1]
Weighted average number of ordinary shares in issue[2]	**4,963,945**	3,528,052
Weighted average number for diluted loss per share	**4,963,945**	3,528,052

€ cents	2021	2020[1]
Basic loss per share	**(59.1)**	(196.6)
Diluted loss per share	**(59.1)**	(196.6)

1 Earnings per share information has been restated for the comparative period presented for the effects of the change in accounting policy in respect to pension administration costs (note 2).
2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 29).

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

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

12 Dividends

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

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

Certain debt obligations place restrictions or conditions on the payment of dividends from the Group's main operating companies to the Company, including a loan to British Airways partially guaranteed by UKEF and loans to Iberia and Vueling partially guaranteed by the Instituto de Crédito Oficial (ICO) in Spain; these loans can be repaid early without penalty at the election of each company. In Spain, Iberia and Vueling are not permitted to make dividend payments in the reporting period in which they are in receipt of Expedientes de Regulación Temporal de Empleo or 'ERTE' (Temporary Employment Regulation Records). British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of an agreement to defer £450 million of contributions that no dividends will be paid to IAG before 2024 and that any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

13 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2020	29,382	3,162	1,605	34,149
Additions	2,854	84	32	2,970
Modification of leases	21	16	(1)	36
Disposals	(3,878)	(95)	(50)	(4,023)
Reclassifications	(4)	8	(4)	–
Exchange movements	(1,439)	(193)	(81)	(1,713)
Balance at December 31, 2020	26,936	2,982	1,501	31,419
Additions	709	38	37	**784**
Modification of leases	236	(2)	(26)	**208**
Disposals	(3,035)	(74)	(135)	**(3,244)**
Reclassifications	(4)	–	(1)	**(5)**
Transfers to Non-current assets held for sale (note 16)	(111)	–	–	**(111)**
Exchange movements	1,265	181	74	**1,520**
December 31, 2021	**25,996**	**3,125**	**1,450**	**30,571**
Depreciation and impairment				
Balance at January 1, 2020	12,707	1,249	1,025	14,981
Depreciation charge for the year[1]	1,659	165	93	1,917
Impairment charge for the year[1]	820	–	22	842
Disposals	(2,886)	(52)	(44)	(2,982)
Exchange movements	(729)	(80)	(61)	(870)
Balance at December 31, 2020	11,571	1,282	1,035	13,888
Depreciation charge for the year	1,500	154	84	**1,738**
Impairment (reversal)/charge for the year[1]	(3)	19	–	**16**
Disposals	(2,699)	(63)	(105)	**(2,867)**
Modification of leases	–	–	(14)	**(14)**
Transfers to Non-current assets held for sale (note 16)	(91)	–	–	**(91)**
Exchange movements	602	81	57	**740**
December 31, 2021	**10,880**	**1,473**	**1,057**	**13,410**

1 For details regarding the impairment reversal on fleet assets refer to note 3 and the Alternative performance measures section. For details regarding the operating segment in which the impairment charges arose, refer to note 5. In 2021, certain of the impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed. In addition, certain fleet assets in 2020 were impaired down to their fair value, which was determined based on independent appraisals of their market value.

Net book values				
December 31, 2021	**15,116**	**1,652**	**393**	**17,161**
December 31, 2020	15,365	1,700	466	17,531

Analysis at December 31, 2021				
Owned	5,736	916	330	**6,982**
Right of use assets (note 14)	8,626	640	37	**9,303**
Progress payments	748	96	26	**870**
Assets not in current use	6	–	–	**6**
Property, plant and equipment	**15,116**	**1,652**	**393**	**17,161**
Analysis at December 31, 2020				
Owned	5,457	920	382	6,759
Right of use assets (note 14)	9,124	695	56	9,875
Progress payments	710	85	28	823
Assets not in current use	74	–	–	74
Property, plant and equipment	15,365	1,700	466	17,531

The net book value of property comprises:

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

At December 31, 2021, bank and other loans of the Group are secured on owned fleet assets with a net book value of €3,081 million (2020: €2,794 million).

14 Leases

a Amounts recognised in the Consolidated balance sheet

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

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2020	13,854	882	123	14,859
Additions	1,194	58	1	1,253
Modifications of leases	21	16	(1)	36
Disposals	(77)	(6)	(22)	(105)
Reclassifications[1]	(389)	–	3	(386)
Exchange movements	(595)	(57)	(5)	(657)
December 31, 2020	14,008	893	99	15,000
Additions	240	15	–	**255**
Modification of leases	236	(2)	(26)	**208**
Disposals	(72)	(12)	(1)	**(85)**
Reclassifications[1]	(759)	–	–	**(759)**
Exchange movements	565	55	2	**622**
December 31, 2021	**14,218**	**949**	**74**	**15,241**
Depreciation and impairment				
Balance at January 1, 2020	4,108	108	55	4,271
Depreciation charge for the year	1,035	103	15	1,153
Impairment charge for the year[2]	161	–	–	161
Disposals	(53)	(5)	(22)	(80)
Reclassifications[1]	(166)	–	(3)	(169)
Exchange movements	(201)	(8)	(2)	(211)
December 31, 2020	4,884	198	43	5,125
Depreciation charge for the year	963	87	8	**1,058**
Impairment charge for the year[2]	4	16	–	**20**
Disposals	(71)	(4)	(1)	**(76)**
Modification of leases	–	–	(14)	**(14)**
Reclassifications[1]	(394)	–	–	**(394)**
Exchange movements	206	12	1	**219**
December 31, 2021	**5,592**	**309**	**37**	**5,938**
Net book value				
December 31, 2021	**8,626**	**640**	**37**	**9,303**
December 31, 2020	9,124	695	56	9,875

1 Amounts with a net book value of €365 million (2020: €217 million) were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified relate to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.
2 For details regarding the impairment charge on fleet assets refer to the Alternative performance measures section.

14 Leases continued

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

€ million	2021	2020
January 1	**10,024**	11,046
Additions	**310**	1,179
Modifications of leases	**208**	20
Repayments	**(1,855)**	(1,919)
Interest expense	**400**	442
Disposals	**(8)**	–
Exchange movements	**558**	(744)
December 31	**9,637**	10,024
Current	**1,521**	1,560
Non-current	**8,116**	8,464

b Amounts recognised in the Consolidated income statement

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

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

The Group has applied this practical expedient to all such modifications in the preparation of the consolidated financial statements. The net impact on the Income statement for 2021 has been a credit of €8 million (2020: credit of €2 million) reflecting the changes to lease payments that arose from such concessions.

c Amounts recognised in the Consolidated cash flow statement

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

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

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

d Maturity profile of the lease liabilities

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

e Extension options

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

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2021, for which no amount has been recognised, for potential extension options of €795 million (2020: €998 million) due to it not being reasonably certain that these leases will be extended.

f Lessor accounting

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

Operating leases

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

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

€ million	2021	2020
Within one year	4	–
One to two years	5	–
Two to five years	2	–
More than five years	–	–
Total	11	–

15 Capital expenditure commitments

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

The outstanding commitments include €10,813 million for the acquisition of 22 Airbus A320s (from 2022 to 2025), 34 Airbus A321s (from 2022 to 2024), 26 Airbus A350s (from 2022 to 2025), 18 Boeing 777-9s (from 2025 to 2027) and 10 Boeing 787s (from 2022 to 2024). The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2021.

16 Non-current assets held for sale

The non-current assets held for sale of €20 million represent three Airbus A321-200 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are presented within the Aer Lingus segment and will exit the business within 12 months of December 31, 2021.

17 Intangible assets and impairment review

a Intangible assets

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

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

b Impairment review

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

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

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

17 Intangible assets and impairment review continued

Basis for calculating recoverable amount

The recoverable amounts of Group's CGUs have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the base case, 20 per cent to the downside case and 10 per cent to the downside lockdown case. Cash flow projections are based on the business plans approved by the relevant operating companies covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using each CGU's pre-tax discount rate.

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

Key assumptions

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

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

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

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

Jet fuel price ($ per MT)	**Within 12 months**	**1-2 years**	**2-3 years**	**3 years and thereafter**
2021	**690**	**673**	**659**	**659**
2020	373	420	449	449

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

The long-term growth rate is calculated for each CGU based on the forecast weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The terminal value cash flows and long term growth rate incorporate the impacts of climate change insofar as they can be determined (note 4). The airlines' network plans are reviewed annually as part of the Business plan and reflect management's plans in response to specific market risk or opportunity.

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

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

Summary of results

At December 31, 2021 management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each CGU, where applicable, which include reducing the operating margin by 2 percentage points in each year, ASKs by 5 per cent in each year, long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the base case and the downside case to be 100 per cent weighted towards the downside lockdown case, and increasing the fuel price by 40 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible greater impact of climate change on the CGUs than that included in the impairment models.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €3,402 million, €2,166 million, €2,271 million and €1,614 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes in assumptions in each of the following scenarios:

- *British Airways:* (i) if ASKs had been five per cent lower combined with a fuel price increase of 4 per cent; (ii) if ASKs had been five per cent lower combined with a reduction of the long-term growth rate to 1.3 per cent; (iii) if operating margin had been two percentage points lower; and (iv) if the fuel price had been 11 per cent higher;
- *Iberia*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 15 per cent; and (ii) if the fuel price had been 21 per cent higher;
- *Vueling*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 32 per cent; and (ii) if the fuel price had been 39 per cent higher; and
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 23 per cent; and (ii) if the fuel price had been 31 per cent higher.

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

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

18 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2021 are listed in the Group investments section.

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

The total non-controlling interest at December 31, 2021 is €6 million (2020: €6 million).

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

b Investments in associates and joint ventures

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

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

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

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

At December 31, 2021 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both December 31, 2021 and December 31, 2020 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

19 Other equity investments

Other equity investments include the following:

€ million	2021	2020
Unlisted securities	31	29
	31	29

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

20 Trade and other receivables

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

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

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

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

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

December 31, 2021

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

December 31, 2020

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

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

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

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

At December 31, 2021 the Group had no outstanding bank overdrafts (2020: nil).

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

At December 31, 2021 Aer Lingus held €35 million of restricted cash (2020: €38 million) within interest-bearing deposits maturing after more than three months to be used for employee-related obligations.

a Net debt

Movements in net debt were as follows:

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

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

22 Trade and other payables

€ million	2021	2020
Trade creditors[1]	**2,068**	1,609
Other creditors	**898**	679
Other taxation and social security	**176**	149
Accruals and deferred income	**570**	373
	3,712	2,810

1 Trade creditors includes €89 million (2020: €55 million) due to suppliers that have signed up to supply chain financing programmes offered by a number of partner financial institutions. Under these programmes either or both: (i) the suppliers can elect on an invoice-by-invoice basis to receive a discounted early payment from the partner financial institutions rather than being paid in line with the agreed payment terms; and/or (ii) the Group elects on an invoice-by-invoice basis for the partner financial institution to pay the supplier in line with the agreed payment terms and the Group enters into payment terms with the partner financial institution of up to 150 days with interest incurred at rates between 1.5 per cent and 3.0 per cent.

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

At December 31, 2021 these liabilities met these criteria of Trade creditors and are excluded from the Net debt table in note 21a.

Average payment days to suppliers – Spanish Group companies

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

€ million	2021	2020
Total payments made	**3,945**	3,694
Total payments outstanding	**147**	293

23 Deferred revenue on ticket sales

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

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

1 Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the Income statement net of the related costs.
2 Included within revenue recognised in the Income statement during 2021 is an amount of €780 million previously held as deferred revenue at January 1, 2021 (recognised during 2020 previously held as deferred revenue at January 1, 2020: €2,006 million).
3 Included within cash received from customers at December 31, 2021 is an amount of €nil (December 31, 2020: €830 million) received from American Express upon signing of the multi-year commercial partnership renewal with IAG Loyalty and which unwinds over the duration of the contract term as the associated performance obligations are fulfilled.
4 Cash received from customers is net of refunds.

The unsatisfied performance obligation under the Group's customer loyalty programmes that is classified as non-current was €391 million at December 31, 2021. Of this amount, €279 million is expected to be recognised as revenue in 1 to 5 years from the reporting date and €112 million thereafter.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios. Avios are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. Avios do not have an expiry date and can be redeemed at any time in the future. Revenue may therefore be recognised at any time in the future.

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

24 Other long-term liabilities

€ million	2021	2020
Non-current trade creditors	**121**	49
Accruals and deferred income	**87**	91
	208	140

25 Long-term borrowings

a Total borrowings

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

1 Bank and other loans less than 12 months represents borrowings with a term on inception of less than 12 months in duration.
2 Other financing liabilities include sale and repurchase agreements entered into during the course of 2020 and 2021 with regard to emission allowances and represents the amount the Group expects to repurchase during the course of 2021 and 2022, respectively.

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

b Bank and other loans

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

1. On February 22, 2021, British Airways entered into a five-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5-year term loan Export Development Guarantee Facility of €1.2 million (£1.0 billion) unwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The further facility had not been drawn as at December 31, 2021. The annual rate of interest associated with the UKEF is consistent with the prevailing market rate of interest at the time of executing the term loan.

2. On April 30, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. The loans are repayable between 2023 and 2025. The ICO in Spain guarantees 70 per cent of the value of loans. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.

3. Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group on May 11, 2021; €825 million fixed rate 1.125 per cent raising net proceeds of €818 million and due in 2028. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 244,850,715 options at inception and at December 31, 2021 to convert into ordinary shares of IAG. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG.

25 Long-term borrowings continued

4. On March 25, 2021, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1.2 billion, €500 million due March 25, 2025 and €700 million due March 25, 2029. The bonds bear a fixed rate of interest of 2.75 per cent and 3.75 per cent per annum, payable in arrears, respectively. The bonds were issued at 100 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
5. In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds bear a fixed rate of interest of 0.5 per cent and 1.5 per cent per annum annually payable in arrears, respectively. The bonds were issued at 99.417 per cent and 98.803 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
6. Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 40,306,653 options related to the bond were outstanding at December 31, 2021.
7. Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.04 and 1.01 per cent. The loans are repayable between 2024 and 2027.
8. On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. On March 27, 2021, Aer Lingus entered into a further floating rate financing agreement with the ISIF for an additional €75 million. The facility is repayable in 2023.
9. Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.
10. Fixed rate unsecured US dollar mortgage loan bearing interest between 1.38 to 2.86 per cent. The loan is repayable between 2023 and 2026.
11. Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.
12. Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2021 and 2028.
13. On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility (CCFF) implemented by the Government of the United Kingdom. Under the CCFF, British Airways issued commercial paper to the Government of the United Kingdom of €350 million (£300 million). This loan was repaid in April 2021.

In addition, on March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is $1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had $786 million undrawn and available at December 31, 2020. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft in the respective operating companies.

Details of the 2028 convertible bond

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

The convertible bond is recorded at its fair value, which at December 31, 2021 was €756 million, representing a decrease of €69 million since issuance. Of this decrease, the amount recorded in Other comprehensive income arising from credit risk of the convertible bonds was €20 million and a credit recorded within Finance costs in the Income statement attributable to changes in market conditions of €89 million.

Transactions with unconsolidated entities

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

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

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

As at December 31, 2021, Asset financed liabilities include cumulative amounts of €1,489 million (2020: €1,312 million) associated with transactions with unconsolidated structured entities having issued EETCs.

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

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

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

25 Long-term borrowings continued

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

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

26 Provisions

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

Restoration and handback provisions

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

Included within the release of unused restoration and handback provisions is an amount of €7 million relating to the reversal of contractual lease provisions, which represent the estimation of the cost to fulfil the handback conditions associated with the leased aircraft that had been permanently stood down and impaired during the year ended December 31, 2020, which have subsequently been stood back up with a resultant impairment reversal during the year ended December 31, 2021.

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

Restructuring provisions

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

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

Employee leaving indemnities and other employee-related provisions

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

The Group recognises a provision relating to flight crew who, having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2021 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.91 per cent and 0.00 per cent (2020: iBoxx index of 0.37 per cent and 0.00 per cent) depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 2 per cent annual increase in the Consumer Price Index (CPI) in 2022 and 1.5 per cent in 2023. This is mainly a long-term provision. Remeasurements in the valuation of this provision are recorded in Other comprehensive income. The amount relating to this provision was €644 million at December 31, 2021 (2020: €654 million).

Legal claims and contractual disputes provisions

Legal claims and contractual disputes provisions include:

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

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

Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO_2 emitted on flights within the United Kingdom and the EU in excess of the relevant United Kingdom and EU Emission Allowances granted.

27 Financial risk management objectives and policies

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

a Fuel price risk

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

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

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

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

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

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

b Foreign currency risk

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

The following table demonstrates the sensitivity of the Group's principal foreign exchange exposure to a reasonable possible change in the US dollar, pound sterling and Japanese yen exchange rates, with all other variables held constant on result before tax and equity[1]. The sensitivity analysis has been performed on interest-bearing liabilities, lease liabilities and derivatives (both designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies, with the disclosure for 2020 updated to align with the current methodology. The methodology has been updated to better reflect the foreign exchange exposures arising from the Group's operations.

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million
2021	**10**	**255**	**523**	**10**	**(10)**	**134**	**10**	**(17)**	**(41)**
	(10)	**(260)**	**(481)**	**(10)**	**10**	**(134)**	**(10)**	**17**	**41**
2020	10	234	283	10	9	(167)	10	(16)	(42)
	(10)	(273)	(345)	(10)	(9)	157	(10)	16	42

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

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

c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits. Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars.

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

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2021	**50**	**–**	**–**	**50**	**3**	**10**	**50**	**(2)**	**–**
	(50)	**–**	**–**	**(50)**	**(3)**	**(9)**	**(50)**	**2**	**–**
2020	50	–	–	50	9	(8)	50	–	–
	(50)	–	–	(50)	(9)	7	(50)	–	–

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

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

d Credit risk

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

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

e Counterparty risk

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

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

At December 31, 2021 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

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

27 Financial risk management objectives and policies continued

f Liquidity risk

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

At December 31, 2021 the Group had undrawn overdraft facilities of €53 million (2020: €52 million). The Group held undrawn uncommitted money market lines of €nil (2020: €nil).

The Group held undrawn general and committed aircraft financing facilities:

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

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

1 The general facilities can be drawn at any time at the discretion of the Group subject to the provision of up to three days' notice of the intended utilisation, depending on the facility.
2 The aircraft facility maturing in 2022 is available for specific committed aircraft deliveries and further information is given in note 25b.
3 The aircraft facilities maturing in 2024 (2020: maturing in 2023) are available for specific committed aircraft deliveries and require the Group to give three months' notice to the counterparty of its intention to utilise the facilities.

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

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

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

27 Financial risk management objectives and policies continued

g Offsetting financial assets and liabilities

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

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

December 31, 2021

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

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

December 31, 2020

€ million	Gross value of financial instruments	Gross amounts set off in the balance sheet	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	165	(1)	164	(13)	151
Financial liabilities					
Derivative financial liabilities	1,537	(67)	1,470	(37)	1,433

h Capital risk management

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

The Group monitors capital on the basis of the net debt to EBITDA ratio. For the year to December 31, 2021, the net debt to EBITDA was minus 11.5 times (2020: minus 4.3 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

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

i Managing interest rate benchmark reform and associated risks

Overview

A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that are expected to mature subsequent to December 31, 2021, and as such will be replaced as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

During 2020 the Group established an IBOR transition working group and project plan, led by Group Treasury. This project has and continues to consider the required changes to systems, processes, risk management and valuation models, as well as managing any accounting and tax implications. During the course of 2021, the Group, and the counterparties to the financial instruments, have transitioned the majority of such instruments to an alternative benchmark rate and in order to enable such transitions, changes to systems, processes and models have been implemented. Those financial instruments that have not transitioned at December 31, 2021 predominantly relate to those with a US dollar LIBOR component, which is not expected to convert to an alternative risk-free rate until mid-2023, subject to further consultation.

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

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

Derivative and non-derivative financial instruments and hedge accounting

While the Group has transitioned a number of its derivative and non-derivative financial instruments to an alternative benchmark rate, certain interest rate swap derivative financial instruments and non-derivative financial instruments continue to have their floating legs indexed to US dollar LIBOR. These derivative financial instruments continue to be recognised as hedging instruments in hedge relationships, with the hedged item being those non-derivative financial instruments indexed to US dollar LIBOR.

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

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

The table below provides an overview of the IBOR-related exposures as at December 31, 2021. Non-derivative financial instruments are presented on the basis of their carrying values, while derivative financial instruments are presented on the basis of their nominal amounts.

€ million	Non-derivative financial instruments – carrying value[1]	Derivative financial instruments – nominal amount
GBP LIBOR	–	–
USD LIBOR	600	782
Other LIBOR	–	–

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

The principal outstanding IBOR-related exposures relate to those lease liabilities with a USD LIBOR component. The Group has such leases with a limited number of counterparties for which the Group expects to transition to an alternative benchmark by June 30, 2023.

28 Financial instruments

a Financial assets and liabilities by category

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

December 31, 2021

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

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

28 Financial instruments continued

December 31, 2020

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

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

b Fair value of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Current portion of derivative financial assets is €122 million.
2 Current portion of derivative financial liabilities is €1,160 million.

There have been no transfers between levels of fair value hierarchy during the year.

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

28 Financial instruments continued

c Level 3 financial assets reconciliation

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

€ million	2021	2020
Opening balance for the year	**29**	72
Additions	**2**	3
Losses recognised in other comprehensive income	**-**	(44)
Exchange movements	**-**	(2)
Closing balance for the year	**31**	29

d Hedges

Cash flow hedges

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

- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, are recorded to the Balance sheet to the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Fuel, oil costs and emissions charges to match against the related fuel cash outflow. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement within Fuel, oil costs and emissions charges when the future transaction is no longer expected to occur;
- Interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense; and
- Future loan repayments denominated in foreign currency are designated in a hedge relationship hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the associated loans are recognised in equity and transferred to the Income statement within Passenger revenue when the loan repayments are made (generally in instalments over the life of the loan).

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

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

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

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

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

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

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

1 Notional amounts of fuel commodity price hedging instruments represent 9.3 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.
2 The hedge range for interest rate contracts is expressed as a percentage.
3 Expenditure includes both operating and capital expenditure.

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

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

28 Financial instruments continued

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

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

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

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

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

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

29 Share capital, share premium and treasury shares

Allotted, called up and fully paid	Number of shares '000s	Ordinary share capital € million	Share premium € million
January 1, 2020: Ordinary shares of €0.50 each	1,992,033	996	5,327
Share capital reduction	–	(797)	–
Rights issue	2,979,443	298	2,443
December 31, 2020: Ordinary shares of €0.10 each	4,971,476	497	7,770
December 31, 2021: Ordinary shares of €0.10 each	**4,971,476**	**497**	**7,770**

a Share capital reduction

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

b Rights issue

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

c Treasury shares

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

30 Share-based payments

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

a IAG Performance Share Plan

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

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

b IAG Restricted Share Plan

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

c IAG Full Potential Incentive Plan

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

d IAG Incentive Award Deferral Plan

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

e Share-based payment schemes summary

	Outstanding at January 1, 2021 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2021 '000s**	Exercisable December 31, 2021 '000s
Performance Share Plan	32,800	–	5,768	2,326	**24,706**	1,748
Restricted Share Plan	–	16,260	62	–	**16,198**	–
Full Potential Incentive Plan	–	28,067	188	–	**27,879**	–
Incentive Award Deferral Plan	8,367	–	218	2,790	**5,359**	6
	41,167	**44,327**	**6,236**	**5,116**	**74,142**	**1,754**

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

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

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

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

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

31 Other reserves and non-controlling interests

For the year to December 31, 2021

€ million	Other reserves: Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Capital reserves[6]	**Total other reserves**	Non-controlling interest
January 1, 2021 restated[7]	(867)	38	(53)	62	(2,467)	867	**(2,420)**	6
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net loss:								
Passenger revenue	18	–	–	–	–	–	**18**	–
Fuel and oil costs	(45)	–	–	–	–	–	**(45)**	–
Currency differences	(15)	–	–	–	–	–	**(15)**	–
Finance costs	23	–	–	–	–	–	**23**	–
Discontinuance of hedge accounting	(62)	–	–	–	–	–	**(62)**	–
Net change in fair value of cash flow hedges	848	–	–	–	–	–	**848**	–
Net change in fair value of cost of hedging	–	10	–	–	–	–	**10**	–
Cost of hedging reclassified and reported in the net profit	–	(12)	–	–	–	–	**(12)**	–
Fair value movements on liabilities attributable to credit risk changes	(15)	–	–	–	–	–	**(15)**	–
Currency translation differences	–	–	(12)	–	–	–	**(12)**	–
Hedges reclassified and reported in property, plant and equipment	21	(12)	–	–	–	–	**9**	–
December 31, 2021	**(94)**	**24**	**(65)**	**62**	**(2,467)**	**867**	**(1,673)**	**6**

€ million	Other reserves: Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Capital reserves[6]	Total other reserves	Non-controlling interest
January 1, 2020	(464)	60	160	62	(2,467)	70	(2,579)	6
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	50	–	–	–	–	–	50	–
Fuel and oil costs	356	–	–	–	–	–	356	–
Currency differences	18	–	–	–	–	–	18	–
Finance costs	12	–	–	–	–	–	12	–
Discontinuance of hedge accounting	1,435	–	–	–	–	–	1,435	–
Net change in fair value of cash flow hedges	(2,216)	–	–	–	–	–	(2,216)	–
Net change in fair value of other equity investments	(53)	–	–	–	–	–	(53)	–
Net change in fair value of cost of hedging	–	10	–	–	–	–	10	–
Cost of hedging reclassified and reported in the net profit	–	(19)	–	–	–	–	(19)	–
Currency translation differences[7]	–	–	(213)	–	–	–	(213)	–
Hedges reclassified and reported in property, plant and equipment	(5)	(13)	–	–	–	–	(18)	–
Share capital reduction	–	–	–	–	–	797	797	–
December 31, 2020 restated[7]	(867)	38	(53)	62	(2,467)	867	(2,420)	6

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the amounts on hedging instruments in cash flow hedges that are determined to be effective hedges. The amounts at December 31, 2021 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €9 million credit and €128 million charge, respectively.
2 The cost of hedging reserve records, amongst others, changes on the time value of options.
3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.
4 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2021 and 2020, this related to the €500 million fixed rate 0.625 per cent convertible bond maturing 2022 (note 25).
5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).
6 Capital reserves include a Redeemed capital reserve of €70 million (2020: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2020: 797 million) associated with a reduction in the nominal value of the Company's share capital (note 29).
7 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

32 Employee benefit obligations

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

Defined contribution schemes

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

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2021 were €200 million (2020: €235 million).

Defined benefit schemes

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

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

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

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

32 Employee benefit obligations continued

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

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

Other plans

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

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

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

Risk associated with the defined benefit schemes

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

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

a Cash payments and funding arrangements

Cash payments in respect to pension obligations comprise normal employer contributions by the Group and deficit contributions based on the agreed deficit payment plan with APS and NAPS. Total payments for the year to December 31, 2021 net of service costs made by the Group were €38 million (2020: €313 million) being the employer contributions of €41 million (2020: €318 million) less the current service cost of €3 million (2020: €5 million) (note 32b).

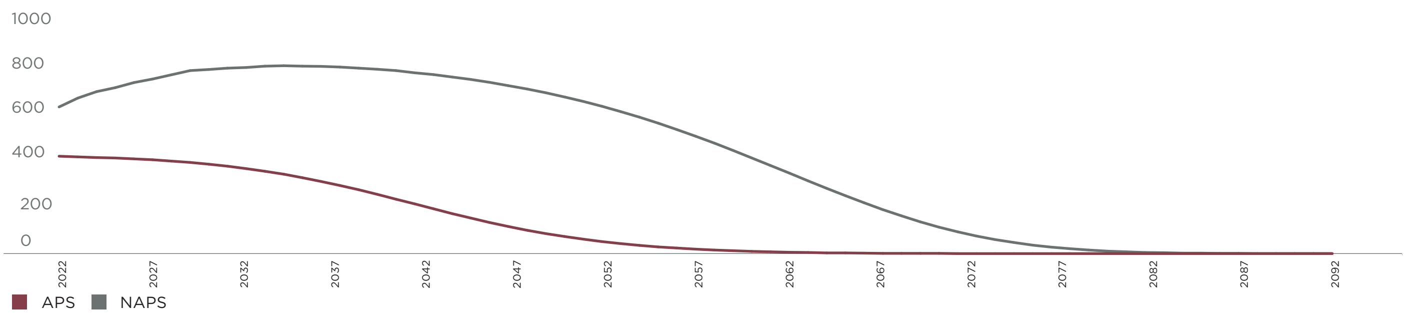
Future funding arrangements

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

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

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

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



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

Deficit contributions and deferred deficit contributions

At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million. In order to address the deficit in the scheme, the Group has also committed to deficit contribution payments through to the end of the first quarter of 2023 amounting to approximately €130 million per quarter. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are paid into an escrow account if the scheme funding position reaches 97 per cent, and are suspended if the funding position reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, which includes additional contributions equivalent to those months where contributions had been suspended, or until such point as the scheme funding level reaches 97 per cent.

During the year ended and as at December 31, 2021, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At December 31, 2021, the valuation of the funding level incorporates significant forward-looking assumptions, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will be incorporated into future triennial actuarial valuations.

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

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

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

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

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

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

32 Employee benefit obligations continued

b Employee benefit scheme amounts recognised in the financial statements

i Amounts recognised on the Balance sheet

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

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

1 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.
2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.
3 The net deferred tax asset recognised on the net employee benefit asset (2020: obligation) was €62 million at December 31, 2021 (2020: €322 million). The defined benefit obligation includes €25 million (2020: €24 million) arising from unfunded plans.
4 Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At December 31, 2021, such assets were €391 million (2020: €436 million) with a corresponding amount recorded in the scheme liabilities.

ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	**2021**	2020
Defined benefit plans:		
Current service cost	**3**	5
Past service cost[1]	**–**	7
Administrative expenses[2]	**29**	25
	32	37
Defined contribution plans	**200**	235
Pension costs recorded as employee costs	**232**	272

1 Includes a past service credit of €nil (2020: €nil) relating to schemes other than APS and NAPS.
2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

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

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

iii Amounts recognised in the Statement of other comprehensive income

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

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

c Fair value of scheme assets

i Investment strategies

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

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

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2021, the benchmark for NAPS was 37 per cent (2020: 42 per cent) in return seeking assets and 63 per cent (2020: 58 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and their investment managers to work within. APS no longer has a 'strategic benchmark' as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at December 31, 2021 was 1 per cent (2020: 1 per cent) in return seeking assets and 99 per cent (2020: 99 per cent) in liability matching investments.

ii Movement in scheme assets

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

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

1 Includes employer contributions to APS of €1 million (2020: €2 million) and to NAPS of €nil (2020: €303 million) of which deficit-funding payments represented €nil for APS (2020: €nil) and €nil for NAPS (2020: €296 million).
2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

32 Employee benefit obligations continued

iii Composition of scheme assets

Scheme assets held by the Group at December 31 comprise:

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

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

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

- Private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings-based valuations that generally result in the use of significant unobservable inputs.
- Properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- Alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation and the reporting date.
- Other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the balance sheet date; and payables for the purchase of assets which have not been settled at the balance sheet date.
- Asset and longevity swaps - APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25 per cent (2020: 24 per cent) of the pensioner liabilities for an agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt, asset swaps and longevity swaps) held by the scheme. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.

  During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 21 per cent (2020: 20 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.
- Insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at March 31, 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension-only benefits, who were alive on October 1, 2018. Benefits coming into payment for retirements after March 31, 2018 are not covered. The contract covers benefits payable from October 1, 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing contracts with Rothesay Life, APS is 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at March 31, 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index basis).

iv Effect of the asset ceiling

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

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

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

€ million	**2021**	2020
January 1[1]	**761**	1,130
Interest expense	**9**	14
Remeasurements[1]	**419**	(307)
Exchange movements[1]	**59**	(76)
December 31	**1,248**	761

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

d Present value of scheme liabilities

i Movement in scheme liabilities

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

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

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

ii Scheme liability assumptions

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

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

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.
2 Rate of increase in pensionable pay is assumed to be in line with increases in RPI.
3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and APS as at December 31, 2021.
4 The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.00 per cent grading down to 5.00 per cent over five years (2020: 6.25 per cent to 5.00 per cent over five years).

32 Employee benefit obligations continued

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

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

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

At December 31, 2021, the weighted-average duration of the defined benefit obligation was 12 years for APS (2020: 12 years) and 19 years for NAPS (2020: 20 years). The weighted-average duration of the defined benefit obligations was 11 to 23 years for other schemes (2020: 11 to 24 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent on movements in the aforementioned discount rates.

iii Sensitivity analysis

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

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

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

33 Contingent liabilities and guarantees

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

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

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

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

34 Government grants and assistance

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

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

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

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

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

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

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

The total amount of the relief received under the CJRS, the TWSS and the EWSS by the Group during 2021 amounted to €286 million (2020: €344 million).

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

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

Had those designated employees not been temporarily suspended during 2021, the Group would have incurred further employee costs of €269 million (2020: €214 million).

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

On December 23, 2020, Aer Lingus entered into a financing arrangement for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million.

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

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

On November 1, 2021, British Airways entered into a further 5-year term loan Export Development Guarantee Facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The facility is unsecured. At December 31, 2021 the facility remained undrawn.

35 Related party transactions

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

€ million	2021	2020
Sales of goods and services		
Sales to associates[1]	**6**	12
Sales to significant shareholders[2]	**16**	23
Purchases of goods and services		
Purchases from associates[3]	**49**	42
Purchases from significant shareholders[2]	**69**	80

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

1 Sales to associates: Consisted primarily of sales for airline-related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €5 million (2020: €9 million), €nil (2020: €1 million) to Viajes Ame S.A. and €1 million (2020: €1 million) to Serpista, S.A. and Multiservicios Aeroportuarios, S.A.
2 Sales to and purchases from significant shareholders related to interline services with Qatar Airways.
3 Purchases from associates: Consisted primarily of €33 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2020: €23 million), €8 million of handling services provided by Dunwoody (2020: €9 million) and €8 million of maintenance services received from Serpista, S.A. (2020: €7 million).
4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A., Dunwoody and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2020: €1 million).
5 Amounts owed by and to significant shareholders related to Qatar Airways.
6 Amounts owed to associates: Consisted primarily of €3 million due to Multiservicios Aeroportuarios, S.A., Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A., Viajes Ame S.A, Serpista, S.A. and Dunwoody (2020: €2 million).

During the year to December 31, 2021 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €6 million (2020: €7 million) in relation to the costs of the Pension Protection Fund levy.

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

For the year to December 31, 2021, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2020: nil).

Significant shareholders

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

At December 31, 2021 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2020: €nil).

Board of Directors and Management Committee remuneration

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

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

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

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

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

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

36 Change in accounting policy

Change in accounting policy relating to employee benefits

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

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

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

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

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

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

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

36 Change in accounting policy continued

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

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

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

37 Post balance sheet events

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

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

During 2021, while the Group has made no changes to its pre-existing disclosures and treatments of APMs compared to those disclosed in the Annual Report and Accounts for the year to December 31, 2020, the Group has added an additional APM regarding the Liquidity of the Group to reflect the increased level of scrutiny, internally and externally, on this measure as a result of the COVID-19 pandemic.

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

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

a Loss after tax before exceptional items

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

Exceptional items in the year to December 31, 2021 and 2020 include: significant discontinuation of hedge accounting; significant restructuring; significant changes in the long-term fleet plans that result in the impairment of fleet assets and the recognition of associated provisions; and legal settlements.

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

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

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

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

2 Discontinuation of hedge accounting

The exceptional credit of €159 million (2020: expense of €1,756 million) arising from a combination of the discontinuance of hedge accounting in the year to December 31, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at January 1, 2021. This was represented by credit of €162 million (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

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

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

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

3 Restructuring costs

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

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

4 Engineering and other aircraft costs

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

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

5 Settlement provision

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

There was no tax impact on the recognition of this charge

6 Impairment of fleet and associated assets

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

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

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

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

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

7 Air Europa termination agreement

The exceptional charge of €75 million represents the amount agreed with Globalia to terminate the agreements signed on November 4, 2019 and January 20, 2021 under which Iberia had agreed to acquire the issued share capital of Air Europa. The exceptional charge has been recorded within Other non-operating charges in the Income statement and was settled prior to December 31, 2021.

The related tax credit was €5 million.

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

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

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

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

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

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

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

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.
2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 29).

c Airline non-fuel costs per ASK

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

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

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

d Levered free cash flow (KPI)

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

€ million	2021	2020
Net Increase in cash and cash equivalents	**1,913**	1,940
Less: Decrease in other current interest-bearing deposits	**(91)**	(2,366)
Less: Other financing movements	**-**	(2,674)
Add: Dividends paid	**-**	53
Levered free cash flow	**1,822**	(3,047)

e Net debt to EBITDA (KPI)

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

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

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

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

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

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

f Return on invested capital (KPI)

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

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

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

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.
2 Presented to two decimal places and calculated using a 1.5 per cent inflation (December 31, 2020: 1.5 per cent inflation) rate over the weighted average age of the fleet December 31, 2021: 10.6 years (December 31, 2020: 9.8 years).
3 The average net book value of aircraft is calculated from an amount of €15,365 million at December 31, 2020 and €15,116 million at December 31, 2021.
4 The average net book value of progress payments is calculated from an amount of €710 million at December 31, 2020 and €748 million at December 31, 2021.
5 The average net book value of other property, plant and equipment is calculated from an amount of €2,166 million at December 31, 2020 and €2,045 million at December 31, 2021.
6 The average net book value of software intangible assets is calculated from an amount of €638 million at December 31, 2020 and €642 million at December 31, 2021.

g Results on a constant currency (ccy) basis

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

The following table represents the main average and closing exchange rates for the reporting periods. Where 2021 figures are stated at a constant currency basis, they have applied the 2020 rates stated below:

Foreign exchange rates

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

h Liquidity

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

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

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

€ million	Note	**2021**	2020
Cash and cash equivalents	21	**7,892**	5,774
Current interest-bearing deposits	21	**51**	143
Committed general undrawn facilities	27f	**2,864**	905
Committed aircraft undrawn facilities	27f	**1,126**	1,180
Overdrafts and other facilities	27f	**53**	52
Total liquidity		**11,986**	8,054

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Avios Group (AGL) Limited* Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways Holdings B.V. Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
BA Euroflyer Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Call centre	England	100%

Iberia

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

Aer Lingus

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

IAG Loyalty

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

IAG Cargo

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

Vueling

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Yellow Handling, S.L.U Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Ground handling services	Spain	100%
Vueling Airlines, S.A.* Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99.5%

LEVEL

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

International Consolidated Airlines Group, S.A.

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%[3]
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100%
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Inflight eCommerce platform	Republic of Ireland	100%
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100%
IAG GBS Poland sp z.o.o.* Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%[1]
Veloz Holdco, S.L. Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Holding company	Spain	100%

* Principal subsidiaries

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

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

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

Associates

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

Joint ventures

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

Other equity investments

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

Name and address	Country of Incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	71	(0.6)
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	n/a	n/a
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
i6 Group Limited Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4%	GBP	4	(1)
Monese Limited 1 King Street, London, EC2V 8AU	England	5.9%	GBP	(13)	(25)
NAYAKJV1, S.L. C/ d'Osona, 2, El Prat de Llobregat, 08820	Spain	5%	EUR	n/a	n/a

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated management report
for the year ended
December 31, 2021

A unique model that enables us to connect the world

We are an international airline group, with leading airlines in Spain, the UK and Ireland. We were formed to create a unique model in the industry based around consolidation, strategic flexibility and financial performance.

Our purpose and values

Our role in the world is to connect people, businesses and countries. We do this and create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose.

Our operating model

The Group has a unique and innovative business model within the airline industry, based on a light structure at the centre and agile, empowered and focused airline operating companies who benefit from the Group's scale and are accountable for their results.

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 adding incremental 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. The neutrality of IAG's platform and independence from the brands supports the Group in taking part in industry consolidation processes.

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

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

Our operating model

Principles

- Operating companies' execution and accountability
- Light structure at the centre for central functions and intra-Group coordination
- Central execution only where it provides additional value

Corporate parent

- Sets long-term strategy to deliver the vision for the Group
- Defines portfolio, M&A and partnerships
- Sets targets and oversees operating companies' performance
- Allocates capital and secures funding
- Drives ESG agenda for the Group
- Manages investor relations
- Shares best practice
- Defines, drives and monitors response to COVID-19

Airline operating companies

- Drive and execute commercial strategy
- Ensure operational efficiency
- Define product strategy for target customer segments
- Deep understanding of customer and competitive environment
- Standalone profit centres and independent credit identities
- Individual brand, cultural identity and management teams

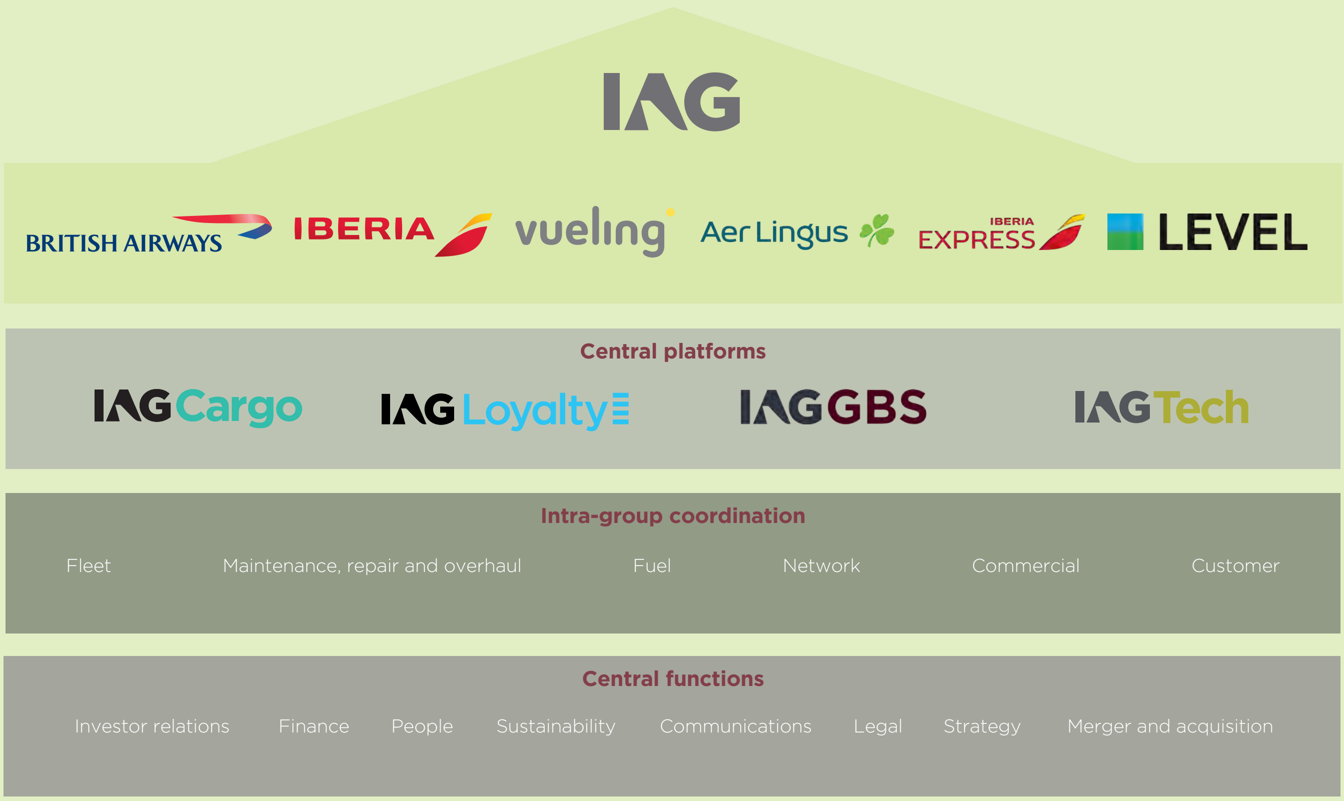
Common integrated platform

Provides common services and allows the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale

For more information see the operating companies pages.

The role of the Centre

The role of the Centre is to oversee intra-Group coordination, manage and execute central functions, and leverage its central platforms to create additional synergies for the Group. This is underpinned by a role to foster collaborative working between the operating companies and the sharing of best practices across the Group.



The role of the Centre during the COVID-19 pandemic

The Group's corporate parent has had a crucial role during the COVID-19 pandemic, managing the crisis and coordinating the Group's response, taking action to secure the business in the short term, and driving the transformation of IAG and its operating companies to ensure we emerge competitive from the crisis.

Our common integrated platform also provided strong support to the Group during the crisis, helping control costs, driving synergies and bringing additional sources of non-flying revenue to the Group.

Some of the key actions taken at IAG and by its central platforms and central functions during the COVID-19 pandemic have been to:

- Secure funding for the Group to maintain a strong liquidity position, secure the business and exit the crisis in a competitive shape
- Lead and coordinate capital expenditure, working capital and operating cost initiatives to minimise cash outflows
- Renegotiate deals and deferrals with key suppliers to support the business
- Increase our sources of revenue and raise additional cash through the launch of new and renewal of existing loyalty partnerships, including our agreement with American Express
- Engage in aircraft deferrals, lease payment renegotiations, and sale and leaseback transactions to preserve cash; and collaborate with the operating companies to temporarily park and retire older aircraft from their fleets
- Continuously track, monitor and forecast market re-openings and air travel demand to optimise capacity plans, including the deployment of additional cash-generative cargo capacity and cargo-only flying
- Provoke and oversee business transformations at the operating companies, coordinating plans and setting targets for the Group and its businesses to emerge more efficient from the crisis
- Engage with our existing **one**world, joint business and other airline partners to maintain, adapt and strengthen our relationships during the crisis and collaborate with the operating companies to further expand our partnership portfolio
- Engage closely with national governments, regulators and industry associations to support the development of safety and security guidance, as well as best practices that allowed travel to continue
- Drive IAG's sustainability strategy by collaborating with partners and regulators to take further steps in the industry's decarbonisation roadmap, playing a leading role in setting and progressing towards ambitious carbon targets and building industry momentum towards a net zero world.

Purposefully delivering our strategy in a sustainable way

Our strategic priorities

Unrivalled customer proposition

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

Value-accretive and sustainable growth

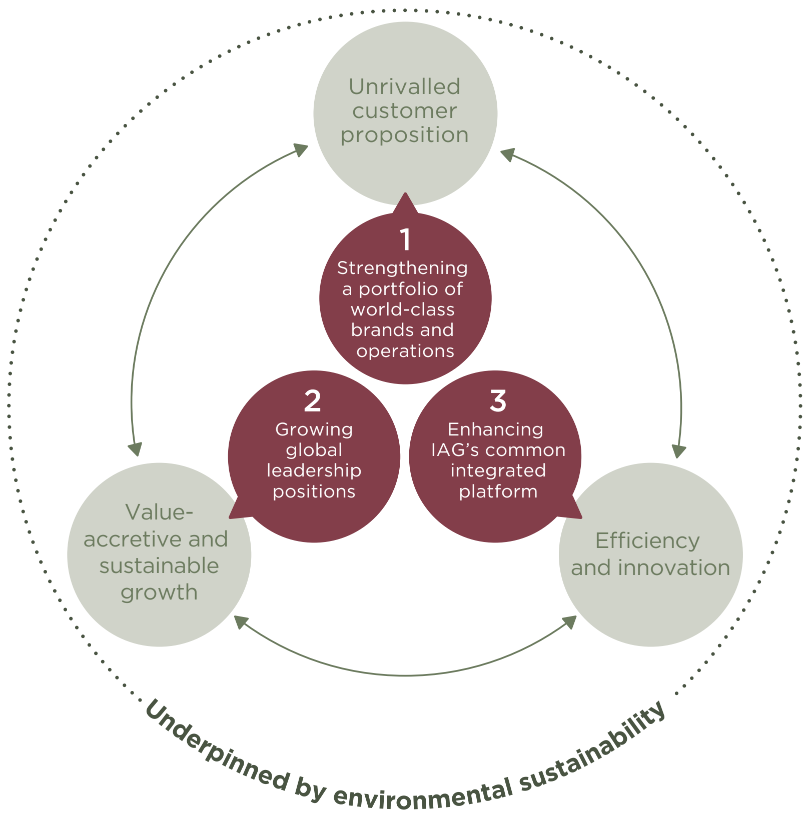
- Pursue value-accretive organic and inorganic growth to reinforce existing, or pursue new leadership positions in our priority markets
- Attract and develop the best people in the industry
- Set the industry standard for environmental and societal stewardship, whilst always prioritising the safety and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

Efficiency and innovation

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

Underpinned by sustainability

The Group's strategy is underpinned by its target to be the leading airline group on sustainability. We remain committed to reducing our carbon footprint and to reach the goal of net zero CO_2 emissions for the Group and its supply chain by 2050, as well as to continue to prioritise other key sustainability issues including waste management, stakeholder engagement and employee engagement and welfare.



Tracking our performance

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

Financial KPIs: see the Key performance indicators section

Employees: see the Sustainability section

Customer NPS: see the Key performance indicators section

Environment: see the Sustainability section

Strategic priority

1 Strengthening a portfolio of world-class brands and operations

How we create value

Unrivalled customer proposition

Our performance

Our activity in 2021

The COVID-19 pandemic has continued to impact our lives throughout 2021. During this time, the Group's portfolio of brands continued to support the wider community in tackling its impacts, with the operating companies supporting local communities with charitable work and flying critical equipment and essential medical supplies across the world. The different brands continued to implement measures aimed at enhancing safety on board and reducing the complexity of vaccination and testing documentation and check-in processes. British Airways, Iberia and Aer Lingus partnered with the VeriFLY app and, along with Vueling, have been trialling the IATA Travel Pass, allowing customers to easily upload and verify COVID-19 documentation before their flights and reducing journey times at the airport. Our operating companies have additionally made other digital solutions available to increase customer confidence and reduce journey times, such as 'Digital Heatmaps' showing the status of travel restrictions and requirements by destination.

The operating companies implemented agile approaches to aircraft deployment, optimising and adapting their networks to changes in travel restrictions, whilst ensuring we maintain our presence in our priority markets and keep offering an unrivalled proposition to our customers. British Airways continued to roll out its newest business cabin seat Club Suite in its Boeing 777 fleet, and committed in October to operate all future flights to JFK exclusively with aircraft featuring this new product, reflecting the strategic importance the North Atlantic market has for the airline. This year Iberia celebrated its 75th anniversary of flights to Latin America, where it operated a relatively high level of capacity in 2021, announcing an increased winter schedule to the region compared to last year and providing more choice to customers.

IAG Loyalty has significantly enhanced Avios redemptions to give our airlines' loyalty programme members more choice, for example doubling the number of Guaranteed Avios Reward Seats on British Airways and Iberia flights.

Our priorities for 2022

Whilst the Group will continue its leading work on safety, we will also ensure our businesses can deliver an unrivalled customer proposition that adapts to meet changing customer expectations in the context of air travel recovery after two years of border closures due to the COVID-19 pandemic. IAG will continue to ensure competitiveness in its chosen priority customer demand spaces, evolving the operating companies' products and services to best deliver against the needs of their customers. Strong emphasis will continue to be placed on digitalisation, including further customer-focused improvements to the digital experience.

Strategic priority

2 Growing global leadership positions

How we create value

Value-accretive and sustainable growth

Our performance

Our activity in 2021

In 2021, the Group's focus on securing its financial position continued, with the aim to exit the crisis well-placed to maintain the existing leadership positions it holds in its home cities of Barcelona, Dublin, London, and Madrid, as well as take advantage of value-accretive organic and inorganic growth opportunities that may arise.

Whilst the pandemic had a severe impact on capacity levels across the world, our airlines have been able to capture new strategic growth opportunities. In October, Aer Lingus launched a new base at Manchester Airport to offer transatlantic services from the UK, a strategic base for the Irish airline that will have a largely variable cost base. Vueling was granted 18 daily slot pairs at Paris-Orly airport that will be transferred from Air France, which will help strengthen Vueling's pan-European network in one of the continent's largest markets. British Airways announced in December the launch of its new subsidiary, BA Euroflyer, which will operate shorthaul services at Gatwick Airport under the British Airways brand. The company will restart shorthaul services at Gatwick in summer 2022 after a break of almost two years and will provide customers with access to a premium service at competitive prices.

IAG's airlines have continued to strengthen their relationships with partners. For example, Alaska Airlines joined the **one**world alliance in March 2021, and launched a codeshare agreement with Iberia and LEVEL later in the year. British Airways also extended the number of codeshare routes with the Seattle-based airline, whilst Aer Lingus continued its frequent flyer collaboration. IAG has also further developed its partnerships with Atlantic Joint Business members American Airlines and Finnair, particularly with the continued integration of Aer Lingus into the Joint Business. The Group continued to expand its relationship with Qatar Airways, which extended its codeshare agreement with Iberia early in the year, and jointly with British Airways announced plans to expand their Joint Business to offer customers access to a greater choice of destinations and route options. Vueling took important action in the partnership space by leveraging its digital versatility and launching a global interlining platform, 'Vueling Global', to increase connections between the airline and its partners and expand its customer offering. In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In December 2021, IAG and Globalia announced the termination of the agreement under which Iberia had agreed to acquire Air Europa, but noted that the parties intended to evaluate alternative structures. Any future deal would be subject to regulatory approval.

Our priorities for 2022

In 2022, the Group will aim to maintain and bolster its leadership positions in its home cities and priority markets. As and when the global aviation industry recovers from the impact of the COVID-19 pandemic, IAG will progress investment in value-accretive organic and inorganic growth opportunities. IAG will continue to progress the integration of Aer Lingus into the Atlantic Joint Business. In addition, the Group will continue to leverage its other joint businesses, alliances and partnerships and, where appropriate, form new joint businesses or participate in the industry's consolidation process by entering into value-accretive merger and acquisition (M&A) deals.

Strategic priority

3 Enhancing IAG's common integrated platform

How we create value

Efficiency and innovation

Our performance

Our activity in 2021

The COVID-19 pandemic has tested the airline industry's resilience like no other crisis before in the history of commercial aviation. Despite the pandemic causing capacity levels to remain depressed throughout 2021, particularly during the first half of the year, IAG has proved the Group has a resilient business model, being able to reduce its cost base and adapt to the circumstances, leveraging its common integrated platform to generate additional revenue.

IAG's airlines embarked on transforming their businesses to emerge from the crisis in a more efficient shape as the recovery from COVID-19 continues, reducing their costs and capturing new opportunities where available. All the airlines took action to restructure their cost bases, structurally changing and renegotiating handling, maintenance and other supplier arrangements in coordination with the IAG GBS procurement team and maximising the use of furlough and wage support schemes where possible. As an example, Vueling has transitioned to a new handling and maintenance model, including launching a joint venture for line maintenance with provider Nayak.

IAG Cargo has experienced ongoing demand for its services in 2021, contributing additional revenue to the Group with an increased schedule compared to last year, co-sponsoring flights with the passenger airline businesses and operating a high level of cargo-only flights. The cargo segment has also arranged large charter programmes with strategic customers, considerably supporting the Group's cash generation.

IAG Loyalty has also been key in supporting IAG's revenues during the crisis and has been profitable in 2021 due to a high level of spend and Avios collection through our non-airline partners. The loyalty segment expanded its partnership portfolio by successfully launching new agreements with Barclays Premier, Sainsbury's/Nectar, Santander and bp, as well as a new co-branded credit card with Vueling and CaixaBank in Spain.

IAG Tech continued its focus on enhancing new technology capabilities across the Group, including improvement to the operating companies' loyalty platforms, changes to the platforms and systems to allow for frictionless travel (e.g. health passports), and enhancement to disruption and self-service management solutions for customers. Furthermore, IAG Tech delivered initiatives to reduce operating costs and improve efficiency through process automation.

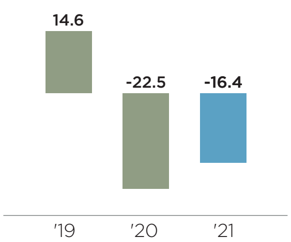
Our priorities for 2022

In 2022, IAG will continue to focus on delivering the transformation plans for its different business segments, which will ensure they remain competitive as the recovery from COVID-19 continues. IAG will also keep investing in enhancing its common integrated platform, to provide quality services and solutions across the Group at faster pace and lower unit cost, and continue to support its operating companies to accelerate their digital transformations, which will be critical as the Group recovers from the COVID-19 pandemic.

Tracking the Group's performance

RoIC (%)[1,3]

Targeting sustainable
15%



Definition and purpose

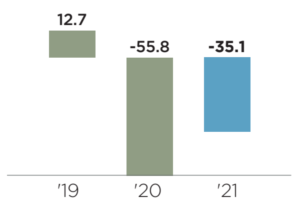
Return on Invested Capital (RoIC) is defined as EBITDA, less adjusted fleet depreciation, other depreciation and software amortisation, divided by average invested capital. We use 12-month rolling RoIC to assess how well the Group generates returns in relation to the capital invested in the business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

Performance

The Group's RoIC improved 6.1 points versus last year to -16.4%. The increase reflects the improvement in EBITDA of €1.3 billion on similar levels of invested capital. The average age of fleet of 10.6 years increased from 9.8 years in 2020, as there were only small changes in the fleet.

Operating margin (%)[1,3]

Targeting
12-15%



Definition and purpose

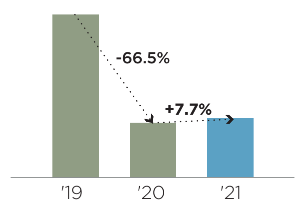
Operating margin is the operating result before exceptional items as a percentage of revenue. We use this indicator to measure the efficiency and profitability of our business and the financial performance of the individual operating companies within the Group.

Performance

The Group's operating margin improved 20.7 points to -35.1 per cent. Total revenue before exceptional items was up 7.4 per cent as restrictions eased in the second half of the year and passenger volumes increased. Cargo revenue was at a record high of €1,673 million due to the operation of 3,788 cargo-only and charter flights and strong yields.

Costs benefitted from the initiatives implemented in 2020 and 2021 to reduce spend and increase cost variability.

Capacity change (% ASKs)



Definition and purpose

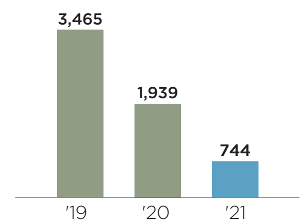
Capacity in the airline industry is measured in Available Seat Kilometres (ASKs) which is the number of seats available for sale multiplied by the distance flown.

Performance

IAG's capacity was up 7.7 per cent versus 2020 and down 63.9 per cent versus 2019 as operations continued to be impacted by global travel restrictions. The easing of restrictions over the year meant last quarter capacity reached 58.3 per cent of 2019 operations compared with only 19.6 per cent in the first quarter.

The operating companies have the flexibility within fleet and operational plans to be able to adapt capacity and can react quickly to changes in demand and restrictions as necessary.

Gross CAPEX (€m)[2]



Definition and purpose

Gross CAPEX (capital expenditure) is the total investment in fleet, customer product, IT and infrastructure (including leased right of use assets) before any proceeds from the sale of property, plant and equipment.

We track the planned capital expenditure through our business planning cycle to ensure it is in line with achieving our other financial targets.

Performance

Gross capex for 2021 totalled €0.7 billion, which is significantly lower than the planned spend announced in 2019 of €4.3 billion, reflecting the agreements with Boeing and Airbus to defer fleet deliveries and pre-delivery payments. During the year 11 aircraft were delivered, of which six were direct leases and therefore not included in capital expenditure. In 2021, spend on property, IT and other reflected the investment needed to maintain core IT infrastructure and cyber projects.

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

Key

(A) Alternative performance measure

(R) Measure linked to remuneration of Management Committee

1 2 3

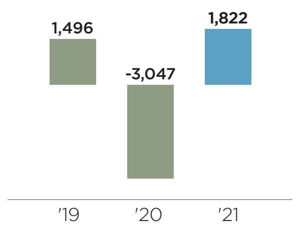
Link to our strategic objectives

1 For further detail refer to the Alternative performance measures section of the financial statements. RoIC has not been included for the main airline operating companies, as with negative EBITDA the measure is less meaningful than in prior years.
2 Gross CAPEX is defined as Acquisition of property, plant and equipment and intangible assets.
3 The 2019 and 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.
4 See Section e of the Alternative performance measures.

Levered free cash flow (€m)[1]

2

(A)



Definition and purpose

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

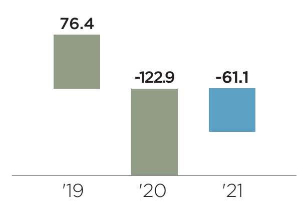
Performance

The Group's levered free cash flow for 2021 was €1,822 million, €4.9 billion higher than 2020, due mainly to an increase in net non-aircraft related borrowing of €4.1 billion and the operating loss before exceptional items being €1.4 billion lower than in 2020.

Adjusted EPS (€ cents)[1 3]

3

(A) (R)



Definition and purpose

Adjusted Earnings Per Share (EPS) represents the diluted earnings for the year before exceptional items attributable to ordinary shareholders. This indicator reflects the profitability of the business and the core elements of value creation for IAG's shareholders.

Performance

Adjusted loss per share improved significantly from €122.9 cents to €61.2 cents as the result after tax before exceptional items improved by €1.0 billion. The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes is antidilutive for the year due to the reported loss after tax for the period, and therefore has not been included in the diluted earnings per share calculation.

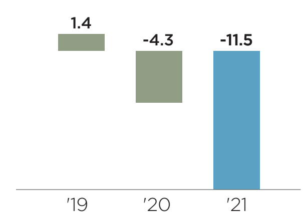
Net debt to EBITDA[1 3]

3

(A)

Targeting ceiling

1.8x



Definition and purpose

Net debt to EBITDA is calculated as long-term borrowings (both current and non-current), less cash, cash equivalents and less other current interest-bearing deposits. This is divided by EBITDA[4].

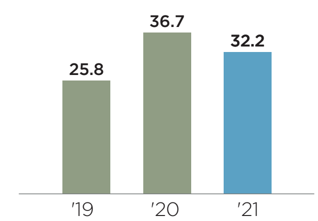
IAG uses this measure to monitor leverage, to assess financial headroom.

Performance

The Group's leverage remained negative in 2021 at 11.5 times. Net debt rose by €1.9 billion, driven primarily by negative EBITDA of €1.0 billion and capital expenditure of €0.7 billion, together with the revaluation of US dollar debt. In the year, the Group drew debt facilities agreed in 2020, namely a £2.0 billion Export Development Guarantee (EDG) term loan for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028.

Net Promoter Score (NPS)

1



Definition and purpose

At IAG a transactional NPS is measured: customers respond about their likelihood of recommending an IAG operating carrier no more than seven days after taking a flight. Including NPS targets in the Group's employee bonus scheme has driven a stronger focus on improving the customer experience which, together with customer advocacy drives competitive advantage, leading to faster organic growth.

Performance

In 2021 IAG's NPS decreased 4.5 points versus 2020. However, the score remained significantly above 2019 levels. While this result represents high levels of customer satisfaction across all IAG airlines, this score must be viewed in the context of the pandemic.

The appearance of new COVID strains and the further restrictive measures imposed by some governments including lockdowns, quarantines or testing requirements, have impacted the flying experience negatively versus the positive experience for those few who did fly in 2020. Increased volatility in the flying schedule throughout 2021 heightened stress for customers, as did longer queues at the airports due to ever-changing documentation requirements, and the continued suspension of certain products such as the delivery of full premium services.

Connecting with our stakeholders

Our key stakeholders

These last two years have been exceptional for our Group and for our industry, as it has been for our society. The information about our key stakeholders reflects those circumstances. The identification of who our key stakeholders are, and to some extent, the ways of relating to them or the issues and shared interests discussed with them, are inevitably conditioned by the challenges of the pandemic.

We are not identifying our communities or the environment as a distinct stakeholder group; our long-term commitment to sustainability and corporate social responsibility is embedded in all we do at Group and operating company level, from our interactions with our customers through to employees and shareholders. Our aim is to be a force for good in the communities in which we operate and, in doing so, create value for all our stakeholders.

An overview of the relevance for IAG's business model and strategy of these key stakeholders, and the key topics of interest during the reporting period are summarised in the following table. In addition, on the following pages, we include a more detailed analysis of each stakeholder and its relationship with IAG.

Customers

Fit in our business model and strategy

- Our customers are central to our success. They are at the core of our purpose, our business model and our strategy. Customers are the reason why we exist.
- They are fundamental to achieving our strategic priority of strengthening our portfolio of world class brands and offering unrivalled customer propositions.
- IAG recognises the importance of our most loyal passengers through our frequent flyer programmes. This ultimately creates long-term value for both IAG and our customers.

Key topics/interests

- COVID-19 related safety measures
- COVID-19 travel restrictions and requirements
- Flexibility measures considering COVID-19 related situations
- Customer service
- Digitalisation
- Sustainability

Employees

Fit in our business model and strategy

- Across the Group, employees play a vital role in delivering the service experience that customers expect, whether on the ground or in the air.
- Our employees bring a diverse range of talent and perspectives that contribute to the values and culture of our companies.
- Creating an environment where employees feel motivated, safe and able to thrive and deliver for customers is central to the continued success of the Group.
- We recognise the critical role that employees will play in the recovery and transformation of IAG and across the Group we are focusing on improving employee engagement.

Key topics/interests

- Safety, wellbeing and mental health, including specific COVID-19 measures
- Diversity and inclusion
- Training and career development
- Fair reward
- Corporate purpose and impact on the world
- Sustainability

Shareholders and other financial stakeholders

Fit in our business model and strategy

- They enable IAG to both invest in and grow the Group's businesses.
- As a capital-intensive business, IAG requires a substantial amount of capital expenditure to replace existing assets and to enable growth. The Group is dependent on external funding to meet these capital expenditure commitments, to be able to replace or grow our fleet at the rate required to deliver our strategy and business plan.
- Provision of efficient external capital allows us to fund our operations and invest in our asset base in a cost-effective manner, supporting the delivery of our business plan and the Group's strategy.
- Their views are critical in supporting the Group to formulate its strategy, which drives operational and financial performance in order to generate and optimise returns in a sustainable way.
- The availability of external capital has shaped the Group's decisions through the pandemic as liquidity has been a key consideration. The ability to access external capital on competitive terms has influenced recovery plans and the financial strength and positioning of the Group and its operating companies.

Key topics/interests

- Government restrictions on travel demand
- Prospects of demand recovery and plans to restore capacity
- Cost restructuring
- Cash flows, funding sources and liquidity
- Short-term outlook for capacity and operating profitability
- Environmental, social and governance performance, including climate change initiatives
- Known capital spending and debt repayment commitments

Suppliers

Fit in our business model and strategy

- Our suppliers are fundamental to ensuring our companies meet the high standards that customers and other key stakeholders expect. Any deviation from our expected standards could impact on the Group's operational and financial performance as well as disrupting our customers, leading to significant reputational damage for the operating company and the Group.
- It remains the case that the airlines' operations are dependent on a number of suppliers to ensure reliable performance and efficiency of the operation.
- Supply chain integrity remains critical to our business as we rely on our suppliers to help meet our customers' needs, ensure the reliability of our services and support IAG's sustainability agenda.
- The Group has several internal and external measures in place to ensure supply chain resilience. We actively monitor potential supplier risks and/or changes to relevant markets to ensure a continued robust supply chain.

Key topics/interests

- COVID-19 impact
- Fair engagement with suppliers
- Compliance with regulations
- Responsible and robust supply chain
- Inflation challenges
- Global supply chain issues
- Sustainability, with a focus on delivering upon the Group's Scope 3 commitments

Governments and regulators

Fit in our business model and strategy

- Very many aspects of IAG's business are affected by government policy and decision making, since the aviation industry is a strategic industry in the eyes of policy makers. Public policies, regulations and political decisions condition IAG's strategy, performance and even our customers' experience.
- Essential requirements for safety and security of operations are the highest priority of IAG's operating companies but are also subject to regulatory oversight by national authorities, requiring on going compliance.
- International air services are still governed by treaties agreed between states. These include provisions to determine market access and often regulate frequency and capacity, which is essential to our business.
- These and other aviation policy issues mean that IAG must engage with policy makers, elected representatives, government bodies and specialist aviation, economic and competition regulators since the rules they establish and decisions they take directly affect our operations and commercial practices.

Key topics/interests

- Safety and security, including COVID-19 related measures
- Travel and quarantine restrictions
- Consumer rights
- Sustainability, including climate change
- Diversity and inclusion
- International relations including air service agreements
- Infrastructure regulation including airspace modernisation and airport charges

Customers

As stated before, customers are at the heart of our purpose, the reason why we exist. Our customers travel with or connect through our portfolio of IAG brands, which are based in the UK, Spain and Ireland, our home countries and where an important number of our passengers start their trips.

The different passenger segments include leisure, VFF (visiting friends and family) and business passengers (travelling on their own) and corporate accounts. Additionally, customers from our Loyalty programmes are fundamental to us and key to our success. Last but not least, some of the world's best-known brands trust us to transport their valued cargo, whatever form this might take.

Another key stakeholder that is connected to our customers is our employees, either if they directly interact with our customers or those indirectly involved, they are key to support and provide our customers the best service, as well as being responsible for resolving any customer complaints or claims through our customer relations teams. In addition to this, those employees with a day-to-day interaction with our customers represent our Group and their respective companies' culture and identity in front of them. Having an engaged workforce is key to the Group from a customer experience point of view. Suppliers are another stakeholder group that is relevant to customers, as a timely and safe procurement of aircraft and introduction of different products is key to our customer proposition.

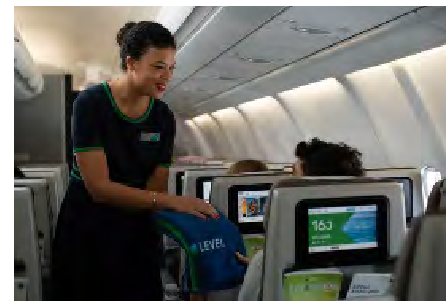
How we engage

- Every day, we send the "Voice of Customer" survey to our passengers, designed to collect our customers feedback on their experience. It helps us understand key pain points throughout their journeys and to inform our product and service strategy decisions.
- We conduct brand surveys to help us understand the needs and expectations of different customer types and meet those specific requirements through our diverse portfolio of brands.
- We provide different channels for our customers to raise claims and complaints, and closely monitor these to accommodate our customers and take action where necessary.
- We offer Contact Centre services and have developed other digital channels such as Chat bots in our websites or Whatsapp 24/7 to ensure that customers can reach out to us whenever they need to, and we constantly enhance them so that their experience is best in class. However, COVID-19 has hugely increased pressure in our call centres, especially regarding date changes and voucher requests. This has made it very challenging for us to deliver the "best in class" experience that we aimed for, and while the experience has improved throughout the year, it will continue to be a key focus for 2022.
- We keep our customers informed of the latest changes in our service, product enhancements or any other relevant information through various channels, including our websites, e-mail and our very dynamic social media accounts.
- Our customers receive guidance and a high standard of customer care throughout their journey from our distinguished on-board and airport colleagues.

Impact of the COVID-19 pandemic

Due to the COVID-19 pandemic, the relationship between our operating companies and customers has become stronger than ever. Because of the increased uncertainty around the ability to fly to some destinations, as well as the ever-changing restrictions and requirements to fly, our customers rely more than ever on our guidance. As a result of this, one of our main priorities throughout the past year has been on reassuring customers throughout their whole journey. The airlines have launched different initiatives for doing that, such as increasing the level of communication to customers, from communications prior to flying (website instructions, emails to customers) or even announcements made by pilots in the cabin.

In addition to this, and as we experienced in 2020, the COVID-19 environment and travel restrictions have distorted our performance metrics, in particular NPS. As was the case in 2020, in 2021 IAG's NPS remained significantly above 2019 levels. While this result represents high levels of customer satisfaction across all IAG airlines, this score must be viewed in the context of the pandemic, as customer expectations and the flying experience have remained altered throughout 2021.



During 2021, the flying experience has continued to be impacted by restrictive measures imposed by some governments including lockdowns, quarantines or testing requirements. These circumstances entailed volatility in the flying schedule, changes in documentation requirements, with resulting increased stress for customers, and longer queues at the airports, and finally, the continued suspension of certain products such as the delivery of full premium services (full meal service, hot towel). We had to respond and adapt our services to this situation, introducing measures to reassure our customers and improve our services to the extent possible. Some examples are implementation of documentation verification apps, specific check-in and arrivals procedures, or initiatives aimed at further digitalising the journey. The customer response to these measures in our surveys, as reflected in the NPS performance, has been very positive.

For further detail see Our strategic priorities section.

IAG Cargo continued to align its network to customer demand, supporting customers with cargo-led flying, increasing frequencies on important trade routes and implementing an active charter programme. IAG Cargo also moved large volumes of what are typically seen as non-airfreight commodities as shippers favoured shorter delivery times and volumes shifted from sea to air against a background of supply chain disruption, port congestion and low inventories.

Results from the engagement with our customers

In response to the feedback received, and based on the tracking of key metrics performance, our operating companies have launched different initiatives to address our customer needs. Some examples of it are:

- Different initiatives aimed at further digitalising the way customers make and manage their trips. For example, in relation to document verification, which was especially challenging for customers throughout the year due to ever-changing documentation requirements. All our airlines either developed their own solutions to verify documentation or signed up to existing ones, including Verifly and IATA travel pass.
- In addition to digitising the way customers can manage their trips, we are also digitising our business. Leveraging digital solutions is a key area of advancement and continued focus for all our airlines. Examples include transitioning our CRM to Salesforce, implementing a lounge food ordering system, launching the first European fully biometric airport journey, introducing new providers of our call centres, and developing inflight pre-order solutions.
- In 2021, we launched new training methods coupled with a long-term training plan for all customer-facing staff and their management teams.
- Some of our airline brands developed new culinary proposition across all cabins as well as introduced new pre-order solutions for some cabins.
- Some airlines also looked at improving their Lounges experience through the creation of new and exciting partnerships.
- We also finished the roll out of the new initiatives that were put on hold due to COVID-19.

Employees

IAG employs around 55 thousand people across our portfolio of airlines and platform businesses. The majority of our staff directly support customers with cabin crews and pilots making up 46 per cent of our workforce, and airport and maintenance teams representing a further 35 per cent. IAG staff are based throughout the world, with the highest concentration in our major hubs in the UK, Ireland and Spain.

How we engage

- Each company in the Group has its own communication channels adapted to its culture and profile. In general terms, communication with employees is made using formal and informal channels, which include performance reviews, specific consultations, employee forums, internal social networks, local cascade meetings, newsletters, workshops, engagement surveys and confidential and independent Speak Up channels. These channels have been critical to ensure we understand what matters to colleagues and to ensure they understand and can access the support available to them. We have continued to tailor our approach throughout the year to reflect the travel and working restrictions in place.
- Each operating company undertakes engagement surveys, at least annually, across its full workforce, and this year, in addition, IAG undertook an organisational health survey with managers across the Group to benchmark our working practices against world class companies. These surveys have helped management teams to refresh their people strategies and to adapt processes and policies to best support colleagues.
- IAG operates a number of employee-led network groups which provide peer support and help us understand the experiences and challenges faced by colleagues, enabling the Group to take action to make our business more inclusive.
- Collective bargaining arrangements are in place for 89 per cent of our workforce. In addition, IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. Reflecting the changing geopolitical landscape and the specific role of the EWC to manage transnational issues for EEA Member States, the UK will cease to have representatives within the EWC, and we will continue to engage with UK employee representative groups on matters relevant to them through existing national channels. The EWC election and appointment process for the new Select Committee and Chair will be completed in early 2022.

Impact of the COVID-19 pandemic

The commitment, resilience, flexibility and support of our employees has been fundamental to our ability to navigate through the unprecedented challenges of the last two years. Throughout the pandemic, we have had to react to changing regulations and travel restrictions and implement changes to policies and ways of working at breakneck speed, and we have relied on our colleagues to keep our customers and each other safe and to continue to deliver the best customer experience possible.

Our colleagues have experienced the personal impact of the pandemic in terms of their roles, through both voluntary and agreed changes to terms and conditions and through participation in furlough and job protection schemes. Further, colleagues have seen significant change in the composition and structure of our workforce, as we have taken the necessary steps to protect cash and remain competitive. At all times we have strived to be open and transparent about these changes, consult with colleagues and employee representatives, and to support colleagues with a focus on physical and mental wellbeing.

At IAG, we hold ambition, teamwork, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose and colleagues have consistently demonstrated these values in responding to the various challenges that they have been faced with across the year.

We recognise the critical role that colleagues will play in the recovery and transformation of IAG and are constantly looking at how we support them and to create a diverse and inclusive culture. In 2021, we refreshed our diversity and inclusion strategy, introducing a new integrated framework to assess the sufficiency of our plans and to support operating companies with setting priorities. We are proud of the progress we have made to make IAG more diverse and inclusive but know we have further to go to achieve our ambition. We also recognise the impact of the pandemic in terms of workforce composition and gender pay, reflecting both the temporary and structural changes across the Group.

As we emerge from the pandemic, we are seeing resourcing demands increase and recruitment recommencing in a number of areas. IAG's unique operating model provides fantastic opportunities for career development and progression and we are building on our strengths in this regard with a more rigorous and structured approach to talent management and succession planning and to ensure we retain key talent.

Results from the engagement with our employees

We use a range of channels to understand what matters to our colleagues and to help us improve our people policies. Each operating company runs regular engagement surveys and last year we introduced an organisational health survey to better understand colleagues' experiences and perceptions.

Based on feedback from colleagues we have taken action to review and update our parental leave policies, making them more progressive, inclusive and supportive. We are also working hard to ensure that career opportunities in each of our operating units are more visible across the Group.

We have invested in the right channels for communication and information to improve advocacy and engagement and ensure information is available on a range of employee related issues. Whilst the strength of our brands and career opportunities at IAG is compelling in the recruitment market, we have faced challenges in attracting and retaining talent for some critical roles given the uncertainty and perceived risks in aviation relative to other sectors less impacted by the pandemic

Shareholders and other financial stakeholders

As an IBEX 35 and FTSE 100 company, IAG prides itself on being a multicultural group that has inherited the legacy of long-standing listed companies in Ireland, Spain and the United Kingdom. As a company listed on two of the largest stock markets in the world, IAG has investors from all around the world as well as from its major markets.

The Group has a wide range of shareholders. The largest shareholder is Qatar Airways with a 25.1 per cent holding acquired between 2015 and 2020. Other shareholders comprise individual retail investors, institutional investors and the Spanish state holding company, Sociedad Estatal de Participaciones Industriales (SEPI), which has a 2.5 per cent shareholding. Apart from Qatar Airways, most shareholders are located in Europe, mainly in Spain and the United Kingdom, and in the United States.

To fund investment and capital expenditure commitments, in addition to equity, the Group requires access to debt capital markets. This has been particularly relevant during the pandemic and has resulted in the Group currently having significant financial leverage. We have raised debt liabilities in a range of markets using different structures including, but not limited to, senior unsecured bonds, convertible bonds, secured bonds, private placements, finance leases, mortgage loans and operating lease arrangements. The providers of debt capital span commercial and investment banks, institutional investors and aircraft lessors. The providers of capital are geographically diverse as the Group accesses markets globally.

How we engage

- We actively and frequently communicate with shareholders and other financial stakeholders through an open and transparent dialogue so they can understand performance and also raise any possible concerns.
- IAG usually holds at least six formal meetings every year (Annual General Meeting, Capital Markets Day and four quarterly results briefings), where shareholders, investors and equity and credit analysts have the opportunity to interact with management.
- Management and Investor Relations attend numerous investor conferences throughout the year. Investor Relations organises roadshows around the world to meet investors with diverse perspectives and from different locations. Some of these include both management and Board members and have a business focus as well as a corporate governance and ESG focus.
- The Investor Relations team maintains an ongoing dialogue with equity, credit and ESG research analysts to understand investors' and shareholders' views of the Group. The Group Treasury team has regular interactions with credit analysts, global banks, debt investors and credit rating agencies. Finally, the Group Fleet Investments team and the Fleet teams of each operating company have regular interactions with aircraft operating lessors, who are either specialist aircraft leasing companies or the leasing arms of global banks. New commitments with these lessors are managed centrally through the Group Fleet Investments team.

Impact of the COVID-19 pandemic

Throughout the pandemic, the Group has maintained as frequent contact with institutional shareholders and investors as before the pandemic, the main difference being the use of virtual meetings and events replacing in-person meetings and events. The AGM was held virtually for the second consecutive year. The Group's management hosted four quarterly results calls for analysts and investors during the year. For a second year, however, the Group did not host a Capital Markets Day, given lack of uncertainty of the recovery from the pandemic and the considerable management time required to deal with the operational and financial impacts of COVID-19. Unfortunately, IAG was unable to distribute a dividend to shareholders because of the negative impact of the pandemic and government travel restrictions on the Group's financial performance.

The pandemic has resulted in an unprecedented decline in operating performance and resulted in material cash outflows. To maintain a suitable level of liquidity the Group has been forced to raise external capital and has as a consequence been reliant on providers of debt financing to support the liquidity position. The Group's relationship banks have provided capital in a number of formats to support liquidity.

The deterioration in our credit rating has seen the Company move out of investment grade into high yield and thus a different segment of the capital market. Expected terms and conditions in the high-yield market tend to be more punitive than investment grade owing to the weaker credit quality of the issuer, however we have been able to execute several capital markets transactions through the year on terms aligned with our investment grade issuances, for example the senior unsecured and convertible bonds issued in 2021.

During this difficult period, we have raised substantial funds from the debt capital markets. In March 2021, the Group raised €1.2 billion in a two-tranche senior unsecured bond issuance. In May 2021, IAG raised a further €825 million through a single tranche Convertible Bond issuance. Both transactions provided additional financial flexibility for the Group as the pandemic evolved. As far as our airlines are concerned, British Airways has been able to access the capital markets to support its financial position throughout the year. The company raised £2.0 billion through a term loan with commercial bank partners supported by an 80 per cent guarantee from the UK Export Finance Agency. A further £1.0 billion was raised in October in the form of an undrawn Credit Facility, again provided by a syndicate of relationship banks with a 80 per cent UK Export Finance Agency guarantee. In March 2021, British Airways, Iberia and Aer Lingus secured $1,755 million of committed funding in the form of a Secured Revolving Credit Facility provided by the Group's relationship banks. The facility enhances the companies' liquidity positions and provides committed funding that can be drawn and repaid as and when required.

For further detail see the Financial review section.

Results from the engagement with shareholders and other financial stakeholders

In conjunction with the Investor Relations team, IAG's Chairman, Senior Independent Director, Chief Executive Officer and Chief Financial Officer have engaged on many occasions with shareholders and equity investors. The Chief Executive Officer and Chief Financial Officer hosted two virtual roadshows following the full year and half year results in March and September, respectively, and discussed with investors a range of strategic, financial, operational and ESG topics, in particular the prospects and plans for a recovery from COVID-19. In addition, the Chief Executive Officer and Chief Financial Officer held virtual meetings with a number of our key institutional investors and the Investor Relations team attended numerous investor meetings and broker conferences for investors throughout the year.

The Chairman hosted a virtual roadshow with key shareholders in April to discuss a range of ESG matters, in particular on climate change, diversity and Board governance issues. In addition, the Chairman and Senior Independent Director, who is also Chair of the Remuneration Committee, consulted with key shareholders on remuneration policy in April.

Environmental, Social, and Governance

ESG continues to be an area of focus for engagement with investors. The Investor Relations team has an ongoing dialogue with ESG research analysts and has hosted several meetings for the Group Head of Sustainability with key shareholders and institutional investors.

Investor Relations concluded in February 2021 an investor survey sent to the 100 largest institutional shareholders. The survey, launched in December 2020, had the objective of better understanding investors' approaches towards ESG issues so that IAG can more closely align its ESG strategy, plans, reporting frameworks and disclosures with the interests and priorities of investors. The findings of this survey and its conclusions and recommendations were shared with IAG's sustainability team and the Group's Sustainability Steering Group and presented to the Safety, Environment and Corporate Responsibility Committee of the Board. The findings of the ESG survey have been incorporated in IAG's disclosure frameworks, approaches to ESG rating agencies and ESG communications, including a planned ESG focused media and investor event for 2022.

Suppliers

IAG GBS provides a centralised procurement function for the Group and manages supplier engagement for 13,272 suppliers. In 2021, IAG GBS Group Procurement helped deliver over 1,500 initiatives to further optimise IAG's supply chain.

Aircraft and engine manufacturers are one of our key suppliers groups. Our aircraft suppliers include Airbus, Boeing and Embraer, and we have engines provided by CFM, GE, Pratt & Whitney and Rolls Royce, who also provide IAG with long term engine maintenance services, as well as support with spare parts and repairs used in our own maintenance facilities.

The Group is dependent on the performance of key suppliers that provide services to our customers and the business, including aircraft, engine, maintenance, airport operations and catering suppliers. Key suppliers are defined based on their importance to IAG, both in terms of economic impact and the complexity or risk of supply markets and include any service provider or third party that could significantly impact business operations if there is any disruption to the services or product provided.

How we engage

- The Group engages with suppliers using customary procurement processes and through joint projects, including the Hangar 51 accelerator programme, independent review partners, industry conferences and supplier workshops.
- The relationship with aircraft manufacturers and lessors is managed centrally by Group Fleet Investments who work closely with the fleet teams in the Group companies and with the MRO (Maintenance, Repair and Overhaul) Procurement Team in IAG GBS.
- In relation to airframe manufacturers, IAG has well established relationships with both Airbus and Boeing, whose aircraft make up most of the Group fleet, as well as with Embraer whose regional aircraft are operated by British Airways CityFlyer.
- All other suppliers are managed centrally by IAG GBS Group Procurement in conjunction with relevant business stakeholders.

Impact of the COVID-19 pandemic

Faced with the challenges of the COVID-19 pandemic, we have strengthened many supplier relationships working side by side with the businesses we operate with to ensure mutual success. Equally, we have worked hard to identify those suppliers who may have been heavily impacted by the crisis and assisted in developing quick and effective solutions to ensure support was given where it was needed. This has included the timely management of payments.

In 2021, we have leveraged synergies within the IAG supply chain, benchmarking requirements and simplifying the supplier base wherever appropriate. There has been extensive collaboration with our suppliers to switch from fixed to variable costs enabling flexibility in the difficult business environment.

The COVID-19 pandemic required IAG GBS Group Procurement to change focus. The level and frequency of engagement with key suppliers increased and plans were implemented to mitigate the impact of the crisis until we had further clarity about the extent of the impact on the Group. We updated our procurement supplier engagement plan and worked in close partnership with our suppliers to defer spend and reduce costs. Wider measures were also implemented to temporarily waive minimum volume commitments across our contracts and we stopped or postponed capital investment projects that were no longer needed during the pandemic. The Group's goal is to ensure its supply chain is secure; for any risks identified at key suppliers, timely analysis is performed to understand the situation and define a potential business continuity plan.

Our relationships with our aircraft manufacturers were also key to us during the pandemic. It has been necessary to reschedule many of our aircraft deliveries and the Group worked closely with our aircraft manufacturers to mutually agree terms for this. The Group Fleet and Group Procurement teams also worked with aircraft lessors and engine suppliers to align our spend more closely with the use of the fleet during the period where flying was heavily reduced. As we now plan for the recovery from the pandemic, it is equally important that we re-align our requirements working closely with our aircraft suppliers and lessors to be prepared for the recovery and to retain sufficient flexibility in an uncertain world.

Results from the engagement with our suppliers

In 2021, IAG became the first airline group worldwide to extend its net zero commitment to its supply chain. The Group will continue to liaise with, support and monitor suppliers to ensure net zero emissions by 2050 for products and services provided to the business.

IAG GBS has partnered with EcoVadis, a market-leading provider of business sustainability ratings, to support the understanding and delivery of sustainability targets in our supply chain, including environment, labour and human rights, and ethics.

In 2021, IAG GBS continued to engage in initiatives that have led to a further reduction of onboard single-use plastics, including a switch from plastic cutlery sets to a sustainable wood cutlery pack. This switch delivered a plastic reduction of 185 tonnes per year across the Group. All plastic packaging was also removed from the BA Club World soft proposition, such as blanket and pillow wrapping.

IAG GBS Supplier Code of Conduct

The IAG GBS Supplier Code of Conduct clarifies the standards of behaviour expected from any supplier working with any part of our business and emphasises the importance of sustainability and fair treatment of employees. IAG and its suppliers must ensure that workers are treated fairly and not unlawfully discriminated against. We expect our suppliers to promote and provide work environments free from abuse, intimidation and harassment and that allow people to raise concerns freely and without fear of retaliation. IAG will only work with businesses which share our standards and ways of working.

Performance and metrics

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. IAG GBS carries out in-depth supplier audits as part of the Group's commitment to sustainability. These audits are based on potential geographical and procurement category risk and performed by independent inspectors with corporate social responsibility (CSR) expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. The findings from the audits are discussed with the suppliers and corrective actions are agreed, if necessary.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third-party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the supplier. Business-critical suppliers are highlighted to the Group companies in regular risk alerts. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

In addition to the above, Group Procurement is working to deliver our Scope 3 commitment of net zero (supply chain) emissions by 2050, and 20 per cent emission reduction by 2030, in support of the Group's sustainability programme.

Governments and regulators

Government and regulator stakeholders include a wide range of organisations and individuals. Our airline operating companies are subject to regulation by civil aviation regulators in the countries in which they are registered (Ireland, Spain and the UK) requiring very frequent engagement on practical matters, in particular safety and security but also consumer rights and other policy issues. Our airlines must also conform to regulatory requirements in all the countries in which they operate, necessitating involvement directly with many different aviation authorities around the world on a range of topics from administrative processes necessary to secure operating licences to slot applications and diplomatic discussions as well as, in this year, to comply with COVID-19 restrictions.

The nature of IAG's business, including its strategic goal of consolidation in the airline sector, means that regulatory stakeholders include competition authorities such as DG-COMP in the European Union and the Competition and Markets Authority in the UK. The wide range of policy subjects means that government stakeholders include national ministries responsible for (among others): transport, trade, finance, tourism, skills, the environment and international relations, as well as the European Commission's DG-MOVE and other directorates. IAG also seeks to build relationships with members of national parliaments and of the European Parliament across the political spectrum to enhance understanding of, and support for, our policy positions.

In building these relationships and undertaking engagement we work closely with our national and international trade associations in particular the International Air Transport Association (IATA) and Airlines For Europe (A4E).

Government engagement is not an isolated activity. There is a clear relationship with customer stakeholders since government and regulatory stakeholders are concerned with matters such as consumer rights, and with employee stakeholders since colleagues are responsible for delivering customer service and are also affected by policy decisions relating to the aviation industry. IAG's government affairs team works closely with operating companies to ensure work in these areas is consistent and informed.

How we engage

- With all these we seek to arrange one to one contact but also work through our various industry associations, including the Asociación de Líneas Aéreas (ALA) in Spain, Airlines UK, IATA and A4E. We aim to take a leading role in each organisation with representation on the relevant executive committees and boards. These associations reflect and amplify IAG's positions in our "home" countries – but also provide additional resource in key markets further afield.
- We also work to influence the relevant supra-national organisations such as the International Civil Aviation Organisation (ICAO), in particular on COVID-19 or in support of its sustainability initiative CORSIA, largely through our home countries' national government inputs and directly where possible.

Impact of the COVID-19 pandemic

The involvement of regulators in aviation has never been so relevant as during the COVID-19 pandemic where governments have sought to control the spread of the virus through travel restrictions. A range of measures have been imposed on airlines, from simple requirements to wear masks on board to outright prohibition of flights. As a result, IAG's usual close engagement with the national governments, regulators and parliamentarians in the states in which its airlines are based has been exceptionally intense during the two-year duration of the pandemic.

Government precautions and regulatory decisions have had direct and immediate impacts on our operating companies. Close engagement has therefore been essential in order to monitor and understand the actions that governments have taken, to ensure compliance with new rules and to allow our operating companies to make operational changes and decisions about when and where to operate. It also allows operating companies to provide information to customers and colleagues in a timely and effective way.

The frequent and sudden changes in policy and regulations have made this activity really challenging and essential to allow the smooth operation of IAG's airline companies in 2021. The nature of the pandemic with constantly changing regulatory requirements around the world has meant a greater degree of interaction than in previous years.

The unprecedented level of engagement with governments and regulators during 2021 included Corporate Affairs and operating company staff taking part in regular national fora such as, in the UK, the Department of Transport's Expert Steering Group established to manage its response to the pandemic. Iberia representatives in Spain have engaged with government stakeholders, in particular with AESA (Agencia Estatal de Seguridad Aérea) in a similar way as have Aer Lingus senior executives with the Departments for Foreign Affairs, Transport and the Economy in Ireland. There has been extensive interaction both direct and indirectly with authorities in important markets for IAG's operating companies such as India, China, Hong Kong and the US in support of relaxing COVID-19 restrictions and reopening markets.

To manage the impacts of the pandemic, especially given multiplicity of changes and, among other issues, the emerging need for technological solutions to verifying travel documentation, IAG established internal working groups, both cross department within the operating companies and across Group companies, which continued to operate during 2021 and which allowed IAG to manage the process of implementing rule changes. These groups drew on the wide range of experience and expertise across the Group's operating companies and allowed a common position to be adopted in response to several proposed travel restrictions, strengthening IAG's position. It has also ensured that updates on new requirements and restrictions, as well as expertise, can be more rapidly shared across the Group.

Results from the engagement government and regulators

Our direct efforts, but also those undertaken collectively with trade associations and – unusually, but given the unprecedented impacts of the pandemic – on several occasions together with competitor airlines, have often been challenging given the speed of change and the multiplicity of regulations. Success has often come in the form of mitigating even more restrictive measures. Other positive outcomes have included helping the European Commission to shape its official guidance on COVID-19 measures and the development and integration of digital travel apps into the border process in the UK and successes in influencing the design of UK documentation, in a staged way, to benefit consumers. Waivers from the "use it or lose it" slot rules in Europe and the UK for the summer and winter 2021 seasons were also secured after intensive influencing work by the sector, in which IAG teams played a significant role.

Although policy and regulation on COVID-19 response has dominated the year, we have continued to engage on many other issues in our home countries and in Brussels. These include airspace modernisation, aviation taxes, consumer rights, slot policy and airport charges among others. Decisions by government and regulators in these areas have potential to affect our operations in various ways, so responding to them can present an opportunity for our Group.

We also engage on all policy topics affecting our business in the EU (Brussels), Spain, Ireland and in the UK, where our staff have met government ministers and officials to provide input on a range of issues including the UK government's potential aviation strategy, Heathrow's price review by the Civil Aviation Authority and with government departments in all the home countries on the topic of airport charges. Where appropriate the Group (or IAG) engages with and seeks to influence policy developments in key overseas markets, including the US in particular.

During 2021 positive outcomes ranged from policy changes to operational specifics: IAG took a prominent part in collective influencing activity that resulted in a reduced rate of Air Passenger Duty on domestic flights in the UK and working individually, directly secured access for British Airways to Linate after leaving the EU through positive engagement with the Italian authorities. IAG also successfully supported the European Commission in its signing of a Comprehensive Air Transport Agreement with Qatar.

Sustainability

The Corporate Affairs team is delivering a programme of engagement in the EU for the IAG Sustainability Team in response to the EU's Fit for 55 policy. This includes identifying appropriate contacts in the institutions of the EU and managing engagement.

In 2021, this has included direct meetings with senior officials in three different Directorates of the European Commission; around half of the permanent representatives (ambassadors) of Member States to the EU and many members of the European Parliament as well as ministers in Spain and Ireland in a number of departments.

Sustainability, and the EU's Fit for 55 package in particular as well as the UK's Net Zero strategy, have potentially a very significant impact on the industry and IAG – it is the key public policy issue facing the Group. In this area, we engage with regulators and governments to ensure the Group's' leadership in the sustainability field is clear and to influence changes to policy both to support our priorities as a Group and to support an effective approach to ensure aviation decarbonisation is adopted.

International relations

IAG's Corporate Affairs team engages with international multilateral and bilateral discussions with the EU and third countries and the UK government in its talks with aviation partners and joins international fora such as the ICAO ICAN Conference on behalf of IAG operating companies. IAG aims to encourage open and liberal air service agreements that promote competition and consumer benefits and to secure access for our operating companies in new markets.

Well-positioned for recovery

Steve Gunning
Chief Financial Officer

"The Group took, and continues to take, decisive actions to preserve liquidity."

A year ago, I wrote that the timing and shape of recovery was uncertain and hence the Group remained focused on preserving liquidity and transforming its businesses for the future. The events of 2021 demonstrated that uncertainty very clearly and were a reminder of the need to continue to preserve liquidity, together with a focus on exploiting the opportunities the future will offer.

In 2021, the recovery was slow to take hold, as many markets were subject to severe travel restrictions well into the second quarter and the US did not re-open its borders to any meaningful degree until November. Where markets opened up there was evidence of strong pent-up demand for travel, both from leisure and corporate customers. The Group continued to focus on cash generation when planning capacity, including addressing the cargo opportunities that arose due to lower volumes of passenger aircraft capacity worldwide than pre-pandemic. IAG Loyalty saw an increase in volumes versus 2020, as membership increased and consumer spending rose.

The operating loss for the year was €2,765 million, with an operating loss excluding exceptional items of €2,970 million, which, whilst still substantial, was reduced by €1,420 million versus 2020. The greatest progress was made in Spain, where travel restrictions were less severe than in Ireland and the UK.

In the face of uncertain travel restrictions and demand, the Group took further actions to preserve liquidity. These included a continued focus on operating and capital expenditure, together with successfully raising new general debt and new committed credit facilities, demonstrating its continued access to funding markets. The Group successfully financed all 45 aircraft delivered in 2020 and 2021 using long-term aircraft financing arrangements.

The Group raised €4.4 billion of additional non-aircraft related debt in 2021, including £2.0 billion (€2.3 billion) for British Airways, partly guaranteed by UK Export Finance (UKEF) and an additional €75 million from Ireland's Strategic Investment Fund. In March, IAG issued two unsecured bonds, totalling €1.2 billion and then followed this with a €825 million convertible bond in May. The Group also secured additional credit facilities, with a $1.755 billion (€1.6 billion) revolving credit facility for British Airways, Iberia and Aer Lingus, which was agreed and executed in March, together with a further £1.0 billion (€1.2 billion) UKEF credit facility for British Airways in November. The Group did not need to draw on any of its general facilities and ended the year with a very strong cash balance of €7.94 billion. As a result, total liquidity, including €4.04 billion of committed and undrawn general and aircraft facilities, ended the year at €12.0 billion.

At the time of last year's full-year results announcement in February 2021, capital expenditure for 2021 was expected to be €1.7 billion, including the delivery of seven wide-bodied aircraft, with four Airbus A350s and three Boeing 787s due for delivery in the year. None of these wide-bodied aircraft was delivered, due to delays at Airbus and Boeing. This was the principal driver of the record-low capital expenditure of €0.7 billion for the year. The Group does still expect to take delivery of the aircraft it has on order, which are needed to restore capacity as the recovery takes hold.

Quarter 3 of 2021 proved to be an inflexion point for net cashflow from operating activities, which turned positive for the first time since Quarter 1, 2020. Operating cashflow increased further in Quarter 4, linked to positive EBITDA and increased forward bookings. Net cashflow from operating activities for the second half was €989 million positive, resulting in a net outflow for the year of only €141 million, versus an outflow of €3,432 million in 2020.

In November, the Omicron variant of COVID-19 was a further reminder of the uncertain shape of the recovery and has validated the actions taken in 2021 to preserve and further boost liquidity. These actions leave the Group well-positioned to benefit from the recovery, as it develops.

Steve Gunning
Chief Financial Officer

COVID-19 impact and IAG's response

The main impact of COVID-19 materialised as a significant drop in the demand for passenger flights, linked to both the pandemic itself and the travel restrictions introduced, which changed many times throughout 2020 and 2021, often with no or very short notice, thereby creating uncertainty for customers. Capacity started to recover from the third quarter of 2021, in line with easing of restrictions and there was a strong increase in bookings for future travel once the US government announced it was easing its travel restrictions, which had operated largely unchanged from March 2020 to November 2021.

As a result of the significantly reduced flying programme, in 2020 aircraft had to be temporarily grounded, with some retired early. Jet fuel consumption in 2020 and 2021 was significantly lower than that on which the Group's hedging programme was based, leading to the discontinuation of hedge accounting for the related derivative financial instruments. In addition, the commodity price of jet fuel fell sharply, leading to significant losses related to the hedging programme, with an exceptional charge of €1.7 billion net of gains on related foreign exchange derivatives and a cash outflow in 2020 of €1.1 billion. In 2021 the remaining overhedged derivatives were settled, with a gain of €0.2 billion, reducing the total net loss to €1.5 billion.

From early 2020 and throughout 2021 the Group acted to mitigate the impact of COVID-19 on its liquidity and results, through reductions in operating and capital expenditure, together with working capital initiatives and additional funding.

Structure of Financial Review

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

In 2020, the Group successfully completed a capital increase of €2.7 billion and raised non-aircraft related debt of €1.4 billion, together with negotiating a new contract with Amex, which resulted in a one-off payment of €830 million, including a significant pre-payment.

The Group also protected liquidity through working capital initiatives to defer payments into 2021 and by offering customers the choice of vouchers for future travel, in place of cash refunds. The net impact of vouchers issued and redeemed in 2021 was broadly neutral.

Funding initiatives continued in 2021, with a further €4.4 billion of non-aircraft related debt raised, including a £2.0 billion (€2.3 billion) UK Export Finance (UKEF) backed loan for British Airways and at IAG unsecured bonds of €1.2 billion and a convertible bond of €825 million. The Group also repaid £300 million (€350 million) of one-year commercial paper issued under the UK's CCFF mechanism.

The Group entered into new credit facilities, including a $1.755 billion (€1.6 billion) facility for British Airways, Iberia and Aer Lingus and a further £1.0 billion (€1.2 billion) via an additional UKEF facility for British Airways, agreed in the final quarter of 2021. Neither of these facilities was drawn in the year and, as at February 24, 2022 the Group had fully committed and undrawn general facilities of €2.9 billion and €1.1 billion of aircraft financing facilities, bringing total facilities to €4.0 billion.

Capacity

IAG capacity

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

Proportion of 2019 passenger capacity operated by quarter

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

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

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

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

IAG regional capacity

Year to December 31, 2021	ASKs higher/ (lower) v2019	ASKs higher/ (lower) v2020	Passenger load factor	Higher/ (lower) v2019	Higher/ (lower) v2020
Domestic	(26.5)%	46.3%	74.9	(12.3) pts	3.9 pts
Europe	(64.7)%	19.3%	69.1	(14.5) pts	4.5 pts
North America	(71.3)%	(6.8)%	49.4	(34.7) pts	(3.8) pts
Latin America and Caribbean	(52.3)%	33.7%	69.8	(16.6) pts	(2.9) pts
Africa, Middle East and South Asia	(66.8)%	(14.0)%	67.4	(15.6) pts	0.2 pts
Asia Pacific	(87.9)%	(58.7)%	39.4	(46.4) pts	(21.9) pts
Total network	**(63.9)%**	**7.7%**	**64.5**	**(20.1) pts**	**0.7 pts**

Domestic and Europe

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

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

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

North America

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

Latin America and Caribbean (LACAR)

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

Africa, Middle East and South Asia (AMESA)

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

Asia Pacific

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

Basis of Preparation

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

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

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

Summary

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

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

Loss for the year

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

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

The Group uses Alternative Performance Measures (APMs) to analyse the underlying results of the business excluding exceptional items, which are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance. In 2020, the Group recorded a number of exceptional items arising as a direct result of COVID-19. During the course of 2021, the Group continued to record the fair value movements on derivatives de-designated from hedge accounting in 2020 as exceptional. In addition, new exceptional items arose in 2021, including the reversal of the impairment of certain aircraft stood back up in 2021, following the Vueling successful slot allocation at Paris Orly, together with adjustments to previously recorded restructuring provisions.

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

Summary of exceptional items

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

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

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

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

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

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

Revenue

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

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

Passenger revenue

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

Cargo revenue

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

Other revenue

The largest Other revenue streams for the Group in normal times are Iberia's Maintenance, Repair and Overhaul (MRO) and Handling businesses, together with BA Holidays. Revenue from these activities was also significantly reduced by the continued impact of COVID-19. In the case of MRO and Handling, these revenues were affected by lower demand following reduced flight schedules and significant fleet reductions across the airline industry and hence lower maintenance requirements, although the reductions were less than the reduction in the level of passenger capacity. The BA Holidays business is closely linked to the passenger business and was therefore impacted by the significantly reduced passenger operation, although there was an increase in the second half of the year as operations increased. Overall, for the year, Other revenue was down €41 million, or 4.1 per cent, versus 2020 and was 50.7 per cent lower than in 2019.

Operating costs

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

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

Employee costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Employee costs[1 2]	**3,013**	(572)	(16.0)%

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

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

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

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

Fuel, oil and emissions costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Fuel, oil costs and emissions charges[1]	**1,781**	(1,954)	(52.3)%

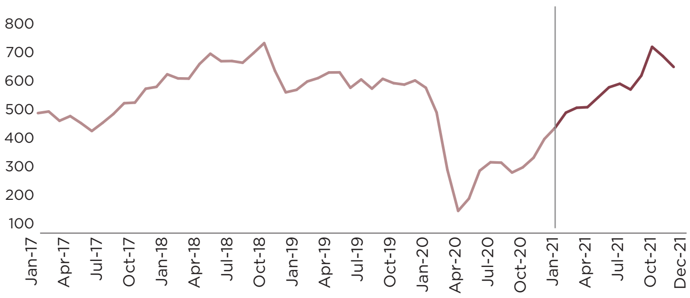
1 Includes an exceptional credit of €154 million (2020: exceptional charge of €1,694 million) related to the discontinuation of hedge accounting for fuel derivatives and fuel foreign currency derivatives as a result of the impact of COVID-19. Further information is given in the Alternative Performance Measures section.

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

Commodity prices

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

Jet fuel price trend ($/mt)



Fuel hedging

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

Exceptional items

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

Fuel consumption

The Group continued to benefit from reduced fuel consumption associated with the investment in new fleet, together with the early retirement of older aircraft, including the full-year impact of the retirement of 15 Airbus A340-600 and 32 Boeing 747-400 aircraft in quarter 2 of 2020.

Supplier costs

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

1 Includes an exceptional credit of €7 million (2020: exceptional charge of €108 million) related to an inventory write-down and a charge relating to contractual lease provisions, with a related credit in 2021 due to adjusted fleet plans. Further information is given in the Alternative Performance Measures section.
2 For 2020 includes a settlement provision in relation to the theft of customer data at British Airways in 2018 of €22 million and an exceptional charge of €6 million related to legal costs of the Group-wide restructuring programme undertaken in the year. Further information is given in the Alternative Performance Measures section.

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

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

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

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

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

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

Ownership costs

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

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Ownership costs[1]	**1,932**	(1,023)	(34.6)%

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

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

Aircraft fleet

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

Number of fleet

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

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

Exchange rate impact

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily British Airways and IAG Loyalty. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group typically generates a surplus in most currencies in which it does business, except the US dollar, for which capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. The Group hedges its economic exposure from transacting in foreign currencies but does not hedge the translation impact of reporting in euro.

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

Exchange impact before exceptional items

€ million Favourable/(adverse)	2021 Translation impact	2021 Transaction impact	2021 Total exchange impact
Total exchange impact on revenue	220	(163)	**57**
Total exchange impact on operating expenditures	(251)	292	**41**
Total exchange impact on operating loss	**(31)**	**129**	**98**

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

The exchange rates for the Group were as follows:

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

Total net non-operating costs

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

The Group incurred an exceptional non-operating charge of €75 million in December 2021, relating to a settlement agreement reached with Globalia to terminate the agreements signed on November 4, 2019 and January 20, 2021 under which Iberia had agreed to acquire the issued share capital of Air Europa.

Tax

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

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

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

Operating profit and loss performance of operating companies

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

1 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.
2 Ownership costs reflects Depreciation, amortisation and impairment.
3 Further detail is provided in the Alternative performance measures section

Review by operating company

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

Operating (loss)/profit before exceptional items

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

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

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

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

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

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

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

Capital expenditure

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

During 2021, four Airbus A350 aircraft and three Boeing 787 aircraft were not delivered as anticipated and are now expected in 2022. As a response to the continued impact of COVID-19 and related travel restrictions, the Group continued to take actions to preserve liquidity by reducing certain project-related expenditure, whilst continuing to invest in key projects, including cyber-related investments. As a result, capital expenditure for 2021 reduced to €0.7 billion.

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

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

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

Capital commitments

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

The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2021.

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

Working capital and other initiatives

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

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

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

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

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

Funding and debt

IAG's long-term objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S&P and Moody's assigned IAG with a long-term investment-grade credit rating with a stable outlook; these ratings remained unchanged up until the outbreak of COVID-19. The Group's current ratings (as at February 24, 2022) are: S&P: BB (3-notch decline), Moody's: Ba2 (2-notch decline), based on the impact of COVID-19 on the Group and the airline industry, together with the expected timing of the recovery of global air traffic.

Debt and capital

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

See Alternative Performance Measures section for calculation

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

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

Net debt

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

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

Cash

Cash and interest-bearing deposits

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

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

Debt

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

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

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

Equity

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

Liquidity facilities

During the year, the Group signed a committed secured Revolving Credit Facility (RCF) with a syndicate of banks for $1.755 billion, available for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of whom has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. No drawings against this facility were made in 2021 and the facility remained undrawn at February 24, 2022. Simultaneous with entering into this new RCF, British Airways cancelled its US dollar revolving credit facility that was due to expire in June 2021 and which had $786 million undrawn and available at December 31, 2020.

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

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

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

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

The facilities values above do not include the balance of certain shorter-term working capital facilities available to the Group's operating companies.

Dividends

No dividends were proposed in 2021; in 2020 a proposal to pay a final dividend in respect of 2019, announced with the 2019 financial results in February of 2020, was withdrawn in April 2020.

Liquidity and cashflow

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

Cash flow

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

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

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

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

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

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

See note 32 to the financial statements 'Employee benefit obligations' for further information

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

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

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

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

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

Settlement of derivative financial instruments relates to settlements of foreign exchange instruments taken out to hedge long-term debt payments, including US dollar lease payments. The outflow in 2021 is partly due to gains that would otherwise have been received in 2021 being accelerated into 2020, as part of the initiatives to preserve liquidity after the spread of COVID-19 in 2020.

We're building a brighter future for British Airways

BRITISH AIRWAYS

Sean Doyle
Chairman and Chief Executive Officer of British Airways

> **"We're working hard to offer our customers even more of the choice, value and unique British Airways service we know they love."**

Business overview

The COVID-19 pandemic has remained the most challenging period of our 102-year history, prohibiting meaningful travel for almost two years. The dedication and resilience shown by our colleagues across the airline has helped us to get through this crisis, introducing new safety measures, constantly reviewing our schedules to respond to the frequent changes in restrictions and working dynamically to increase flights to countries when restrictions eased. We continued to offer flexibility to our customers with the guarantee that if their plans were affected by the pandemic, they could move their flight to an alternative date and/or destination or accept a voucher for future travel. Despite the financial impact the pandemic has had on our business we have continued to invest, in new aircraft, cabins and food and drink to delight our customers. We have also put sustainability at the heart of everything we do and invested heavily in our new sustainability programme, BA Better World.

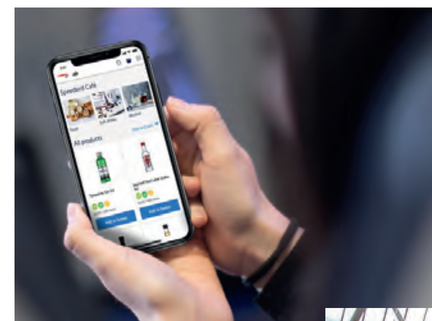
Our people

I am incredibly grateful to everyone at British Airways for their hard work and commitment during this period, not only for their resilience in the most difficult of times, but for pulling together to go the extra mile for our customers and to develop creative solutions to the problems generated by the pandemic. It was a difficult and an uncertain year for everyone in the company and we were absolutely delighted to welcome back our colleagues when the Covid Job Retention Scheme (CRJS) came to an end in September. As we emerge from the crisis, and look forward to more meaningful travel and fewer restrictions, we have started to recruit again, to help us rebuild our business as we seek to grow.

I also want to thank the 1,500 colleagues who gave up their time while on furlough to volunteer and support organisations across the UK, including COVID-19 vaccination and test centres, foodbanks and charities such as the British Red Cross and St John's Ambulance.

Our customers

In many ways the pandemic has helped us to drive radical changes in our customer experience. These include working with



In July 2021, British Airways introduced a new digital ordering platform for customers to choose food and drink from its Speedbird Café to be delivered to their seat in the British Airways lounges

The airline is recruiting thousands of new colleagues to support its summer schedule

-51.4%
Operating margin
+7.3 pts vs 2020

-71.7%
ASK change
vs 2019

276
Fleet in service
-1 vs 2020

VeriFLY to allow health documents to be digitally, rather than manually, checked at the airport enabling passengers to check in online and reducing queue times, introducing an app for customers to order food and drink to their table in our lounges, allowing them to socially distance from other customers, and introducing a dedicated section of ba.com to provide information about travel restrictions, discounted testing partners as well as a new interactive map to help them check the entry requirements for the destination they're travelling to.

In the face of constantly changing travel restrictions, alongside lockdowns affecting our global engagement centres, we know that some of our customers had difficulty in contacting us via phone and faced lengthy waits in queues. This is not the level of service they should expect, and as we rebuild our business, we are investing in new technology to address this and improve the experience we offer our customers.

Offering a premium proposition for our customers is at the heart of our strategy and we want every customer journey to be enjoyable and more seamless. Our IT teams are working on a new baggage tracing system which will allow customers to track their bags. In our lounges we have listened to our customers feedback and have maintained the mobile table ordering service to ensure a premium experience. By the end of the year, 34 aircraft were fitted with our new Club Suite business cabin seat and WiFi installed on more than 80 per cent of our fleet. All our Heathrow-based Boeing 777 aircraft will feature our Club Suite by the end of this year. During the pandemic we also formed a new partnership with highly acclaimed chef Tom Kerridge, with a new menu for our Euro Traveller customers travelling on shorthaul flights.

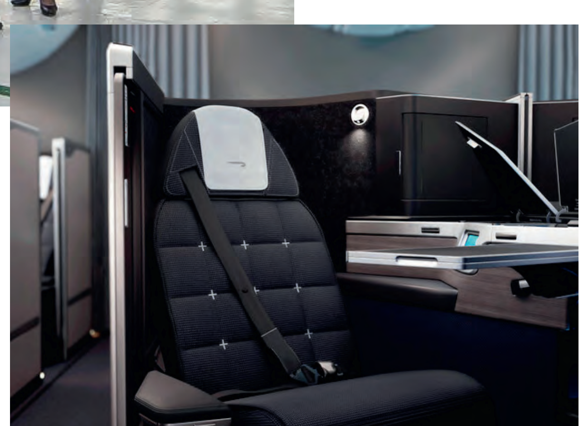
Our planet

In September 2021 we launched our new sustainability programme BA Better World, acknowledging that this is 'our most important journey yet' and putting sustainability at our heart. We are working hard to reduce our emissions and waste and positively contribute to the communities we serve to create a great place for our people to work and build a resilient, responsible business. During the year we invested in ZeroAvia to further develop hydrogen-powered aircraft, as well as in the development of Sustainable Aviation Fuel (SAF), with a new deal with LanzaJet in the US as well as investment in four UK-based projects, which also received funding from the Government during the past year. We are committed to achieving net zero carbon emissions by 2050, and worked with bp to provide enough sustainable aviation fuel for our flights between London and Glasgow and Edinburgh during COP26, as well as for our first transatlantic flight to New York once restrictions were lifted on November 8, 2021; operating an Airbus A350 aircraft using a 35 per cent blend of SAF reduced emissions by more than 50 per cent compared to the now-retired Boeing 747 aircraft that used to operate that route. We've also championed the use of sustainability financing, with three credit facilities linked to sustainability targets.

Looking forward

During the most challenging period in our history I have been hugely impressed by the resilience and professionalism of our colleagues, who are determined to help us rebuild into an even better airline than before. We are creating a new subsidiary at Gatwick to offer more choice to our customers as well as reviewing our policies and procedures to ensure we empower colleagues to do the right thing for those who fly with us. And we're working on new initiatives to make British Airways an even more attractive place to work — something we know will drive even better customer service.

In September 2021, British Airways launched its new BA Better World sustainability programme



British Airways announced that all of its Boeing 777 fleet would feature its new Club Suite from the end of 2022

Flexibility and drive to gain momentum

IBERIA

Javier Sánchez-Prieto
Chairman and Chief Executive Officer of Iberia

> **"2021 has once again tested our ability to adapt to a very challenging environment."**

Business overview

We have seized opportunities to add more capacity than our competitors while strengthening our position on routes to Latin America. We are now operating almost 100 per cent of our pre-pandemic network although our capacity is still below 2019

Our handling and maintenance divisions have done a great job and both businesses have generated positive results in 2021.

It was very disappointing in December that we had to terminate an agreement reached previously with Globalia to acquire Air Europa. However, we have committed to analyse alternative arrangements.

Our people

I am incredibly proud of the commitment our employees have shown during the last year, which has helped us weather this pandemic and stimulate demand in all the markets in which we operate. Our people have gone above and beyond to help where needed, helping repatriate thousands of people and transporting more than six million vaccines to the Spanish islands and across Latin America.

Our priority during this crisis has been looking after our employees. The implementation of the emergency furlough scheme approved by the Spanish Government allowed us to protect more than 15,000 jobs from our workforce.

During the summer we also collaborated with the Spanish vaccination programme, by setting up a centre where more than 25,000 people received their jabs, including our employees and members of the community in Madrid.

Our customers

At Iberia, as with all IAG's airlines, our customers are and will always be at the centre of our business. To ensure their utmost comfort, we updated our safety, prevention and hygiene measures, to ensure we could recommence travel with confidence. These measures earned us a four-star Skytrax rating and ranked us among the ten safest airlines in terms of protecting against COVID-19 in the world, according to the Safe Travel Barometer.

COVID-19 accelerated the digitalisation of our business, which was already underway prior to the pandemic. Our goal is to improve the customer experience through innovation, and we have been working on a range of new solutions, such as the Iberia chatbot on WhatsApp, and digitising the documentation required to fly.

Iberia's maintenance team has provided preservation services to more than 150 IAG aircraft and third-party customers in Madrid, Palma, Malaga and Seville

Three Airbus A330 aircraft will pass from Iberia to the Ministry of Defence to be transformed into Multi-Role Tanker Transport (MRTT). Iberia has trained the army pilots who will operate these aircraft and has provided handling equipment to assist them

-8.4%

Operating margin
+25.2 pts vs. 2020

-44.6%

ASK change
vs 2019

87

Fleet in service
-2 vs 2020

Our planet

In November, Iberia and Repsol operated the first flight in Spain using sustainable aviation fuel made from waste which reduced emissions by 1.4 tonnes of CO_2 emissions than a flight operated with fossil fuel. We flew one of the most efficient aircraft in the world, the Airbus A320neo, which reduces noise by 50 per cent and produces 50 per cent less NOx.

Iberia also completed the construction, at its maintenance facilities, of the largest self-consumption solar panel plant of the IBEX companies. Built in partnership with specialist firm Getting Greener, the new facility is part of an ambitious plan to generate a total 10MW of power over the next three years, with production of more than 13 million kWh, generating the equivalent power consumed by more than 4,000 homes.

Looking forward

We expect Iberia's recovery to be consolidated in 2022. We will focus on returning the airline to profitability while continue working to make significant progress on the decarbonisation of aviation. Our teams will take every opportunity to strengthen Iberia´s position in all the markets we operate, offering its customers a more personalised service using innovation.

Repsol and Iberia have completed the Madrid –Bilbao route with sustainable fuel produced from waste at the Petronor refinery. The flight was operated with the Airbus A320neo, one of the airline's most efficient aircraft

Iberia and Getting Greener begin operating the largest self-consumption plant of the Ibex in La Muñoza

IBERIA EXPRESS

Contributing to the recovery

Iberia Express has once again demonstrated its flexibility and efficiency.

Iberia Express has set ambitious targets to reduce its environmental footprint. In March 2021 the fourth Airbus A321neo aircraft was added to its fleet. This is the most efficient short- and medium-haul Airbus model and represented a further step in its fleet renewal as part of its roadmap towards zero net emissions by 2050.

Together with Iberia and IAG Cargo, Iberia Express contributed to the transport of vaccines to the Canary Islands and the Balearic Islands throughout the year. Additionally, it carried humanitarian aid to support the crisis caused by the eruption of the volcano on La Palma, an example of the company's commitment to the islands.

Throughout the COVID-19 pandemic, Iberia Express has always guaranteed connectivity with the Canary Islands. Last summer the number of seats offered to the Canary Islands and Balearic Islands was higher than in the same period of 2019. In summer 2021, the airline launched the new seasonal route to Kefalonia, landing for the first time on the Ionian island in July and expanding its network of more than 30 domestic and international destinations.

Iberia Express ranked among the most punctual airlines in Europe

Iberia’s Express team is the airline’s greatest asset. Despite the complex environment, they did their best to provide excellent customer service, achieving the best NPS in the company's history.

Transforming to emerge stronger

Marco Sansavini
Chairman and Chief Executive Officer of Vueling

"While withstanding an unprecedented situation due to the pandemic, Vueling is undertaking an ambitious transformation plan to emerge stronger."

Business overview.

For the second year in a row, around 4,000 Vueling employees faced the most unprecedented crisis in our industry's history.

In terms of managing the crisis, we focused on four key priorities.

First, our main objective has been to protect the health and well-being of our employees and customers. Second, we enhanced flexibility to enable us to constantly adapt our capacity to match demand, identifying any new opportunities to fly, which generated cash. Third, we had to rigorously adapt our costs as much as possible to meet the level of flight activity. Finally, we had a constant focus on cash, working capital and financing.

However, while managing the crisis, we also began preparing to emerge even more efficient and competitive in a post-pandemic environment by implementing the 19 initiatives included in our Plan 'Vueling Transform'. These initiatives aim to unlock the full potential of our airline by generating more value for our shareholders, our employees, our customers and ultimately society.

For example, we transformed our maintenance model by launching a new joint venture company that manages Vueling Line Maintenance; we changed the structure of our fare families and introduced new ancillaries such as Guaranteed Hand Bag, giving more flexibility to our customers to choose the services they exactly need; and we redefined our Mission Vision and Values to lead our people through this period of uncertainty.

Our people

I'm incredibly thankful to all our people at Vueling: the impressive resilience and commitment that they demonstrated all through the year has been the driving force behind our achievements at a time where many were required to make personal sacrifices.

In its 17 years of history, Vueling has faced several challenges and, has always been able to emerge stronger afterwards. Once again, this crisis demonstrated what Vueling people are capable of and that the ability to rise to a challenge is in our DNA.

Vueling has received the prestigious Skytrax award and has been designated as the Best European low-cost carrier

As a result of the creation of a new joint venture company that manages Vueling Line Maintenance, a new warehouse has been built

-25.8%

Operating margin
+82.7 pts vs 2020

-47.0%

ASK change
vs 2019

117

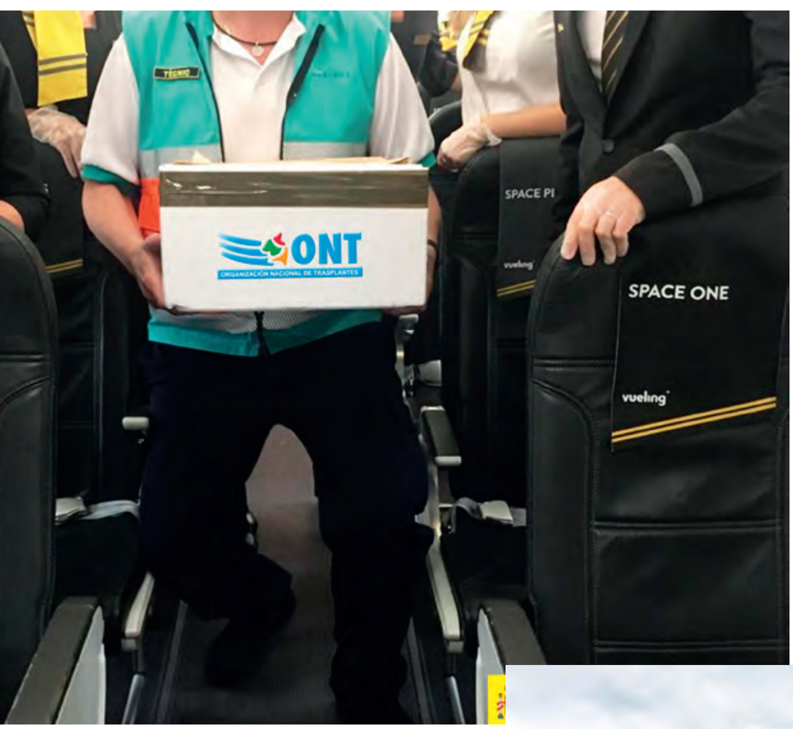
Fleet in service
+4 vs. 2020

Our customers

We are honoured that thanks to all the efforts made by Vueling´s people we were rewarded by our customers with the prestigious Skytrax award as Europe´s best low-cost carrier. This is a reflection of the continuous hard work made to help our customers throughout difficult circumstances, for instance being the first European low-cost airline to implement the IATA travel pass and offering digital solutions to simplify the customer experience.

This was combined with another unprecedented achievement in 2021: Cirium named Vueling as The Most On-time European Airline in 2021.

For us, achieving these awards in a year that required so many sacrifices and efforts is a clear testimony of the exceptional level of commitment and dedication of all our people at Vueling.



Since 2013, Vueling has been the leading commercial airline in Spain in the transport of organs for transplantation

Vueling has recently signed an agreement with Repsol on Sustainable Aviation Fuel procurement and we operated our first green flight on a Barcelona-Seville route

Another key milestone in our progress to offer a stronger customer proposition has been to expand our offering in Orly: the European Commission assessed Vueling's proposal as the best for the 18 Air France slots that became available at Paris-Orly Airport, following a competitive process. As a result of obtaining these slots, Vueling becomes the second-largest operator —after the Air France Group— which allows us to offer our customers 32 new destinations from Paris-Orly airport.

Similarly, our efforts to strengthen our Spanish domestic network have been well received by our local customers. Last summer, we operated a level of capacity up to 114 per cent of 2019 levels and opened 42 new routes both in domestic and international markets.

Still, in a year of so many achievements, we believe it has not been always easy to adjust our level of capacity as rapidly as demand was changing, and we have in time improved our agility to be able to react even more quickly that we did at the beginning of the crisis.

Our planet

Sustainability forms a key part of Vueling Transform, reflecting all the actions we are undertaking to reach our net zero commitment and, to achieve 10 per cent usage of Sustainable Aviation Fuels (SAF) by 2030. In this respect we recently signed an agreement with Repsol for the supply of SAF and we operated our first green flight on a Barcelona-Sevilla route on November 10, 2021.

In terms of diversity, Vueling continues to increase the ratio of women in management positions with the percentage of women in leadership roles now 38 per cent.

Furthermore, we are proud to be the leading airline in the transport of human organs for transplantation in Spain.

Looking forward

In conclusion, while recognising that 2021 continued to be an extremely challenging year, we are confident that we are closer to recovery, and are well placed to successfully adapt to market conditions as they evolve. Vueling Transform is preparing us for the future and achievements such as the Skytrax award, and the attainment of slots at Paris-Orly, reinforce our confidence that, with the commitment of our Vueling employees, we will be able to emerge from the crisis stronger.

Navigating the crisis, readying for recovery

Aer Lingus

Lynne Embleton
Chairman and Chief Executive Officer of Aer Lingus

"In a rollercoaster year we have laid the foundations to emerge stronger from the pandemic."

Business overview

During the COVID-19 pandemic, Ireland had the most stringent travel restrictions within Europe. The non-essential travel ban in Ireland was in place until well into the summer season. The inbound travel bans to the US — which covered the entirety of the Aer Lingus longhaul network — remained in place for over ten months of the year.

The impact has been profound: international travel to and from Ireland was less than 25 per cent of 2019 levels in 2021.

However, Ireland is an island nation. Irish people love to travel. And Ireland's geographic position is a natural location for a successful North Atlantic hub. Therefore, whilst navigating the crisis, we have been readying ourselves for the recovery.

Our schedule for summer 2022 triples our capacity compared to summer 2021 and reaches 90 per cent of 2019 levels by the summer peak. We are reintroducing capacity during the first quarter of 2022 to be operationally ready for this summer peak.

Following constructive discussions with our pilot and cabin crew communities we have agreed structural changes covering both pay scales and working practices. These will make us more cost competitive and support future investment and growth.

2021 also saw a significant milestone with the creation and launch of our new subsidiary airline. This allows us to pursue longhaul market opportunities out of the UK and we commenced our first transatlantic services from Manchester in October.

The focus on liquidity continued throughout the year and a series of debt facilities were made available through the Ireland Strategic Investment Fund (ISIF) and IAG. Consequently, we finished the year in a firm liquidity position.

Our people

The low number of flights operated in 2021 belies the effort, teamwork and creativity of our Aer Lingus colleagues. It was a year of re-planning, re-booking, re-training, and returning aircraft to service, compounded by COVID-related supply chain issues and staff absences. Despite these challenges, the commitment to strong punctuality and high levels of customer service prevailed.

Many office-based colleagues have not returned to the workplace since March 2020. Whilst our people have adapted to

Aer Lingus has signed a deal with Daon to extend the use of the VeriFLY app, following the successful rollout of the technology across its network

Team Ireland athletes onboard the Aer Lingus flight ahead of their Paralympic homecoming

-92.1%

Operating margin
-15.3 pts vs 2020

-75.6%

ASK change
vs 2019

47

Fleet in service
-3 vs. 2020

working from home, this hasn't been without challenge. We look forward to re-establishing face-to-face engagement and embracing flexible working following the Government's announcement in January 2022 that workers can return to the workplace on a phased basis.

Throughout the crisis we sought to retain the employment of as many of our people as possible. That required significant salary reductions across the organisation. Payroll savings were reached by agreement with our workforce in 2020 and 2021 and the Irish government Employee Wage Subsidy Scheme (EWSS) provided important support.

Departure of the airline's first ever non-stop direct flight from Manchester to Barbados

Aer Lingus extends 'Book with Confidence' policy to offer additional flexibility to customers

Our customers

The social and economic benefits of air travel are compelling. We have consistently challenged the government to insist any COVID restrictions are evidence-based, proportionate and in place for the minimum amount of time. When restrictions have been lifted the customer response has been positive. In order to support consumer confidence, we have introduced market-leading flexible booking policies. Additionally, investment in digital solutions provide customers clarity of travel requirements, confidence in being ready-to-fly and a smoother experience through the airport.

We further developed our digital capability in areas such as disruption management, baggage, ancillary revenues and readiness to participate in the Atlantic Joint Business.

Following the sudden collapse of Stobart Air – the franchise operator of Aer Lingus Regional – Aer Lingus stepped in to provide rescue flights and open new routes in order to minimise customer impact. We have successfully developed a new franchise partnership with Emerald Airlines and Aer Lingus regional service operations will restart from March 17, 2022.

Our planet

We continue resolute in our commitment to sustainability. In 2021 we took delivery of three fuel-efficient Airbus A321 LR aircraft to operate across the Atlantic and support the sustainable development of our Dublin hub. We are working with IAG and the other operating companies to develop a comprehensive sustainability programme.

Looking forward

Our customer research tells us that Irish people are very keen to get back flying. The Aer Lingus team have laid the foundations for recovery, we have an ambitious schedule planned and a competitive product. Our vision is to be at the heart of travel to, through and beyond Ireland for generations to come. We look forward to more and more customers experiencing the warm welcome for which Aer Lingus is renowned.

Unlocking every possible opportunity

David Podolsky
Chief Strategy Officer and Chief Executive Officer of IAG Cargo

> **"Our people have worked tirelessly to adapt our business to the opportunities presented by a strong cargo market, unlocking every possible opportunity for the Group and achieving record revenues."**

Business overview

In 2021 the role of air cargo remained very much in the spotlight. Our people went above and beyond to find solutions to the global capacity crunch and airfreight restrictions and, in turn, we were able to keep world trade moving, delivering essential supplies and the vital components of everyday life. Our 'always moving' mantra enabled us to deliver for our customers as passenger flying continued to be disrupted.

We reshaped our business to take advantage of the strong cargo market and actively repurposed Group capacity when appropriate. The business delivered record revenues of €1,673 million, up 28 per cent from 2020, with a sustained resurgence in the volume of flights and yields exceeding 2020 levels.

In the second half of the year we saw momentum build. Capacity started to return, and the business began to take increasingly confident steps towards a more stable future as the economic recovery from the COVID-19 pandemic gained ground. IAG Cargo also saw conversions from sea freight as shippers turned to air cargo to minimise the impact of supply chain disruption. We are still endeavouring to utilise available fleet and crew to align our network to cargo customer demand, with cargo-only flying.

Our people

We would not have achieved the results we did without the determination and creativity of our people, who faced the challenges of the pandemic head on. Our people have shown significant flexibility as they have adapted to the changing demands of the industry and business environment.

We are grateful for the key role our frontline operational colleagues have played, ensuring we were always delivering. During the year, we launched our Operational Leadership programme to further strengthen the resilience and management capabilities of our business.

IAG Cargo's people went above and beyond to find solutions to the global capacity crunch

IAG Cargo and Iberia celebrate the second anniversary of the multi-million-euro pharmaceutical centre in Madrid, as it takes centre stage in the COVID-19 vaccine roll out

Our customers

Despite ongoing restrictions affecting passenger movements, we were able to provide cargo capacity where our customers most needed it, with cargo-led flying and co-sponsored activity with our passenger counterparts. We aligned our network to customer demand, increasing frequencies on important trade routes.

We invested in improving the functionality of our online offering and expanded our partnerships with third-party platform providers. Both actions supported online channel shift and digital bookings whilst providing more flexibility to our customers.

Strengthening our collaboration with our largest customers we launched our Global Partnership Programme, embarking on more strategic joint endeavours and aligning our sustainability ambitions. Supporting customers, we also enhanced our Customer Relationship Management (CRM) capabilities to provide more effective communications to help them build their businesses with us.

Charters remained popular. In 2021 we operated 745 charters, opening new stations in Haiti, USA and Canada to service bespoke requests including keeping an automobile production line on schedule, keeping supermarket shelves stocked, supplying global communities with PPE and delivering ballot papers for elections. We also created further capacity for our charter customers by removing the seats from the cabins of three Airbus A330 LEVEL aircraft.

IAG Cargo announces it will grow its workforce with more than 500 new roles, in its biggest recruitment drive to date

IAG Cargo partners with Kuehne+Nagel to complete its first charter chain from Stuttgart to Atlanta in the United States using Neste MY Sustainable Aviation Fuel (SAF)

Our planet

In 2021 our cold chain service, Constant Climate was responsible for shipping millions of doses of lifesaving COVID-19 vaccines to almost every corner of the world. IAG Cargo started a partnership with UNICEF, committing its support to the organisation's COVAX programme, the global effort aimed at providing equitable access to COVID-19 vaccines.

In addition, IAG Cargo also funded several relief flights. Joining forces with British Airways, IAG Cargo's teams worked around the clock to transport emergency aid to Delhi to support the Indian government as the country battled rising COVID-19 cases with dwindling oxygen supplies. Working with the UK Government and UNICEF Spain, IAG Cargo helped support the recovery efforts in Haiti, flying 25 tonnes of aid to help the recovery efforts following the earthquake that struck the country in August 2021.

We are constantly looking at ways to reduce our impact on the environment whilst improving our customer offering and to that end, we were delighted to complete our first Sustainable Aviation Fuel (SAF) charter chain of 16 flights from Stuttgart to Atlanta. Working with our partner Kuehne+Nagel, IAG Cargo sourced 1.2 million litres of sustainable aviation fuel. The collaboration marked the first time ever that passenger-freighter charter flights were operated with net zero carbon emissions.

Looking forward

In 2022 as passenger traffic numbers recover, our flexibility to optimise towards customer demand and provide bespoke solutions will become more constrained. We will work with our Group airlines to allocate capacity with the aim of maximising return from Group assets. The team at IAG Cargo is excited to enter 2022, starting a new and ambitious phase of activity.

In December 2021 we reached Practical Completion on our new Premium facility at London Heathrow, which will allow us to not only begin to increase capacity in 2022 also but add new product capability. Next year, we will also be investing in our pricing systems, distribution and the continued development of our people.

Positioned for growth

IAG Loyalty

Adam Daniels
Chairman and Chief Executive Officer of IAG Loyalty

"Our Loyalty business has continued to demonstrate resilience. We have now established the required foundations for our long-term success and to deliver a step change in the role of loyalty for our customers and the IAG airlines."

Business overview

Throughout the pandemic IAG Loyalty has demonstrated the resilience of our model and the value of being able to maintain engagement with our customers. We remained profitable and cash generative throughout the pandemic.

2021 has been a year of modernising our infrastructure to enable us to accelerate our business plan. We continued to invest in our customer propositions and technology development to ensure our loyalty asset was ready for the lifting of global travel restrictions.

We have enhanced our ways of working and made new appointments in the management team that are enabling us to deliver more initiatives at speed.

We have new long-term agreements with IAG airlines and secured a doubling of our guaranteed reward seats in the process.

Our role of providing the Group airlines with a pioneering centre of excellence for loyalty continues to develop at pace.

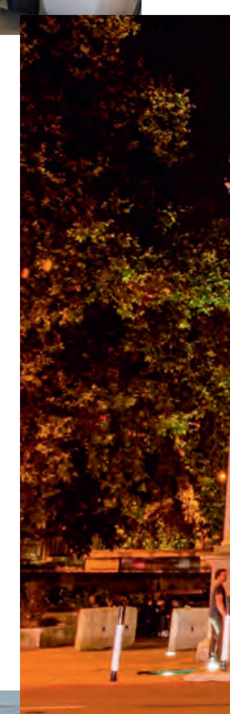
In 2021, customers collected over 54 billion Avios. Avios collected from flying was down 80 per cent versus 2019, though collection from everyday spend with our partners was less impacted by the pandemic, being down by 27 per cent versus 2019. Of our 2021 issuance, 77 per cent came through customers collecting with non-air partners.

Our people

As a non-airline operating company, we often require different expertise and skillsets. To meet this need we have created an Employer Value Proposition and Employer Brand to amplify our strengths and differentiators. We're delivering a compelling people plan and a broad range of initiatives spanning all aspects of the people agenda, ensuring we have the right capabilities, culture and opportunities in place for colleagues to thrive.

Our people have embraced significant change during the year with hybrid working, moving to a new office in central London and the implementation of agile ways of working to enable the business to

We have moved to a hybrid model of working, including new space for our team to collaborate in



For the first time ever, British Airways Executive customers can convert their Avios and Nectar balances both ways

deliver value that's highly aligned to our customer needs and is outcome driven. This has empowered our people to be curious and innovative in our approach to delivery and I'd like to thank them for their energy and commitment through this transition.

Our customers

In the UK, our British Airways cobrand credit card was relaunched, implementing a number of changes agreed during our renegotiation with American Express in 2020. We have added enhanced availability in business cabins for Premium Plus card members. This builds on the already industry-leading Companion Voucher card benefit and is proving popular with customers.

It has been a challenging year, particularly in the UK, managing the level of customer calls for redemption flight bookings during the changing travel restrictions globally. We have a high focus on improving the speed of answer and first call resolution. Whilst the volumes are a positive sign of demand and engagement with Avios, we are aware this has been a frustration for a number of customers

Our Aer Lingus AerClub customers are now able to settle their purchases, e.g. commercial tickets, seats and extra baggage, in full with Avios. This is live across Aer Lingus booking channels and proving exceptionally popular with customers as an enhancement from the previous part-payment options.

In Spain, Santander, a key partner for our Iberia Plus members, continues to grow across credit card and banking products. We also launched a cobrand card between CaxiaBank and Vueling to give additional Avios collecting opportunities for customers.

Our innovation

2021 has seen the migration of British Airways and Iberia to our Global Loyalty Platform, holding over 38 million customer records and many billions of Avios. The scale, complexity and challenge of this migration led to a delay in being able to reactivate some of the entry points for our customers to access their account for several days. Despite this challenge the migration was successful and this concludes the initiative to bring Group airline programmes onto a single, more capable and agile platform.

We created new innovative proprietary products, for example, the platform that enables customers earning Nectar points to exchange for Avios. We have seen strong engagement from customers to link their accounts and exchange.

We have recently announced a new agreement with Qatar Airways that will see Avios adopted as the currency of the Privilege Club, Qatar Airways' loyalty programme. This is a new and innovative way to globalise our currency. The new relationship will increase customer acquisition and value, through an enhanced earning and redemption proposition.

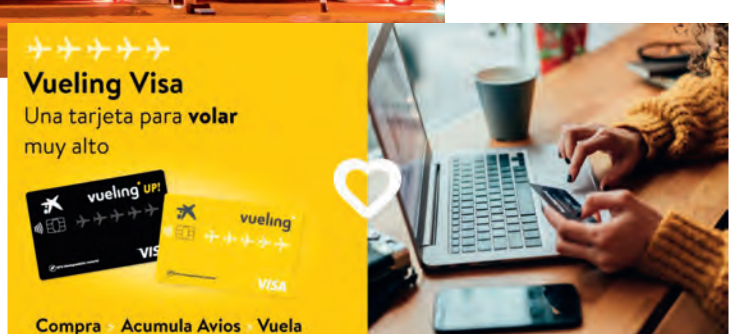
Looking forward

Our business is in growth mode and ready to realise the full potential of loyalty for our customers and the Group.

Focus and development in our technology and data capabilities will continue to enable deep digital expertise and delivery of best-in-class products.

We will be expanding the reach of the Avios currency globally by developing new ventures, delivery of new partnerships and earning opportunities for customers.

The Checkout the World campaign projected onto Marble Arch, London, launched in partnership with British Airways and American Express



Our Vueling Club members are now able to earn Avios from their everyday spend on the new cobrand card with CaxiaBank

Strengthening Barcelona's longhaul connectivity

LEVEL

Fernando Candela
Chief Executive Officer of LEVEL

> "LEVEL has moved decisively towards the full reactivation of longhaul flights from Barcelona. It has adapted to the pandemic, seeking alternatives that have allowed it to maintain its operations and fulfil its raison d'être: to connect the world and people."

Business overview

At LEVEL we have played a crucial role in maintaining Barcelona's connectivity, adapting our operations to the varying restrictions, offering our clients an alternative choice of destinations. Reactivation commenced as soon the restrictions were lifted in our consolidated routes, peaking during the summer months when we attained 24 per cent of the seats flown to the United States out of Barcelona. Our commitment to air cargo allowed us to maintain operations in the most difficult months of the year. True to the model, we combined the most competitive fares with a boost in the sale of ancillary products. In addition, and thanks to the sale of connections with Vueling, we expanded the reach of our services. During the third quarter of the year, 16 per cent of sales were connecting flights. Despite facing one of the most challenging years in aviation history, our commitment to the reactivation of the sector has strengthened our position in Barcelona.

Our people

Destination equality. In 2021 we consolidated the team in Barcelona and solidified our way of doing things: disruptive thinking and a start-up culture to reinvent both processes and work dynamics. At LEVEL, diversity and inclusion run in our DNA, with 41 per cent of the senior roles held by women. During the month of March, we led an important campaign for gender equality: we focused our efforts to create an equalitarian company, being the first airline in adopting inclusive language in all our Spanish communications and empowering women to fly their way by creating a digital community to connect female travellers.

Our customers

Unfortunately, during 2021 we were still forced to readjust our operations, which left many customers without their flight of choice. The high volume of requests meant it was not always possible to maintain the expected standard of quality. For that reason, we strengthened digital distribution and opted for 360° communication channels that allowed us to be where we were needed: close to our customers. Since then, more than 30 per cent of enquiries were made through our digital channels such as social networks, live chat, or chatbot. In 2021, we went a step further in the customisation of travel with LEVEL thanks to new web developments, which have allowed us to offer an easy and tailor-made experience. We have guaranteed very competitive departure prices and complementary products designed to meet the preferences of every customer. We launched flights to Punta Cana and Cancun to offer attractive alternatives to destinations opened to tourism.

Our planet

Optimise processes to reduce their environmental impact. We have worked to put technology at the centre, to improve efficiency and reduce waste. To that end, we designed a pre-order portal that has allowed us to adjust the amount of food we load to the specific demand on each flight. With this project, only what is going to be consumed is loaded on the plane, reducing leftovers and minimising waste.

Looking forward

We will continue to strengthen Barcelona as a hub between United States and Europe, reviewing every process and rethinking each aspect so that every trip on board LEVEL is the personalised, warm, and digital experience that the new generations demand.

Delivering through times of challenge and change

Zoe Davis
Director of IAG GBS

> **"IAG GBS delivered support and significant savings during 2021, pivoting and adapting to the challenges we faced and helping the Group to come out of the pandemic right-sized for the future."**

Overview

In 2021, through our established central platform, we used our scale and agility to continue supporting every part of the Group. We used our expertise to deliver centralised services for procurement, finance and airport operations.

With our constant focus on delivering IAG's Cost per Available Seat Kilometre (CASK) targets, we monitored, managed and simplified the supply chain; mitigated costs; and ensured the Group had a robust supply chain during a very challenging global environment.

Our specialists delivered automation and innovation to drive industry-leading process improvements right across IAG. We introduced the Integrated Support Centre leveraging new chatbot functionality and AI ticketing technology to better support employees and suppliers with their queries. The automation programme also accelerated to improve efficiencies in our financial processes leading to better performance and analytics.

We utilised our unique position as the hub of working capital activity for the Group, providing valuable insight and a constant overview.

2021 has been the year we defined and started to deliver on our four core transformation pillars:

- Driving further synergies by leveraging the existing platform and onboarding additional services, including managing the critical Right to Fly services for British Airways and Iberia
- Continuing the in-depth restructure of the Group's cost base to optimise unit costs; to partner with suppliers who share our values and ways of working; and to manage supplier performance
- Delivering automation and analytics, while using our insights from around the Group to optimise the mix of onshore, nearshore and offshore work
- Proactively monitoring any potential supplier risks to mitigate emerging issues, and leading on our supplier sustainability commitments

We continue to seek additional opportunities to leverage our established platform and deliver further synergies for the Group.

Our people

With a diverse global organisation, we are focused on continuing to create a high-performing team, attracting, engaging, developing and retaining industry experts with initiatives in place to support them on their journey. This includes establishing our own Internal Learning Academy: a place to share and store knowledge and expertise, evaluate and enhance competencies, and create a pipeline for future skills and career growth.

Fundamentally, we have empowered our teams to think differently, find better solutions and this gives us all even more reasons to be proud of our work and our people.

Our planet

We led the initiative, and IAG's subsequent commitment, to be the first airline group in the world to set the target of achieving Scope 3 (supply chain) net zero emissions by 2050. This follows the industry-first Scope 1 and 2 targets that IAG set in 2019. Scope 3 emissions are those produced by our suppliers and partners and represent around 23 per cent of our total emissions. We have set an interim measure of a 20 per cent reduction in Scope 3 emissions by 2030 and are confident in our ability to achieve this challenging target.

Looking forward

IAG GBS will continue to focus on driving transformation across the Group by creating and delivering innovative centralised solutions through our four core transformation pillars, all underpinned by our people.

Driving towards technology excellence

IAG Tech

John Gibbs
Chief Information Officer

"In 2021, we completed the work on our new IT/ Digital operating model and are focused on driving continuous improvements to our ways of working, including creating an environment where our technology professionals can thrive."

Overview

Our new IAG Tech operating model is now live, with improvements to the products and services we offer the business; increased efficiency and effectiveness of our value streams and processes; adoption of modern methods and tools; a leaner organisation structure; clearer roles and accountabilities, and improved governance with enhanced reporting. This has resulted in new capabilities being delivered faster and more regularly due to the adoption of agile methodologies. We also saw reductions in the number of incidents affecting our customers and a decrease in the time to restore services. Progress was hampered though, by our need to support the business in responding to COVID-19, for example reducing investments to preserve cash. However, we have maintained our focus on increasing the maturity of our cyber security capabilities, including strengthening our Security Operations Centre and the start of a new Group-wide identity and access management solution.

Our people

We have launched a new IAG Tech website as part of our strategy to create a thriving technology community that attracts and retains the very best talent. We now have over 1,500 active members of our guilds sharing best practice and knowledge, supported by a learning academy that is developing our future digital leaders. We also welcomed our second intake of graduates and apprentices.

Our Digital Factory is rapidly deploying Robotic Process Automation and Low Code Solutions to automate processes and help our employees, for example, chatbots that can answer questions on our Ground Operations Manual. This automation is being accelerated through a Digital Champions network that identifies the opportunities and seeks to exploit this technology.

We continue to modernise our internal systems, for example, the upgrade of our call centre technology for British Airways in UK and Hong Kong. We are improving decision-making through use of artificial intelligence, machine learning, data analytics and dashboards including the deployment of a digital boardroom for our IAG GBS management team.

Our customers

We introduced a wide variety of solutions to assist with travel in a COVID-19 world including automating the validation of customers' travel documentation, pre-ordering of onboard food and drink, and biometric boarding.

Our omni-channel strategy saw the introduction of voice recognition, chatbots and WhatsApp used by our Iberia customers. In parallel, enhancements have been made to all .com platforms including dynamic pricing capability for fares and ancillaries. We increased self-service capabilities such as introducing disruption management onto airport kiosks. We also introduced new distribution channels for our travel agent partners.

We have supported partnership launches and the delivery of the Global Loyalty Platform for Aer Lingus, Iberia and Vueling, providing a more customised and better experience for our customers.

We migrated Vueling onto our Salesforce platform which enabled us to deploy chatbots to handle routine tasks and answer many of our customer's questions. This resulted in a 60 per cent reduction in back office workload and improved customer satisfaction to over 90 per cent.

Our planet

Our fifth Hangar 51 innovation accelerator platform explored how new technologies can help us meet our sustainability commitments, and improve operational efficiency, performance, safety, and customer experience.

Many of our technology investments also contribute to our sustainability plan. This included investments in network, aircraft and operational planning systems to reduce the environmental footprint of our flights; the introduction of pre-ordering of food and drink onboard that has reduced waste; and the launch of three data centre migration programmes that will move all of our systems onto new infrastructure hosted in the cloud, providing enhanced resilience, performance and an 80 per cent lower CO_2 footprint for our technology.

Looking forward

We have three main priorities in 2022, in our pursuit of Technology Excellence. We will accelerate the delivery of the new technology capabilities required to support the Group's transformation, including making significant progress on our data centre migration and replacing obsolescence. We will continue to embed and improve the IAG Tech operating model. We will continue to develop a culture where we value the diversity across our technology professionals, ensure that everyone feels included and is treated equally, and that we have a thriving and supportive community with a strong sense of belonging.

Driving change to create truly sustainable aviation

We are committed to creating and delivering long-term sustainable value for our stakeholders, who include our colleagues, all those we do business with, the communities where we operate, investors, regulators, customers, and our society.

We ensure that we understand the needs of all of our key stakeholders to prioritise their requirements in our plans to deliver a fully sustainable business.

A critical aspect of delivering a fully sustainable business is recognising, managing and reducing our impact on the planet, which is critical to driving change across the industry so that we can play our full part in tackling climate change.

Having previously set clear and ambitious targets relating to our most material issues, we worked this year to embed our net zero transition pathway within our business strategy and shift our focus to delivery of our plans this decade.

We have done this by accelerating progress in sustainable aviation fuels and operational efficiency and by continuing our investment in green technologies such as hydrogen-powered planes and carbon removal as well as new aircraft which are up to 40 per cent more fuel efficient than those they replace.

Meanwhile, we also stepped up in the delivery of our social targets, including improving our diversity performance, our employee engagement and the implementation of our programme to reach all our stakeholders. As part of our commitment to ensure we are a diverse and inclusive organisation last year we set a new target of having at least 40 per cent of senior roles held by women by 2025.

We are determined to support the long-term prosperity of the communities we serve. In 2021, we continued to support countries' efforts to combat the pandemic by helping out wherever we could, transporting vaccines and humanitarian aid to places that needed us most.

To ensure we fully understand our stakeholders' concerns, in 2021 we completed a comprehensive review using an independent, specialist third party, Simply Sustainable, to analyse 26 different environmental, social and governance (ESG) topics that are crucial to our operations. With these issues as the foundation, we then conducted 34 internal and external stakeholder interviews and gathered a further 131 responses from stakeholder surveys. We also benchmarked the results against industry peers.

The findings led to the production of two materiality matrices, over three-year and ten-year timescales respectively, with issues grouped into four different areas: People, Planet, Prosperity, and Governance. By aligning these with our strategic priorities and measuring our performance, we are best able to put all our stakeholders at the heart of our decision-making to ensure IAG can have a positive impact on society over the long term.

"We are determined to support the long-term prosperity of the communities we serve."

Contents of this section:

This sustainability report has also been prepared in reference to GRI standards, which are listed under relevant section headings. Criteria for choosing specific standards are based on compliance with Spanish Law 11/2018 and on material issues.

Driving efforts to tackle climate change

IAG has been the leading airline group building global momentum towards net zero aviation. As well as taking pioneering actions within our business, IAG has proactively engaged with other airlines to build consensus around net zero. This successful advocacy will enable faster emissions reductions across the industry.

IAG is delighted that IATA has joined the journey to net zero emissions. Since IAG's net zero commitment in October 2019, over 290 airlines are now also committed to net zero, representing over 82 per cent of global air traffic. This rapid shift within two years is profound.

IAG supports efforts for a long-term target for aviation at the ICAO General Assembly in 2022.

IAG was also pleased to gain another climate "Leadership" (A-) grade from the Carbon Disclosure Project (CDP) in 2021. This placed IAG in the top 6 per cent of global respondents. We are the only airline group worldwide to gain three leadership grades in the past five years.

The business will continue to lay the groundwork to accelerate emissions reductions both for our operations and at an industry level.

Key achievements and 'firsts' include:

- October 2019. First airline group to commit to net zero carbon emissions by 2050, setting a precedent for aviation;
- November 2019. First airline group to publish a roadmap for achieving this, a detailed plan which could be emulated;
- February 2020. Actively supported the first national aviation commitment and roadmap to net zero (UK, via Sustainable Aviation);
- January 2021. British Airways was the first airline to receive a sustainability-linked loan tied directly to ESG targets;
- February 2021. Actively supported the first regional aviation commitment and roadmap to net zero (Europe, via A4E);
- September 2021. Actively drove the first global aviation alliance commitment and roadmap to net zero (via **one**world);
- April 2021. First European airline group to commit to 10 per cent sustainable fuels by 2030; and
- April 2021. First airline group worldwide to commit to net zero Scope 3 emissions by 2050.

Our Hangar 51 platform continues to engage with and support innovative companies like ZeroAvia to accelerate new zero emissions technologies.

A. Principles of Governance

A.1. Defining sustainability and material issues

Reference to GRI, TCFD and SASB standards:
GRI 102-43, 102-44, 102-46, 102-47

In this context, sustainability covers both environmental and social issues.

IAG's sustainability strategy, initiatives and reporting are based on a rigorous assessment of which business activities have a material impact on the environment and people and what is most important to key stakeholders.

In 2021, IAG repeated a comprehensive materiality assessment to assess these issues. This was facilitated by leading sustainability consultancy Simply Sustainable as an independent third party, with the scope as described in the introduction to this section.

The internal stakeholders included all IAG Management Committee members, certain Board members, and operating company sustainability representatives. External stakeholders included investors, corporate customers, policymakers, trade associations, fuel suppliers, airports, and NGOs. The materiality assessment was complemented by an ESG staff survey distributed in English and Spanish.

The results have informed our disclosures and strategy.

Tackling climate change remains our most material issue in the long run, and engagement with policymakers, customers and suppliers was identified as key to this effort. In the short term, as the business recovers from COVID-19, profitability and customer and employee engagement remain a high priority. In addition, wellbeing is a material issue and IAG has elevated its focus on this.

Water consumption, biodiversity and light pollution were assessed as non-material for IAG. More information on water and biodiversity is available in the Additional Disclosures section of the Non-Financial Information Statement (NFIS).

IAG does not have specific risk provisions, targets or guarantees related to these non-material issues.

Material issues as identified in 2021

The icons represent UN Sustainable Development Goals (SDGs).

Principles of Governance

- Investing in the future
- Planning for climate-resilient operations
- Working with suppliers

Planet

- Reducing our climate impact
- Influencing policy

Prosperity

- Running a profitable business
- Pleasing our customers

People

- Engaging with employees
- Building a diverse, inclusive and equal workplace

The above four categories are aligned to best practice in the 2020 World Economic Forum "Measuring Stakeholder Capitalism" report.

Changes in material issues to 2030

To 2023 (Three-year timeframe)	To 2030 (Ten-year timeframe)
1 Running a profitable business	1 Investing in the future
2 Engaging with our employees	2 Reducing our climate impact
3 Reducing our climate impact	3 Influencing policy
4 Pleasing our customers	4 Building a diverse, inclusive and equal workplace
5 Investing in the future	5 Working with suppliers
6 Planning for climate-resilient operations	6 Pleasing our customers

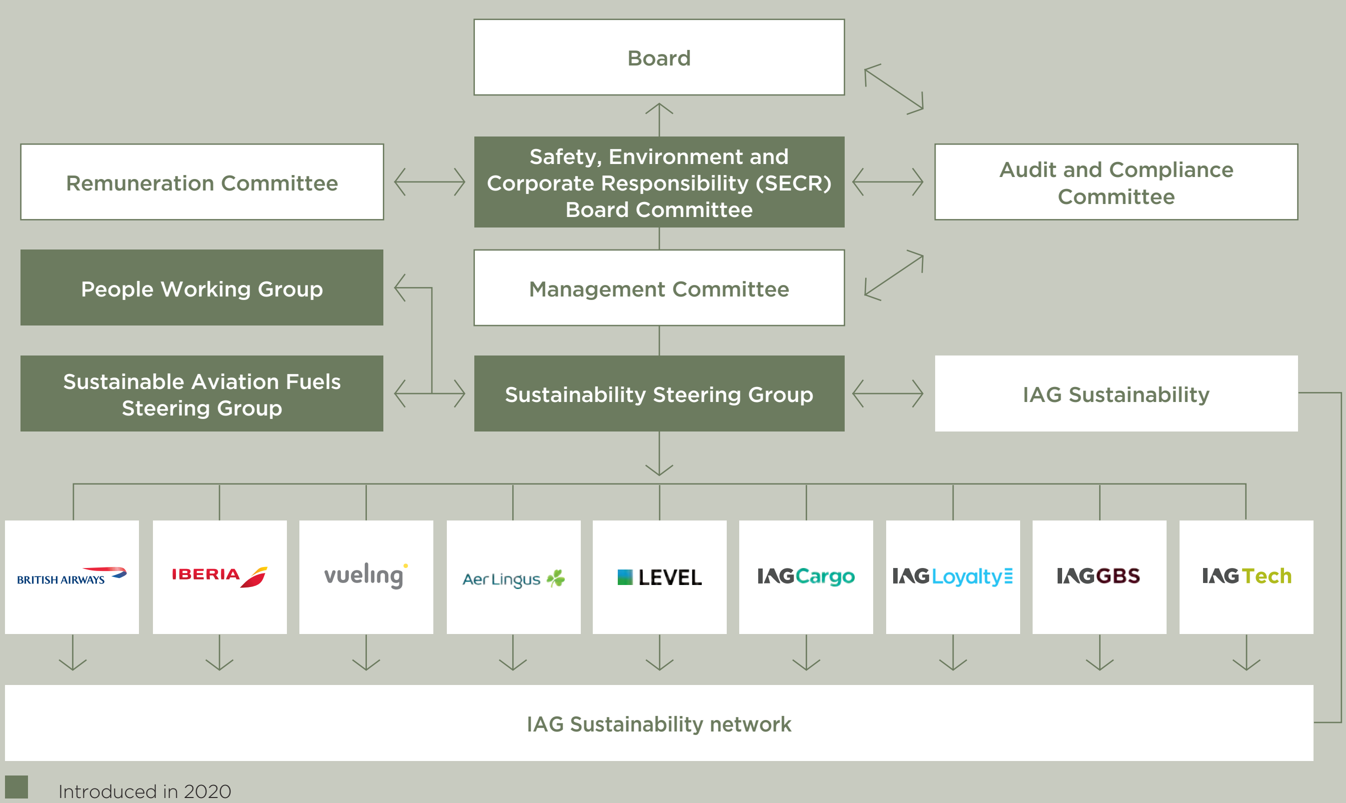
Note: the most material issues are assessed using the combination of their importance to stakeholders, and their residual impact to the business after current mitigation plans.

Supporting UN Sustainable Development Goals to 2030

The UN has identified 17 SDGs to support as part of the global 2030 Agenda for Sustainable Development. IAG has identified four priority SDGs to support, with examples below. Within the Group, Iberia is a member of the UN Global Compact.

SDG	Description	See sections	Examples of 2021 activities which support SDG
5 Gender equality	Gender equality	C.1. Workforce overview C.3. Diversity, inclusion and equality	The IAG Board has maintained the same ratio of seven male and five female directors from 2020 to 2021 (42% female representation) IAG received the "gender equality" award at the Vocento Business Awards in Spain for its efforts to encourage diversity
7 Affordable and clean energy	Affordable and clean energy	Spotlight: Sustainable Aviation Fuel	British Airways, Iberia, Vueling and IAG Cargo used SAF in flights for the first time Multiple Sustainable Aviation Fuel (SAF) deals to secure future supply
8 Decent work and economic growth	Decent work and economic growth	C.1. Workforce overview	Doubling of staff engagement in Group-wide Occupational Health Surveys
13 Climate action	Climate action	A.5. Sustainability stakeholder engagement B.1. Climate change and TCFD disclosures	IAG was instrumental in driving industry coalitions at national, regional and global levels to set net zero climate targets, and lobbying for UK policy support for SAF

Sustainability governance structure



A.2. Sustainability governance

Reference to GRI, TCFD and SASB standards: GRI 102-46, 102-48. TCFD Governance a, b

Overview

IAG has multiple levels of governance in place to ensure robust, aligned and progressive sustainability decision-making.

In 2021, IAG appointed a Chief People, Corporate Affairs and Sustainability Officer (CPCASO) to further drive forward environmental and social initiatives. The CPCASO is a member of the Management Committee and reports into the IAG CEO. The IAG Group Head of Sustainability and Group Head of People report into the CPCASO.

The Group sustainability strategy covers Group policies and objectives, governance structures, risk management, strategy and targets on material issues, sustainability performance indicators, and communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme which is regularly reviewed to ensure alignment with the Group strategy.

The IAG Board provides oversight and direction for sustainability programmes. The IAG Management Committee provides the key forum for reviewing and challenging these programmes and setting strategy.

Key governance structures include:

- quarterly meetings of the Board Safety, Environment and Corporate Responsibility (SECR) Committee to provide dedicated oversight of the Group's sustainability programme and a link between the IAG and operating company management committees and the IAG Board;
- quarterly meetings of the Sustainability Steering Group (SSG), comprised of senior representatives from each operating company and key IAG teams, to provide oversight of environmental and social initiatives and reporting;
- monthly meetings of the IAG Sustainability Network, comprised of sustainability representatives from all operating companies, to share ideas and updates;
- regular meetings of the SAF Steering Group and People Working Group reporting into the SSG; and
- as part of the Group-wide Enterprise Risk Management (ERM) process, bi-annual reporting of the principal sustainable aviation risks to the IAG Management Committee and Board's Audit and Compliance Committee.

Internal Group-wide policies related to sustainability help to ensure that wider decision-making aligns with the sustainability strategy. These include the Code of Conduct, Supplier Code of Conduct and specific policies on Environmental Sustainability, Modern Slavery, Anti-Bribery and Corruption, Equal Opportunities and Selection and Diversity. These are approved by the Board of Directors.

Individual airlines are also adopting ISO 14001-aligned internationally recognised environmental assessment and management tools. All four main airlines are working towards Stage 2 accreditation for the IATA Environmental Assessment (IEnvA)[1] management system. Only seven airlines worldwide have this accreditation. British Airways, Aer Lingus and Vueling have already achieved Stage 1 certification and Iberia plans to complete Stage 1 in 2022.

Reporting standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement, which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised)[2] standards.

IAG complies with current and emerging standards on sustainability reporting. These include obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, the 2018 UK Streamlined Energy and Carbon Reporting (SECR) regulation, and the Task Force on Climate-related Financial Disclosures (TCFD), and the EU Taxonomy Regulation (2020/852).

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, and relevant criteria from external ESG rating agencies. IAG supported IATA and the Global Reporting Initiative (GRI) to develop the IATA handbook.

This sustainability report has also been prepared in reference to GRI standards, which are listed under relevant section headings. Criteria for choosing specific standards are based on compliance with Spanish Law 11/2018 and on material issues. In cases where GRI alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used and described.

Data governance

Unless otherwise stated:

- The scope of environment performance data in this report includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This scope is consistent with environment-related policies and KPIs;
- LEVEL, IAG Loyalty and IAG GBS functions are not in scope for environmental reporting as the environmental impacts of these business units are not material; and
- Workforce data includes all IAG operating companies and support functions.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU Emissions Trading Schemes (ETS), and for all flights for the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

In specific cases where full year data was not available, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust. Any prior year restatements are indicated next to relevant metrics with reasons provided.

1 IEnvA is the airline industry version of ISO 14001, the international standard for environmental management systems. IEnvA is tailored specifically for airlines and is fully compatible with the International Organization for Standardization (ISO).
2 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

A.3. Sustainability strategy

IAG has a vision to be the world's leading airline group on sustainability. That means using its scale, influence and track record to not only transform the business, but drive the system-wide change required to create a truly sustainable aviation industry. IAG is committed to delivering best practices in sustainability programmes, processes and impacts, while executing on Group strategy. Creating a truly sustainable business is fundamental to our long-term growth.

IAG has three overall strategic priorities for its business. The environmental strategy is aligned to these:

Strengthening a portfolio of world-class brands and operations	Growing global leadership positions	Enhancing IAG's common integrated platform
• Ensuring customers have visibility of, and are engaged in, our sustainability programmes	• Demonstrating industry leadership • Maturing our transition pathway towards a net zero business • Leadership in carbon disclosures	• Investing in efficient aircraft fleet and delivering best practice in operational efficiency • Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low-carbon technologies

In 2021, the Board agreed to a broadening of the sustainability strategy and progress is now tracked against nine priorities.

Nine strategic priorities	Key 2021 progress
1. Clear and ambitious targets relating to IAG's most material issues	• See B.1. 'Climate change and TCFD disclosures' section • 2021 materiality review • New SAF, waste, diversity, Scope 3 emissions targets
2. Low-carbon transition pathways embedded in business strategy	• Sustainability budgets form part of operating company three-year business plans updated annually. Carbon costs are integrated into business cases for fleet purchasing and planning. (see below)
3. Management incentives aligned to delivering a low-carbon transition plan	• IAG was the first airline group to explicitly agree climate targets as part of annual incentive plans. See remuneration section for more details. These are expected to be reinstated in 2022.
4. Leadership in carbon disclosures	• CDP (climate-specific ranking): A-, top 6% of scored companies • TPI (climate-specific ranking): Met 17 of 18 criteria, highest level • Sustainalytics (cross-sector ESG ranking): 9th out of 68 airlines
5. Accelerating progress in low-carbon technologies including aircraft technology, SAF, carbon offsets and carbon removals	• See "Spotlight: Sustainable Aviation Fuel"
6. Accelerating innovation in low-carbon technology as above	• Dedicated sustainability category in Hangar 51 accelerator programme
7. Industry leadership in the innovation and deployment of SAF including power-to-liquids	• 10 per cent SAF by 2030 commitment and several new supply partnerships
8. Stepping up our social commitments including on diversity, employee engagement and sustainability as a core value	• New diversity targets set
9. Industry leadership in stakeholder engagement and advocacy	• Continued leadership positisions in key industry associations with more action planned for 2022

To embed low-carbon transition pathways in business strategy, IAG concurrently applies internal carbon prices to financial planning and scenario analysis. Prices are based on market values and reputable external forecasts:

- EU ETS prices are based on market prices and the UK Department for Transport (DfT) Aviation Forecast to 2050; and
- CORSIA prices are based on International Energy Agency (IEA) and ICAO price forecasts to 2035.

For the period 2021-35, EU ETS prices of €50-€166/tonne and CORSIA prices of $8-$40/tonne were used for modelling compliance costs. The Fleet team used updated carbon prices and price forecasts for shorthaul and longhaul fleet purchasing decisions.

To support management incentives, in 2020, climate-related incentives were agreed by IAG's MC, Remuneration Committee and Board so that 60 of the most senior executives across the Group, including the IAG CEO, would have a proportion of their annual incentives linked to achievement of annual carbon intensity targets. More details are in the report of the Remuneration Committee.

To support leadership in carbon disclosures, in 2021 IAG Investor Relations completed a survey of key IAG investors to identify their expectations, views on best practice in ESG reporting, and those ratings they prioritise. IAG plans to engage with relevant rating agencies in 2022 to enable more accurate calculations of IAG's scores and to identify actions to improve the scores.

IAG is the only airline group worldwide to receive three leadership (A-/A) grades from CDP in the past five years and in 2021 received the joint-highest score of any airline from the Transition Pathways Initiative (TPI), which assesses companies' readiness for a low-carbon economy.

A.4. Sustainability risk management

Reference to GRI, TCFD and SASB standards: GRI 102-11, 102-15. TCFD Governance a, b, Strategy a, b, c, Risk Management a, b, c

Sustainable aviation risks have been collectively identified as one of IAG's principal risks.

In 2021, IAG received 'A' grades from CDP for its climate risk and opportunities disclosures to CDP. This response is available on the IAG website.

Climate-related risks are considered and assessed under the Group Enterprise Risk Management (ERM) framework which is presented to the Board. More details on the framework and process for how risks are assessed, and how Group risks inter-relate, can be found in the 'Risk Management, Principal risks and uncertainties' section.

Sustainability risks and opportunities, including climate-related risks and opportunities, are also identified and assessed by the Group Sustainability team, in conjunction with the Group ERM team. This assessment includes risks over medium-term (two to five years) and long-term (greater than five years) timescales.

Sustainability enterprise risks are bi-annually reported to and reviewed by the IAG Management Committee and the IAG Audit and Compliance Committee. Detailed sustainability risks and opportunities are also reported to the IAG CPCASO who reports to the IAG CEO. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business.

Sustainability risk assessments have informed specific decisions related to business operations and strategy, and IAG allocates significant resources to environmental risk management. Examples include:

- IAG has maintained its commitment to invest in SAF development, production and supply as part of its 20-year US$400 million (€360 million) SAF commitment, to manage climate policy risks and take advantage of energy-related opportunities;
- in 2018, TCFD-aligned scenario analysis identified a need for more ambitious action on climate change, which led to the 2019 decision to design and adopt the industry-leading Flightpath Net Zero strategy to deliver net zero emissions byy 2050;
- in 2021, IAG set a new net zero target by 2050 for Scope 3 emissions and IAG GBS appointed EcoVadis to help to track supplier sustainability performance and mitigate supply chain-related sustainability risks; and
- all operating airlines to work towards Stage 2 accreditation of the environmental management system IEnvA[1], including investments in people and IT systems, to manage environmental compliance risks.

IAG is committed to mitigating the impacts of hazards which, if they occur, have uncertain but potentially negative outcomes on the environment or people. As such, IAG adopts precautionary measures to mitigate these hazards, an approach known as the precautionary principle. The precautionary principle is applied to the planning of operations and the development and launch of new services, by integrating climate considerations into business plans and financial forecasts and aligning activities with the Flightpath Net Zero strategy.

Detailed mitigation for climate-related risks is outlined in Section B.1.

Related risk: Environmental regulation compliance

Risk description	Mitigating actions
An inadvertent breach of compliance requirements related to ESG reporting, emissions or waste management, or other environmental issues, leading to fines and potential reputational damage.	• Strengthening sustainability governance including reviews of annual disclosures via the Audit and Compliance Committee • Internal governance, training and assigning ownership for environmental compliance obligations • Working towards IEnvA[1] accreditation to improve internal compliance processes

1 See A.2. Sustainability governance

A.5. Sustainability stakeholder engagement

Reference to GRI, TCFD and SASB standards: GRI 102-13, 102-43, 102-44

Engagement with key stakeholder groups is outlined over the next three pages.

IAG is a member of multiple trade associations which deal with environmental and climate-related issues.

If the climate-related positions of trade associations are inconsistent with internal stances, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stances and constructively move to alignment.

IAG's stance on climate change is to align its efforts with the latest science on achieving 1.5°C pathways. This applies both to the goal of achieving net zero by 2050 and to pathways aligned to the science. IAG sees both gross and net reductions in emissions as crucial elements of aviation decarbonisation, supports the mechanisms of fleet modernisation, airspace and operational efficiency, sustainable aviation fuels, carbon pricing schemes and voluntary offsets and removals, and advocates for effective policies to promote those that are effective, and fair, and ideally global. IAG also supports the principle of carbon pricing, which is to drive emissions reductions where they are most cost-effective. IAG does not support carbon taxes as it has been proven that these are environmentally inefficient.

IAG has internal governance to ensure that wider stakeholder engagement on sustainability is consistent with its material issues and environmental goals.

Stakeholders	Why we engage	Key 2021 activities
Industry associations	• To develop common policy positions • To improve advocacy effectiveness • To ensure consistency between IAG sustainability goals and the goals of associations of which IAG or operating airlines are members • To share environmental and policy expertise to drive a more sustainable industry	• Supporting IATA industry commitment to net zero emissions • Key inputs to A4E 'Destination 2050' roadmap to net zero for aviation • Coordinated **one**world roadmap to net zero and 10% SAF by 2030 commitment • Working group for new 2030 and 2040 emissions targets for UK aviation industry • Policy advocacy on evolution of EU 'Fit for 55' climate policies
Government and other regulators	• To support UK and EU commitments to net zero emissions • To build support for a net zero emissions target for aviation through the UN aviation regulator ICAO • To influence UK, Spanish, Irish, EU and global policies • To increase research and funding for low-carbon aircraft, SAF and carbon removal technologies	• Responses to UK SAF Mandate and Jet Zero Consultations • IAG staff chair two of four groups of the UK Jet Zero Council (JZC) • Direct advocacy with EU policymakers over proposed EU 'Fit for 55' climate policies
Customers	• To demonstrate IAG's sustainability commitments to action, initiatives and leadership • To facilitate passenger action on the environment • To stay attuned to changing customer demands • To offer employment opportunities	• British Airways, Aer Lingus, Iberia and Vueling continued and updated sustainability communications to customers
Workforce	• To align individual airline sustainability programmes with Group • To share ideas and best practice • To respond to demands from internal stakeholders • To drive positive employee engagement • To improve recruitment and retention opportunities	• Occupational Health and Engagement Surveys across the Group • Frequent sustainability presentations at internal forums • Vueling created a new Vision, Mission and Values which included sustainability

Stakeholders	Why we engage	Key 2021 activities
Suppliers	• To minimise exposure to ESG risks • To support manufacturers in improving aircraft efficiency • To gain support for SAF • To identify opportunities to reduce supplier emissions	• Interviews and surveys of key suppliers as part of materiality assessment • IAG GBS appointed EcoVadis to track supplier environmental performance
Shareholders and other financial stakeholders	• To understand their approach to ESG, to enable us to better align our programmes with their priorities • To demonstrate action and leadership externally • To maintain and increase transparency • To respond to legal obligations	• Completed ESG investor survey • 2021 and 2020 CDP scores A- • 2021 TPI score the joint-highest of any airline • British Airways receives first financial loan linked to ESG targets.
Communities	• To support vulnerable or under-served communities via charitable causes • To increase IAG's positive wider impacts • To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near to where airlines operate	• Multiple IAG airlines supported efforts to distribute COVID-19 vaccines and aid • €2.7 million raised for charitable causes • See Section C.5. 'Community engagement and charitable support'
NGOs and academic institutions	• For independent reviews of materiality • To maintain an informed position on sustainability leadership • To share sustainability expertise for the benefit of industry progress on the environment	• Updated Group materiality assessment • Continued engagement with Cranfield University supporting a range of sustainability projects • Engaged with the Science Based Targets initiative (SBTi) as one of 11 airlines on the aviation Technical Working Group and one of 84 companies to road-test the SBTi Net Zero Standard

Member of organisation	Scope of organisation	Stance on climate change*	2021 role and leadership action
Sustainable Aviation (SA)	UK	Consistent	• IAG is one of twelve members of the SA Council, which governs activities for 36 member organisations • Part of working group which developed new 2030 and 2040 emissions targets
Jet Zero Council (JZC)	UK	Consistent	• IAG staff chair two of the four groups: SAF Delivery Group, COP26 subgroup • British Airways CEO a member
Royal Aeronautical Society (RAeS)	UK	Consistent**	• IAG on Executive Committee of Greener by Design group
Grupo Español para el Crecimiento Verde	Spain	Consistent	• Iberia is one of 53 corporate members
Airlines 4 Europe (A4E)	European	Consistent	• IAG actively supported development of Destination 2050 net zero roadmap for European aviation, organised by five aviation industry organisations
Coalition for Negative Emissions	Global	Consistent	• One of eleven founding members and seven steering group members • Active contributor to landmark Case for Negative Emissions report, produced in collaboration with McKinsey
oneworld	Global	Consistent	• IAG representative chairs Environment and Sustainability Best Practice Group (ESB) consisting of 14 airlines • Coordinated first roadmap to net zero • Coordinated 10 per cent SAF by 2030 commitment
Air Transport Action Group (ATAG)	Global	Consistent	• Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap
World Economic Forum	Global	Consistent	• Contributed expertise to SAF evidence base as part of Cleaner Skies for Tomorrow coalition • Supported 10 per cent SAF by 2030 ambition statement
IATA	Global	Consistent	• IAG representative chairs the IATA Sustainability and Environment Advisory Council (SEAC) of 20 airlines. IATA represents 290 airlines • Representatives on four IATA working groups – SAF, Fuels, Long-Term Targets, Waste

* In relation to aiming for net zero emissions by 2050. The approaches for achieving this goal can vary by organisation.
** Based on the Greener by Design objectives on their website.

A.6. Supply chain sustainability

Reference to GRI, TCFD and SASB standards: GRI 308-2, GRI 414-2. Supports SDG 12

In 2021, IAG led the industry by becoming the first airline group worldwide to extend its net zero commitment to its supply chain. The Group will liaise with, support and monitor suppliers to ensure net zero emissions by 2050 for products and services provided to IAG.

IAG Global Business Services (IAG GBS) manages the relationships and interactions with suppliers on behalf of the Group. This important supply chain sustainability programme is being delivered by the IAG GBS Group Procurement Team, with relationship owners and buyers closely involved in the collaboration with suppliers.

Opportunities for impact

The Group supply chain covers approximately 13,272 suppliers across every category. Working with key partners, including fuel suppliers, the business will target Scope 3 net zero emissions by 2050, and a 20 per cent reduction by 2030 relative to 2019. In 2021, Scope 3 emissions are 23 per cent of IAG's total CO_2 and 68 per cent of Scope 3 emissions relate to fuel and energy.

In 2021 the Group appointed EcoVadis, a market-leading provider of business sustainability ratings, to support us in understanding every aspect of sustainability in our supply chain, including environment, labour and human rights, and ethics.

From insight to action

Transparency in sustainable supply chain performance is right at the top of the IAG GBS Procurement agenda. We will work with EcoVadis to assess our suppliers against a range of measures and identify opportunities to improve our sustainable performance. This will give IAG, and its suppliers, a baseline for collaboration on emissions reduction and achievement of the Scope 3 targets. We want to work with suppliers who share our vision and want to join us in this vitally important work. Additionally, suppliers can share the findings of the EcoVadis assessment with their other customers via a simple scorecard, meaning that the overall impact of this work could reach well beyond IAG.

The Supply Chain Sustainability Programme includes four other key pillars:

- Code of Conduct
- Risk screening
- Corporate Social Responsibility (CSR) Audits
- Joint programmes to promote sustainability initiatives

The IAG GBS Supplier Code of Conduct clarifies the standards of behaviour expected from all suppliers working with any part of our business, emphasising the importance of sustainability. It has already been issued to the existing supply chain and integrated into the supplier onboarding process. IAG will only work with businesses that share our standards and ways of working.

Social and corporate governance is also a high priority. We expect our suppliers to provide a safe and healthy environment for their workforce. Supplier selection considers potential industry and geographical risk and where necessary on-site audits are carried out. These audits are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2021, 30 audits were completed.

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. The Procurement and Compliance Teams assess any suppliers identified as having potentially higher levels of risk and implement a mitigation plan where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In 2022, sustainability will be a key part of the IAG GBS continuous transformation plan. As well as continuing the measures outlined above, the plan includes embedding sustainability KPIs into procurement processes and the criteria for awarding new business to suppliers. We are also developing a wider training programme for employees, building sustainability awareness and driving higher sustainability performance across the entire organisation.

Year	Total number of suppliers	Suppliers screened	Suppliers with additional compliance assessment	Critical suppliers under regular risk monitoring	Independent CSR Audits in year
2021	**13,272**	**13,272**	**1,510**	**34**	**30**
2020	22,947	22,947	1,818	35	25
2019	27,033	18,369	2,912	n/a	28

Related risk: Supply chain sustainability compliance

Risk description/impact	Mitigating actions
Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial penalties, legal, environmental, social and/or reputational impacts.	• IAG GBS procedures including Integrity, sanctions and CSR audits, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct • Internal governance on supplier management to identify challenges and mitigation actions • Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability

A.7. Ethics and integrity

Reference to GRI, TCFD and SASB standards: GRI 102-16, 102-17, 205-1, 205-2, 205-3

All Directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

IAG's Group Code of Conduct, issued in 2019 and approved by the Board, sets out the general guidelines that govern the conduct of all Directors and employees of the Group when carrying out their duties in their business and professional relationships. Mandatory training and communications activities are carried out for Directors, employees and third parties on a regular basis to maintain awareness and understanding of the principles that govern the conduct of the Group.

If any employee has a concern about unethical behaviour or organisational integrity, they are encouraged to first speak with their manager or a member of the Legal, Compliance or Human Resources teams. Similarly, suppliers are encouraged to contact their primary contact within the business. IAG maintains Speak Up channels provided by independent third-party providers, Safecall and Ethicspoint, where concerns can be raised on an anonymous basis. These Speak Up channels are available to members of staff as well as suppliers, with information on how to access published in the Code of Conduct and Supplier Code of Conduct respectively.

The IAG Audit and Compliance Committee reviews the effectiveness of the Speak Up channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; process and responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements or reputation of the Group or other areas of compliance.

In 2021, a total of 164 Speak Up reports were received via the Group's independently provided Speak Up facilities, compared with 193 in 2020.

These reports concerned issues relating to employment matters (60 per cent), dishonest behaviour/reputation (14 per cent), health and safety (23 per cent) and regulatory matters (2 per cent). All reports were followed up and investigated where appropriate.

Anti-corruption and anti-money laundering

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in the Group Code of Conduct and supporting policies which are available to all Directors and employees. An anti-bribery policy statement is also set out in our Supplier Code of Conduct.

Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams from across the Group meet regularly through Working Groups and Steering Groups, under the IAG General Counsel, and annually they conduct a review of bribery risks at operating company and Group level.

In 2021, the main risks identified were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. No material compliance breaches were identified in 2021.

Anti-bribery and corruption training is mandatory for all relevant personnel in IAG operating companies, Group functions and the Board and takes the form of e-learning supplemented by face-to-face sessions as necessary. Individual training requirements are set by each operating company and function and are determined by factors such as the level and responsibilities of an employee. The Group-wide anti-bribery e-learning was rolled out in 2019. Employees are required to complete this every three years. In 2021, 1,404 employees completed the anti-bribery e-learning, This lower number is as expected due to those employees who have previously completed the training not being required to retrain.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based-third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

There were no legal cases regarding corruption brought against the Group and its operating companies in 2021 and management is not aware of any impending cases or underlying issues.

IAG has processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls which help to combat money laundering in the business.

	vly	**2021**	2020	2019
Employees completing anti-bribery e-learning	-29%	**1,404**	1,984	7,933

B. Planet

B.1. Climate change and TCFD disclosures

IAG was pleased to be an early adopter of Task Force on Climate-related Financial Disclosures (TCFD) guidance. A high-level summary of TCFD-aligned activities is below.

TCFD section	Current TCFD-aligned activities and processes	Planned activities
Governance	Board oversight of programmes via SECR Committee; appointed CPCASO; multiple layers of governance; repeated materiality assessment for 2023 and 2030	Regular SECR meetings planned for 2022; materiality assessment to be repeated by 2024
Strategy	Delivering on 2019 Flightpath Net Zero strategy; TCFD-aligned scenario analysis carried out in 2018 and 2021	Implementing new sustainability strategy approved in December 2021, rolling TCFD-aligned scenario analysis, further integration of climate strategy into financial planning
Risk management	Sustainable aviation risks are treated as a principal risk; risk disclosures received 'A' rating from CDP	Further work on risk quantification and further integration of climate-related impacts into financial planning
Metrics and targets	Clear metrics and targets for 2025, 2030 and 2050; first airline to set a net zero Scope 3 emissions target	Re-introduction of management remuneration targets. A focus on performance improvements and policy advocacy to support delivery of existing targets

IAG has made climate-related disclosures consistent with the eleven recommendations of the TCFD listed below. More details are in the relevant sections.

TCFD recommendation	Relevant section/s
Governance: Disclose the organisation's governance around climate-related risks and opportunities.	
A. Describe the Board's oversight of climate-related risks and opportunities. B. Describe management's role in assessing and managing climate-related risks and opportunities.	A.2., A.4.
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	
A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	A.4., B.1.3., 'Risk management, Principal risks and uncertainties', 'Stakeholder engagement' Business model B.1.2.
Risk management: Disclose how the organisation identifies, assesses and manages climate-related risks.	
A. Describe the organisation's processes for identifying and assessing climate-related risks. B. Describe the organisation's processes for managing climate-related risks. C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	A.4., B.1.3. 'Risk management, Principal risks and uncertainties'
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	
A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks. C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	B.1.4., B.1.6.

B.1.1. Governance

Reference to GRI, TCFD and SASB standards: TCFD Governance a, b

See "Principles of Governance" section for sustainability-related governance, which includes climate-related governance.

B.1.2. Strategy – scenario analysis

Reference to GRI, TCFD and SASB standards: TCFD Strategy c

In 2021, IAG conducted analyses modelling climate risk scenarios. These included ongoing analysis of climate mitigation to 2050, detailed modelling of the impacts of the EU Fit for 55 proposals to 2035; and TCFD-aligned scenario analysis under a timeframe of 2030.

TCFD analysis is a formal process to identify ways to strengthen organisational resilience in the face of climate change and related impacts. TCFD guidance outlines a six-step process, where scenarios assess climate-related impacts on business input costs, operating costs, revenues, supply chain, and business interruption. Potential responses are then mapped out in terms of changes to business model/s, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

Companies choose emissions scenarios for this analysis. In 2018 IAG chose a 4°C and 2°C scenario. In 2021, a 3°C, 1.5°C orderly[1], and 1.5°C disorderly scenario were used. This change was based on the impacts of the latest global emission pledges versus the goal of the 2015 Paris Agreement.

Scenario workshops were hosted virtually to engage IAG representatives in the UK, Ireland and Spain. A wide range of teams were represented including Strategy, Treasury, Finance, Government Affairs, Commercial Planning, Investor Relations, People, IAG Tech, IAG GBS, IAG Loyalty and sustainability representatives from all operating airlines.

Four categories of TCFD-aligned climate impacts were explored – physical, market, technology, and policy.

This exercise identified that key potential impacts were industry-wide policy and market shifts. Significant uncertainty also exists around the global policy, technology and market pathways for aligning with 1.5°C by 2030.

The business is broadly resilient to the identified impacts, based on Flightpath Net Zero plans. However, there are further opportunities to maximise resilience to wider societal changes. These results informed our climate-related risk assessment and disclosures.

In December 2021, the SSG also agreed that TCFD-aligned scenario analysis would become a rolling exercise from 2022 onwards. Ten year time horizons would be further embedded into sustainability-related planning wherever relevant.

B.1.3. Climate-related risk management

Reference to GRI, TCFD and SASB standards: TCFD Risk Management a, b, c

See "A.4. Sustainability risk management"
See "Risk management, Principal risks and uncertainties"

IAG takes a proactive approach to managing climate-related risks and is committed to managing the regulatory, reputational, market and technology aspects of these.

In 2021, IAG Sustainability and the ERM team undertook a review of all climate-related risks and opportunities. This was informed by the materiality assessment and TCFD scenario analysis.

A revised summary of risks, trends and potential impacts over short-, medium- and long-term timescales are disclosed on the next page. The risk environment has changed and this is reflected in the updated set of risks.

Trends and the external environment continue to be reviewed on an ongoing basis. Mitigating actions are also reviewed on an ongoing basis. Carbon reduction targets are the key measures for assessing the mitigation of these risks and other measures will be reviewed.

1 "Orderly" and "disorderly" as defined in the TCFD report "Guidance on Scenario Analysis for Non-Financial Companies". These scenarios compare smooth and idealised climate-related changes with variable, abrupt and disjointed changes.

Revised summary of risk trends

Risk trends below are grouped by risk type. Short term is 1-2 years, medium term is 3-5 years, long term is more than 5 years.

Primary TCFD risk type	Risk description	Timeframe	Trend
Market	*Loss of ESG-conscious customers	Short term	↑
	Perceptions of aviation industry CO_2 progress	Medium term	↑
	Viability of offset projects	Medium term	=
Physical	*Resilience to acute weather events	Short term	=
	Reduced flying to chronically climate-affected destinations	Long term	=
Policy	*EU Fit for 55 and UK climate policy	Medium term	↑
	*Carbon pricing	Medium term	↑
	Policy asymmetry	Medium term	↑
	Extra regulation on activity not emissions	Long term	↑
	*Lack of supporting SAF infrastructure or policy	Medium term	↑
	Regulation on non-CO_2 effects	Long term	↑
Technology	Use of lower-emission technologies	Medium term	=
	Use of lower-emission sources of energy	Long term	=

* Risks as described in the 'Risk management, Principal risks and uncertainties' section.

Summary of climate-related risk impacts and mitigation/adaptation

See the table above for risk trends. Specific risks are mitigated through existing processes, additional investments, or specific strategies as outlined in the table below. The potential for further mitigating actions is reviewed on an ongoing basis.

Market risks

Loss of ESG-conscious customers

Risk description	Potential financial impacts	Mitigating/adapting actions
• ESG concerns becoming an increasing factor in customer choices may mean they choose to travel less frequently, less far, or choose different travel modes. Corporates may travel less to meet internal emission targets. • A potential loss of customers to other airlines with more comprehensive ESG programmes.	• Lost revenue due to corporate or leisure passengers reducing flying, or travelling with other airlines perceived to be greener.	• IAG refined Group ESG messaging to clarify stances to external stakeholders • Continued operating company engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns in advance of changes in behaviour • British Airways launched the BA Better World programme in 2021, including a voluntary SAF offer to customers and updated communications across multiple channels • Iberia planned new communications for 2022 • Aer Lingus launched a new sustainability webpage outlining its ESG efforts • Vueling launched an external sustainability challennge to engage customers • IAG Loyalty began integrating sustainability objectives into the Avios proposition

This risk presents an opportunity for IAG to differentiate its brands by showing leadership, innovation and action to mitigate climate impacts, so attracting climate-conscious corporates and agreeing deals to support green solutions.

Perceptions of aviation industry CO_2 progress

Risk description	Potential financial impacts	Mitigating/adapting actions
Perceptions that industry action is at odds with national or international climate goals and publicly stated ESG progress, could lead to more restrictive policies, loss of customers or funding, or industry-wide reputational impacts.	Lost revenue due to corporate and leisure passengers choosing not to fly. Costs from extra regulation as described on the next page.	• Working to accelerate wider industry progress through trade associations, by supporting new commitments and roadmaps to net zero emissions at national, regional and global levels, building momentum for a net zero target at ICAO in 2022 • Building global momentum around 2030 SAF ambitions of at least 10 per cent, to enable more passengers to reduce emissions from flights

This risk presents an opportunity for IAG to show faster progress than the industry and to attract funding and customers relative to peers.

Viability of offset projects

Risk description	Potential financial impacts	Mitigating/adapting actions
Offset projects around the world are used for CORSIA compliance and voluntary IAG and customer offsetting. Spikes in prices or sudden changes in the availability or credibility of these projects could increase costs, or negatively impact the ability to meet net emissions targets, damaging credibility.	Additional compliance costs under UK and EU ETS or CORSIA programmes, or increased costs associated with use of voluntary offsets.	• Working in collaboration with key reputable partners such as the not-for-profit charity Pure Leapfrog • Carrying out due diligence to select reputable providers and carbon reduction projects that meet and align with verified quality standards such as Gold Standard and Verified Carbon Standard (VCS) • Using an effective procurement strategy for carbon credits to protect against price volatility • Engaging with external organisations like CORSIA and SBTi to clarify and refine offset eligibility criteria

Physical risks

Resilience to acute weather events

Risk description	Potential financial impacts	Mitigating/adapting actions
Potential low resilience to increased frequency of acute weather events such as high winds, fog events, storms, turbulence, sustained extreme heat events or a stronger jet stream could increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs above planned spend. Local climate-related circumstances such as fires, algal blooms and droughts could make destinations temporarily less attractive.	Lost revenue due to weather-related disruption, or increased operational costs due to physical impacts, that are unable to be effectively mitigated or planned for.	• Operating airlines continuing to manage multiple forms of disruption across IAG's global network within existing roles and processes, such as flight operations departments and customer call centres • Continuing to work closely with IATA and other industry bodies to better understand e.g. the impacts and locations of turbulence and how the business can mitigate these

Reduced flying to chronically affected destinations

Risk description	Potential financial impacts	Mitigating/adapting actions
Chronic changes in weather and physical impacts of climate change such as flooding, drought, forest fires, heat waves, algal blooms, coral bleaching, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.	Revenue loss in a scenario where no changes have been made to the route network in the face of changing physical impacts.	• Operational and network development teams continuing to assess and understand changes in customer demand globally and managing network developments and flight schedules to respond to such changes • Analysis of historical weather-related impacts to support future planning • TCFD-aligned scenario analysis to better understand potential physical impacts of climate change in future, and the potential locations of this e.g. more turbulence on transatlantic flights, fires in Meditteranean destinations, and hurricanes in the Caribbean

Policy risks

Carbon pricing

Risk description	Potential financial impacts	Mitigating/adapting actions
IAG carries passengers within the UK and Europe, where aviation emissions are subject to carbon prices due to the UK and EU Emissions Trading Schemes. Increases in carbon unit prices above planned levels, or unplanned exposure to carbon pricing, could mean increasing operating costs.	Additional compliance costs under UK and EU ETS.	• Minimising emissions and so exposure to carbon pricing, via the Flightpath Net Zero programme • Operating airlines factoring carbon prices into operational decisions • Fleet team using up-to-date models of carbon prices to inform fleet-purchasing decisions • Using an effective procurement strategy for carbon allowances and offsets to protect against price volatility

EU Fit for 55 and UK climate policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Current and proposed UK and EU policy includes an intra-EU kerosene tax, SAF mandates, and non-implementation of CORSIA on intra-EU flights. Policy risks include layering (airlines paying for the same carbon twice) and competitive distortion between EU and non-EU carriers. Taxes increase compliance and operating costs without leading to lower CO_2 emissions.	Lost demand due to potential passthrough of significantly higher compliance costs to customers. Traffic lost to non-EU carriers which don't face the same costs.	• Minimising emissions and so exposure to climate-related policies • Responding to the 2021 ReFuelEU consultation and UK SAF Mandate consultation to minimise the risks of any mandates creating competitive distortion or carbon emissions from other flights or regions • IAG Government Affairs engaging in direct advocacy with EU policy-makers and via trade associations SA, A4E and IATA to try to ensure finalised policies address climate change in an effective and fair way

Policy asymmetry and patchwork

Risk description	Potential financial impacts	Mitigating/adapting actions
A patchwork of differing national and regional carbon regulations could lead to duplication of compliance costs and effects that distort competition between airlines.	Additional compliance costs, and loss of traffic and revenue due to competitive distortion i.e. other carriers not experiencing the same costs.	• Advocacy for a global policy approach based on carbon pricing, by building momentum for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022. Actions include supporting a European roadmap to net zero and **one**world roadmap to net zero and convergence around a 10 per cent SAF ambition by 2030 • Continuing to support the UN CORSIA scheme as part of policy advocacy at national and regional levels • Allocating resources to engage with governments, trade associations, IATA and ICAO

Extra regulation on activity not emissions

Risk description	Potential financial impacts	Mitigating/adapting actions
The UK Climate Change Committee has recommended aviation demand management by 2050 in the sixth carbon budget. While the UK government has not adopted this approach, it remains a potential risk in the long term. Other long-term risks include enforced fleet renewal, additional taxes and frequent flyer levies, which are costly and ineffective policies for reducing CO_2.	Lost revenue due to lower flying activity, and potential operational costs due to need to shrink operations relative to plan or absorb or pass through additional costs.	• Working via Sustainable Aviation to set 2030 and 2040 net reduction targets and demonstrating credible industry pathways to net zero without the need for demand management • Advocacy for a global policy approach based on carbon pricing, by supporting European and **one**world roadmaps to build momentum for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022 • Allocating resources to engage with governments, trade associations, IATA and ICAO

Lack of supporting SAF infrastructure or policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Meeting UK and EU SAF mandates and IAG SAF commitment in 2030 is partly contingent on adequate policy support. A potential lack of supporting government policy to enable infrastructure could limit SAF supply, leading to SAF imports with lower sustainability performance, or higher ETS costs or reputational damage.	Higher UK and EU ETS compliance costs if SAF supply cannot meet demand or mandated volumes.	• Building global momentum for SAF ambitions and policies by working with trade associations • Through JZC, lobbying for UK government support in the form of loan guarantees and financial support for first-of-a-kind SAF plants, and a price stability mechanism to reduce risks for investors • €8.6 million invested in 2021 as part of $400 million SAF commitment, along with multiple SAF projects in multiple regions to secure future supply and a procurement strategy to minimise price-related risks

Regulation on non-CO_2 effects

Risk description	Potential financial impacts	Mitigating/adapting actions
EU or other policy makers taking a punitive approach to reducing non-CO_2 impacts, by incorporating them into climate compliance schemes and climate-neutral policy objectives, which could increase compliance or operating costs.	Lost revenue due to industry demand impact of higher compliance costs, applied to all airlines not just IAG.	• Working through trade association SA and research partnerships with the RAeS to identify actionable solutions to reduce non-CO_2 impacts • A 2030 SAF commitment to accelerate uptake of SAF, which early external research suggests reduces non-CO_2 effects

Technology risks/opportunities

Use of lower-emission technologies

Risk/Opportunity description	Potential financial impacts	Mitigating/enabling actions
Potential low supply of new zero-emissions technology meaning its use is restricted across the industry or is not available to IAG. Suppliers not being ready to use new technology means uptake is low or costly.	Limited ability to access or scale-up new technologies could lead to increased operating costs and carbon compliance costs relative to competitors. Lower fuel and compliance costs from a fleet averaging 80g CO_2/pkm, the Group 2025 target	• €10.8 billion committed for deliveries of 110 new fuel-efficient aircraft between 2022-27 • Hangar 51 platform making early investments in innovative companies to accelerate their development e.g. work with ZeroAvia • Ongoing horizon scanning by IAG Tech for new technologies and opportunities for ventures investment • A dedicated sustainability category in the Group ten-week accelerator programmes, to identify low-carbon innovators to work with

There is an opportunity to make use of latest-generation aircraft, which can reduce fuel burn and carbon impact by 15 to 40 per cent compared with the aircraft they replace.

Use of lower-emission sources of energy

Risk description	Potential financial impacts	Mitigating/enabling actions
Potentially limited global supplies of SAF could affect the ability to uptake SAF in the EU ETS and meet IAG 2030 SAF commitment. This could also lead to reputational damage.	Additional operating costs and compliance costs.	• Ongoing investments as part of $400 million SAF commitment, along with multiple SAF projects to secure future supply • IAG staff chairing the SAF Delivery Group of the JZC, lobbying for a price stability mechanism to reduce risks to investors of scaling up SAF supply and securing UK Government support to incentivise 10 per cent SAF in 2030 • An effective IAG SAF procurement strategy to secure early supply and minimise price-related risks

Securing supplies of sustainable fuel presents a commercial and environmental opportunity, reducing operating costs relative to other carriers and reducing compliance costs for CORSIA and the UK and EU ETS.

B.1.4. Metrics

Reference to GRI, TCFD and SASB standards: GRI 301-1, 302-1, 305-1, 305-2, 305-3, 305-4, 305-5. TCFD Metrics and Targets a, b, c

IAG tracks and verifies Scope 1, 2 and 3 CO_2-equivalent (CO_2e) emissions.

Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report.

2021 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available.

IAG discloses methane (CH_4) and nitrous oxide (N_2O) as Scope 1 non-CO_2 greenhouse gases (GHGs), in line with these conversion factors.

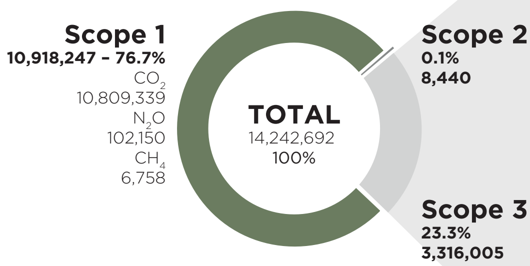
Emissions were 65 per cent below 2019 levels due to COVID-related impacts, and are expected to rise as flying demand recovers. However, internal forecasts suggest 2019 could represent peak emissions, due to future use of a more fuel-efficient fleet and greater use of SAF.

IAG focuses on reducing CO_2 from jet fuel use, as this represents 99.6 per cent of CO_2e emissions.

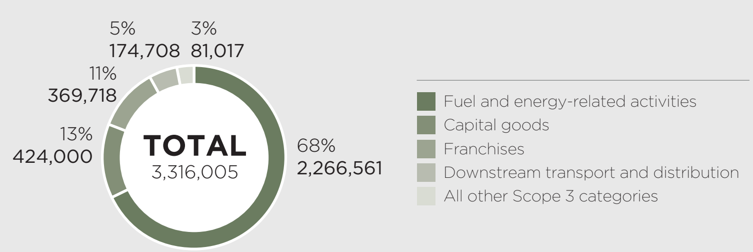
Renewable energy was 0.5 per cent of total energy use due to the low availability of sustainable jet fuel. Renewable electricity was 86 per cent of electricity use.

UK energy use was 55 per cent of total IAG energy use, based on British Airways Scope 1 emissions and Group electricity use in UK-based offices.

Total GHG emissions in tonnes CO_2e[1]



Scope 3 GHG emissions in tonnes CO_2e[1]



1 Scope 1 MWh is 41,960,297, Scope 2 MWh is 189,013.

Commentary on key metrics

Metric	Description	Commentary
Gross Scope 1 emissions	Direct emissions associated with IAG operations including use of jet fuel, diesel, petrol, natural gas, and halon. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines. SAF use is counted as a reduction in gross emissions in line with globally recognised accounting standards	2021 emissions remained low due to low flying activity as a result of the COVID-19 pandemic.
Scope 2 emissions	Indirect emissions associated with electricity use in ground facilitites like offices, lounges, data centres and hangars. **Market-based** emissions are based on the carbon intensity of electricity purchased from suppliers. **Location-based** emissions are based on the carbon intensity of national electricity grids. CO_2e is calculated using gCO_2e/kWh factors from national agencies in the UK, Ireland and Spain, and IEA national electricity emissions factors.	The 19% decrease in location-based emissions was driven by lower electricity use and greener national electricity grids e.g. from lower use of coal. Where the electricity use of overseas offices was not available, kWh was based on leased space in m^2, multiplied by relevant kWh/m^2 factors based on historical data.
Scope 3 emissions	Indirect emissions associated with products IAG buys and sells. Twelve out of fifteen Scope 3 categories, as defined by the GRI, are relevant to IAG. Detailed descriptions of these categories are in the Additional Disclosures section of the IAG NFIS.	81% of Scope 3 emissions relate to fuel use and aircraft deliveries and retirements. Total Scope 3 emissions remained low due to low business activity.

Key carbon footprint metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Scope 1 CO_2e	MT CO_2e	-1%	-65%	**10.92**	11.02	30.13*	29.99	28.76
Net Scope 1 CO_2e	MT CO_2e	-4%	-62%	**10.50**	10.85	26.95*	27.22	26.17
Scope 2 location-based	kt CO_2e	-19%	-47%	**39.2**	48.2*	68.6	70.4	92.6
Scope 2 market-based	kt CO_2e	-9%	-57%	**8.4**	9.3*	21.7	40.7	61.9
Scope 3	MT CO_2e	-9%	-60%	**3.32**	3.63*	8.20*	8.79	7.88

Other metric	Unit	% vly	v2019	**2021**	2020	2019	2018	2017
Flight-only emissions intensity	gCO_2/pkm[1]	-11%	+5%	**94.6**	106.2	89.8	91.5	92.3
Scope 2 emissions intensity	gCO_2/pkm	-28%	+55%	**0.34**	0.47*	0.20	0.22	0.28
Revenue per tonne CO_2e	€/tonne CO_2e	+9%	-7%	**771**	705	827	811	796
Jet fuel[2]	MT fuel	-1%	-65%	**3.42**	3.45	9.65	9.41	9.02
Electricity	'000 MWh	-6%	-29%	**189.0**	200.1*	267.7*	234.9	253.2
Energy	Mn MWh	+1%	-42%	**42.1**	41.9*	119.7	119.4	114.4
Renewable electricity	%	0%	+14%	**86%**	86%	72%	54%	54%
Renewable energy	%	+0.1%	0.3%	**0.5%**	0.4%	0.2%	nr	nr

Note: "nr" means "not reported". * means restated using the latest robust data and assumptions.
Descriptions and commentary on other metrics is available in the 'Additional Disclosures' section of the IAG Non-Financial Information Statement.
1 pkm means "passenger-km" as defined in the commentary below.
2 SAF use was 2,350 tonnes of fuel in 2021 and delivered 6,506 tonnes of CO_2 savings. See B.1.7. 'Gross emissions reductions'

Commentary on key metrics

Metric	Description	Commentary
Flight-only emissions intensity	Grammes of CO_2 per passenger kilometre (gCO_2/pkm) is a standard industry measure of flight fuel efficiency. It is calculated by dividing total jet fuel use by total passenger-km, assuming ten cargo-tonne-km is equivalent to one passenger-km. For accuracy, IAG excludes the jet fuel used by franchises, cargo carried on other airlines, and engine testing, and excludes no-show passengers. The passenger-km used in the 2021 calculation is 77,280 million and the cargo-tonne-km is 3,656 million.	The 11% improvement in 2021 is driven by a recovery in passenger load factors, although average load factors remain below 2019 levels. Average Group fuel efficiency is forecast to be below 90g CO_2/pkm in 2022 and on track for the 2025 target of 80g CO_2/pkm. IAG remains committed to the 2025 target.
Net Scope 1 emissions	Net emissions are calculated based on gross emissions and then subtracting any carbon savings from EU ETS compliance obligations, volumes of offsets purchased to meet CORSIA compliance obligations, and the volumes of offsets voluntarily purchased. EU ETS allowances purchased from other sectors equate to a net reduction as per European Commission guidance. IAG has been disclosing net emissions since 2017 using this methodology	2021 net emissions are reduced by 0.42 MT due to compliance with the UK, Swiss and EU ETS in addition to voluntary offsetting by Group airlines and passengers. Net emissions reductions are also expected to be achieved via CORSIA credits when global international emissions rise above 2019 levels.
Renewable electricity	The share of electricity generated by renewable sources such as solar power and wind, based on volumes procured from renewable electricity suppliers. In cases where data on electricity sources was unavailable, the source of electricity is assumed to be the national grid.	Renewable electricity use across the Group has increased by 32 percentage points since 2017. This percentage is expected to increase in 2022. It will be difficult to attain 100% due to use of electricity supplied at airports and at overseas office locations where renewable electricity is not available.

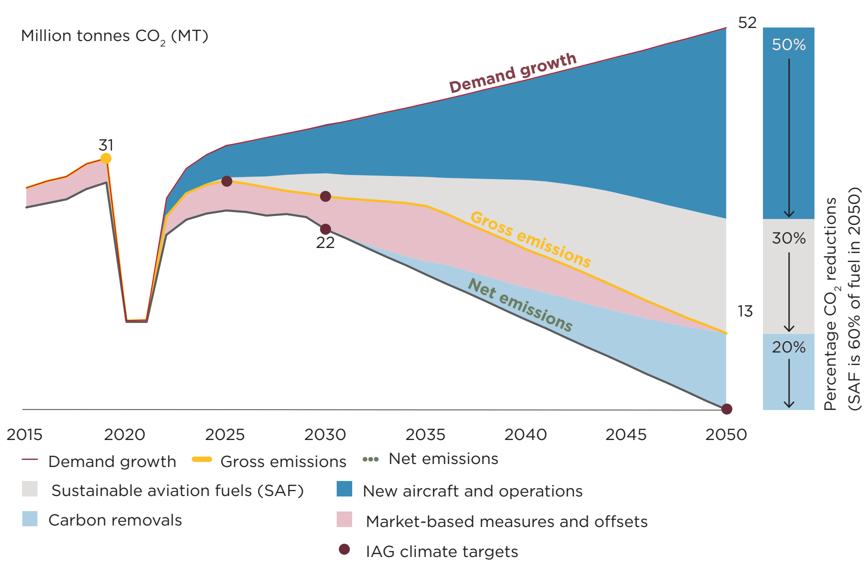
B.1.5. Transition plan

IAG recognises that all transport modes need to transition to net zero emissions to keep global warming below 1.5°C.

In 2019 IAG was the first airline group to sign the Business Ambition for 1.5°C Pledge and to commit to a transition to net zero emissions by 2050. The IAG Flightpath Net Zero strategy included a 30-year emissions roadmap to meet this outcome as well as short- and medium-term targets and a commitment to climate-related management incentives. The roadmap currently informs ongoing scenario analysis, planning, strategy, and risk management. The latest scenario is shown below with key assumptions on the next page.

IAG has also been a leader in developing aviation industry transition plans. It was the first airline group to support roadmaps to net zero emissions across national, regional and global industry alliances, one of only two airlines worldwide to engage in both the SBTi Technical Working Group for aviation targets and the road-testing of the SBTi Net Zero Standard, and one of only three airlines to be acknowledged in the ATAG Waypoint 2050 work on global aviation decarbonisation. In 2021, via industry association SA, IAG staff helped to develop and launch the first 2030 and 2040 climate targets for UK aviation: 20% and 40% net reductions respectively.

IAG will continue working with multiple industry partners, regulators, and stakeholders on pathways for aviation that support global 1.5°C ambitions, and to increase the ability of the industry to deliver emissions reductions.



IAG is working to increase the contribution of gross emissions reductions to the net zero target. Each roadmap version reflects this.

% of expected emissions reductions in 2050	**2021 version**	2020 version	2019 version
New aircraft and operations	**50%**	45%	39%
SAF	**30%**	25%	18%
Carbon removals	**20%**	30%	43%

Pillar of carbon roadmap	Related actions to accelerate progress and innovation (also see Section B.1.9. 'Innovation')
New aircraft and operations	• Ongoing fleet modernisation • British Airways was the first airline worldwide to invest in hydrogen, with a Ventures investment in ZeroAvia at the beginning of 2021 • Venture capital investment in i6 fuel management software company
Sustainable Aviation Fuels (SAF)	• See "Spotlight: Sustainable Aviation Fuel" • Venture capital investment in leading sustainable fuels company Lanzatech
Market-based measures with offsets	• Support for the global CORSIA scheme to limit net emissions from aviation
Carbon removals	• Horizon scanning of carbon capture and removal opportunities

B.1.6. Targets

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. TCFD Metrics and targets c. Supports SDG 13

IAG's net zero emissions by 2050 target will be delivered by working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development. In this context, net zero emissions means that all CO_2 that IAG operations emit in a year will be balanced out by an equivalent amount of CO_2 removed from the atmosphere.

IAG will review targets on non-CO_2 impacts when the science around these becomes robust enough to attribute impacts and reductions to individual airlines. Key actions to reduce non-CO_2 impacts include greater uptake of SAF and route optimisation, and IAG continues to explore these solutions through its trade associations.

IAG GBS is developing supply chain sustainability targets in conjunction with EcoVadis. To meet Scope 3 targets IAG will focus on influencing change, identifying collaborative emissions reduction projects and phasing in contractual requirements. Some suppliers will use a combination of gross and net reductions to meet their own targets and IAG plans to report more detail on this balance in future.

IAG remains committed to science-aligned targets. Independent guidance on 1.5°C-aligned targets for aviation has yet to be published and we will review future guidance to ensure it accounts for the practical differences between aviation and other sectors. Where possible, we will also work with the SBTi and other relevant stakeholders to build understanding of these differences and of industry decarbonisation pathways.

IAG will continue working with other stakeholders to enable delivery of targets.

Current transition plan targets:

Base year	Target year	Target
2020	2020	Net zero CO_2 emissions for all British Airways UK domestic flights from 2020 onwards. Achieved in 2020 and 2021.
2019	2025	11 per cent improvement in gross fuel efficiency. From 89.8g CO_2/pkm in 2019 to 80g CO_2/pkm in 2025.
2019	2030	10 per cent SAF. Equivalent to approximately 1 million tonnes of fuel in 2030.
2019	2030	20 per cent reduction in combined net Scope 1 and 2 CO_2 emissions. From 27.6 MT in 2019 to 22 MT.
2019	2030	20 per cent reduction in net Scope 3 CO_2 emissions. From 8.1 MT in 2019 to 6.5 MT.
2019	2050	Net zero Scope 1, 2 and 3 emissions. Use of removals to mitigate any residual Scope 1 and 2 emissions.
Operating company-specific climate targets for sustainability-linked loans		
2019	2025	88.3g CO_2/pkm in 2025 for British Airways, an 8 per cent reduction compared to 2019.

In January 2021, British Airways was the first airline worldwide to receive a loan linked explicitly to achievement of ESG targets.

Current transition plan assumptions:

The roadmap chart to the left represents a core Group scenario which assumes continued policy support for aviation decarbonisation, an overall recovery to 2019 levels of passenger demand by 2023, and then annual demand growth aligned with industry growth forecasts and external guidance. Scenario and cost analysis is ongoing.

Key roadmap updates in 2021 are:

- A 2040 introduction for zero-emission shorthaul aircraft, based on manufacturer announcements and certification timelines;
- 60 per cent SAF in 2050, based on policy moves in the UK, Europe and USA;
- Net emissions reductions via the compliance schemes the UK and EU ETS, CORSIA and voluntary offset projects;
- A clearer pathway to full use of carbon removals in 2050 for any residual emissions.

IAG is working with relevant stakeholders to accelerate progress in every pillar of the roadmap.

Delivery of current plans, dependent on appropriate policy support, will enable an approximately 70 per cent drop in gross emissions by 2050 and an 80 per cent improvement in gross gCO_2/pkm, relative to 2019. Only 10 per cent of total emissions reductions delivered between 2020 and 2050 are expected to be from compliance and voluntary offset projects.

IAG will update this core roadmap scenario in 2022 to account for relevant business, policy, scientific and technology developments.

B.1.7. Gross emissions reductions and efficiency

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. GRI 305-5. Supports SDGs 3, 8, 13

IAG is actively driving reductions in its gross emissions. Based on the latest carbon roadmap, these represent 80 per cent of total emission reductions in the year 2050. There are four main methods of achieving these reductions:

- Modernising the aircraft fleet. Purchasing the latest aircraft models like the Airbus A320neo, Boeing 777 and Airbus A350, which are up to 40 per cent more efficient than aircraft they replace, whilst retiring older aircraft;
- Optimising the use and efficiency of the aircraft fleet. For example, optimising flightpaths, allocating fuel-efficient aircraft to specific routes and implementing in-flight efficiency initiatives which save fuel without compromising safety, service or flight schedules. These initiatives include optimised engine washes, single-engine taxiing, continuous descents, landing flaps and reducing weight onboard;
- Increasing the use of cleaner energy sources in the fleet. For example, use of SAF displaces fossil fuel use and delivers lower CO_2 emissions over a comparable lifecycle. Fuels from bioenergy and non-fossil carbon-rich feedstocks are also used outside the aviation industry; and
- Increasing the use of renewable electricity and renewable energy for ground faciilities and operations.

IAG continues to develop operational and fuel efficiency initiatives for both aircraft and ground operations.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
GHG reduction initiatives	CO_2e tonnes	247%	-9%	**59,725**	17,208	77,386	65,887	nr
Fleet age	years	+8%	-2%	**11.2**	10.6	11.4	11.3	11.4

Key 2021 emission reduction milestones:

- 6,506 tonnes of CO_2 saved due to SAF use in 2021 and a pipeline of projects in support of our 2030 SAF target;
- Regular meetings of an IAG-wide sustainability Fuel Efficiency Working Group to support and enable fuel efficiency practices across IAG's global network, including ongoing use of the Honeywell Flight Efficiency software;
- British Airways carried out a "perfect flight" from London to Glasgow on a fuel-efficient Airbus A320neo, delivering emissions 62 per cent lower than to a similar flight a decade ago due to a 35 per cent SAF blend and maximising on-ground and in-flight efficiency;
- Vueling reduced 1,000 tonnes of onboard weight by using lightweight trolleys and worked with the Spanish air traffic management provider ENAIRE to improve airspace efficiency;
- Aer Lingus carried out more robust evaluation of fuel efficiency trends;
- Iberia started receiving electricity from 10,000m^2 of solar panels on its engine maintenance hangar in Madrid, the largest site to self-generate electricity of any company in the IBEX 35; and
- IAG Cargo successfully completed trials of new electric vehicles at London Heathrow and Dublin airports.

Spotlight: Sustainable Aviation Fuel

In April 2021, IAG was the first European airline to commit to 10% SAF by 2030, dependent on appropriate government policy support.

This is the equivalent of using 1 million tonnes of fuel in 2030, with the equivalent carbon saving of taking over 2 million cars off the road. IAG has a long-standing SAF commitment, having committed in 2017 to invest $400 million in SAF over 20 years, and is targeting use of at least 19 million tonnes of SAF between now and 2040 based on the latest roadmap.

IAG is a leader in the development of SAF projects not only through committed purchases of SAF, but also by making direct investments in new and innovative SAF production capacity, spurring the wider development of the SAF market. The Group’s investments are backed up with SAF purchase agreements which are critical to the financeability of the new SAF production capacity. IAG has also been leading the industry at developing and advocating for “second-generation” SAF, which use carbon-rich waste feedstocks and advanced conversion technologies, as opposed to first-generation SAF which is predominantly manufactured using crop feedstocks.

2021 was a significant year for the Group SAF programme. It remains on track with a total of €8.6m million invested in SAF agreements. British Airways, Iberia and Vueling all operated flights using SAF blends, and IAG airlines had uptakes of mandated SAF volumes in Norway and Sweden.

Key firsts for the Group:

- Managing the import of the UK’s first ever bulk SAF to supply IAG Cargo to operate the world’s first net zero cargo charter flights between Stuttgart, Heathrow and Atlanta for its customer Kuehne+Nagel; and
- Developing the partnership with the UK refiner Phillips 66 to develop the UK’s first SAF production facility, with British Airways the first airline in the world to receive SAF from this facility from 2022.

Some current SAF projects:

IAG continues to work with technology developers to establish a range of SAF supply options for the future. Below are some of the projects that are in the public domain and we continue to develop others including carbon capture projects.

Project/Partner	Feedstock	Production location	Planned production start
IAG Cargo/Neste	Used cooking oil (UCO)	Europe	2021 one-off
COP26/AirBP	UCO	Europe	2021 one-off
Phillips 66/Phillips 66	UCO/Food waste	Humber, UK	2022
Freedom Pines/LanzaJet	Agricultural wastes	Georgia, USA	2023
oneworld/Aemetis	Waste wood	California, USA	2024
Project Dragon/LanzaTech	Waste gases and agriculture	South Wales, UK	2025
Bayou Fuels/Velocys*	Forestry residues	Missisippi, USA	2026
Speedbird/LanzaTech/NovaPangea*	Waste wood, forestry residues	UK	2026
Altalto/Velocys*	Municipal waste	Immingham, UK	2027

*includes carbon capture and storage.

B.1.8. Net emissions reductions

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. Supports SDGs 7, 9, 13

Net/out-of-sector emissions reductions are a critical part of aviation decarbonisation pathways, as airlines proactively lay the groundwork for faster reductions in gross emissions in future.

IAG sees carbon offset projects as key to reducing its emissions in the short and medium term, en route to full use of carbon removals in 2050 to mitigate any residual emissions.

IAG is delivering net reductions via three key channels:

- Through the EU-regulated Emissions Trading Scheme, purchasing carbon allowances from other sectors which drives and funds additional emission reduction projects. Airlines have been participating since 2013;
- Through the UN-regulated CORSIA scheme, investing in a combination of fleet modernisation, efficiency, SAF and offsets to meet the global goal of keeping net international aviation emissions at or below 2019 levels; and
- Through voluntary funding of internationally verified offset or carbon removal ('negative emissions') projects in the UK, Europe and around the world. This funding can either come from customers who choose to mitigate the impact of their flights, or from IAG or operating companies funding projects directly. British Airways has offered voluntary offsetting since 2003.

When IAG or operating companies choose to voluntarily invest in carbon avoidance and removal projects, they work in collaboration with key partners, carry out due diligence to select reputable providers and select projects carefully to meet and align with verified quality standards such as Gold Standard- and Verified Carbon Standard (VCS)-verified carbon reduction projects.

2021 projects included rainforest protection in Cambodia, Peru and the Congo Basin, and sustainable cook stoves for communities in Sudan and Malawi.

IAG will be required to purchase credits for CORSIA when global emissions from international flights rise above 2019 levels.

Key 2021 progress:

- IAG contributed to a landmark report by McKinsey and the Coalition for Negative Emissions outlining the Case for Negative Emissions and the need for urgent government action to develop supportive carbon removals policy;
- British Airways and Aer Lingus continued to offer voluntary carbon offsetting for passengers and Iberia created a carbon calculator to enable passengers to establish their carbon impact; and
- The British Airways Carbon Fund, in partnership with not-for-profit charity Pure Leapfrog, worked to deliver four high-quality carbon reduction projects in the UK and Africa. One example was supporting community-owned renewable power close to the British Airways engineering/maintenance base in Wales.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Net emissions reduction through EU, UK, Swiss ETS	'000 tCO_2e	n/a	-93%	**219**	0*	3,182	2,634	nr
Via voluntary funding and projects	'000 tCO_2e	+17%	n/a	**197**	168	nr	nr	nr

* Emissions levels in 2020 were below the EU ETS sector cap for aviation so no net reductions were delivered.

B.1.9. Innovation

IAG invests in innovation to meet its targets, drive decarbonisation in the Group and to accelerate wider change towards a more sustainable industry.

Hangar 51 is IAG's core innovation platform, which continues to attract the world's top emerging technology companies working on sustainability solutions.

IAG also has established governance processes to review new potential investments in emerging climate technology and partnerships with start-ups. This process is overseen by the CSO, CFO, CIO and General Counsel.

IAG supports climate technology innovation via its accelerator, incubator, venture capital investments, university collaborations, active pilots, supporting applications for grant funding, and research and development consortia.

IAG representatives also sit on academic boards and public-private partnerships to support new technologies and innovation. For example, IAG staff sit on the UK Government's Jet Zero Council, academic boards (Cranfield and Heriot Watt Universities), the Aston Supergen consortium, and the Steering Board of the UK Biotechnology and Biological Sciences Research Council (BBSRC). Iberia continues the La Cátedra Iberia research collaboration with the Polytechnical University of Madrid.

In 2019, the Group launched the first dedicated sustainability accelerator in the aviation industry. In 2021, the focus of this broadened with the inclusion of a new Future Energy category. From hundreds of applications the Group chose to work with 12 pioneering start-ups covering topics such as new hydrogen fuel cell solutions, electrification infrastructure, customer engagement tools and carbon removal technologies.

In 2022, the Group will continue to expand its focus on sustainability innovation to accelerate decarbonisation.

B.1.10. Sustainable products and services

IAG offers customers including corporates a range of sustainable products and services to help them to reduce their carbon emissions and to support wider sustainability goals. These goals include community development and protecting biodiversity.

Within the Group, British Airways currently has the widest range of sustainability offers available for customers and has offered voluntary carbon offsets since 2003.

The British Airways Carbon Fund delivers carbon reduction projects in the UK and Africa with community co-benefits. British Airways receives no revenue from this fund.

All customers booking flights directly through British Airways are offered the choice to voluntarily donate to the BA Carbon Fund or an option to mitigate the carbon emissions of their flight through a standalone website: BA Carbon Neutral.

The British Airways Executive Club also allows customers to make a Carbon Fund donation using their Avios points.

In 2021, British Airways became one of the first airlines in the world to have a voluntary SAF offer available to customers including corporates.

All operating airlines are planning to expand their portfolios of sustainability products and services in 2022.

Spotlight: new waste targets

In 2021 IAG developed and approved new "5 through 2025" waste targets. More details are on the next page.

"5 through 2025" focus areas	2019 generation[1]	2025 generation target	2019 recycling	2025 recycling target
Single-Use Plastic (SUP)	–	Zero-based[2]	–	–
Onboard waste[3]	0.33 kg/pax	-20%	24%	40%
Office waste	96 kg/staff	-50%	35%	60%
Maintenance waste	0.63 kg/person-hour	-25%	50%	70%
Cargo waste	1.55 kg/kg cargo handled	-25%	63%	80%

1 Detailed definitions of waste types and metrics are available in the Additional Disclosures section of the IAG NFIS.
2 Zero-based means eliminating as much as possible in all areas of operation, acknowledging that some plastics may still be required in 2025 where alternatives do not exist.
3 The 40 per cent target is an average across the Group for waste processed at hub airports. Other targets apply to all operating companies as a minimum level of ambition.

B.2. Waste

Reference to GRI, TCFD and SASB standards: GRI 306-1 (2020), 306-2 (2020), 306-3 (2020)

Supports SDG 12

New targets:

IAG is committed to reducing, reusing and recycling waste. In 2021, IAG set new and comprehensive waste reduction targets as outlined on the previous page.

The "5 through 2025" waste strategy is expected to save approximately 20,000 tonnes a year from landfill and incineration compared to 47,728 tonnes sent to landfill or incineration in 2019.

This strategy covers the five core areas of single-use plastic (SUP), onboard, office, cargo, and maintenance waste. Separate reduction and recycling targets are applied to all four airlines and to IAG Cargo.

IAG plans to report detailed progress against these targets in 2022. Currently, the impacts of the COVID-19 pandemic make it difficult to establish meaningful year-on-year trends.

IAG will also advocate to national governments and via IATA for clear and supportive waste policies which would enable the Group to be more ambitious.

Key 2021 progress:

- IAG airlines worked together to identify common sustainable solutions for Group cutlery, to comply with the EU SUP ban which entered into force in July 2021;
- British Airways and Iberia launched new services (Buy-Before-You-Fly and DeliverFly) to give passengers the choice of buying fresh and ambient products before departure. These services remove food waste from unpurchased shorthaul economy meals while maintaining customer choice;
- Vueling developed an internal dashboard to track waste and set a target to segregate 60% of onboard waste by 2023; and
- IAG Cargo increased recycling rates by 6 per cent at both the London and Dublin hubs.

Waste commentary:

Onboard services are IAG's main source of waste. Key inputs include onboard meals and amenity kits supplied to passengers, and key outputs include plastic packaging, leftover food waste, drinks cans, and cabin items such as wrappers. Waste is typically offloaded and processed at airports by third-party caterers, with some materials recovered on-site and other materials incinerated or sent to landfill. The majority of cabin and catering waste is processed at IAG's hub airports – London Heathrow, Dublin, Madrid and Barcelona.

Waste regulations limit the amount which can be recycled. For example, Irish regulations require specific categories of onboard waste to be incinerated.

IAG supports innovation to minimise waste. For example, as part of the 2020 Hangar 51 platform, Iberia worked with Countalytics to track its flows of onboard waste and develop better onboard services.

Metric	Unit	vly	v2019	**2021**	2020	2019
Onboard waste at hub airports	'000 tonnes	-7%	-54%	**12.3**	13.2	27.0
Onboard waste generated per passenger at hubs	kg/pax	-19%	+42%	**0.47**	0.58	0.33
Overall waste (onboard, office, maintenance, cargo)	'000 tonnes	-10%	-54%	**27.6**	30.6	60.2
Overall recycled and recovered	%	+6%	+9%	**30%**	24%	21%

Note: 2019 and 2020 values have been restated due to a more rigorous methodology aligned to GRI standards.

Metric	Description	Commentary
Waste/pax at hubs	• Onboard catering waste generated per passenger, including volumes later recycled and recovered. • Passenger numbers are based on those inbound and outbound passengers who have their waste processed at hub airports London Heathrow and Gatwick, Madrid, Barcelona and Dublin.	Onboard waste generated per passenger decreased in 2021 due to more predictable passenger behaviour and a reduced share of longhaul flying, which has more comprehensive onboard meal services. This metric is likely to increase in 2022 even with an enhanced focus on waste reduction across the business.
Overall waste	• Includes waste from all streams – onboard, office, cargo and maintenance waste – and an extrapolation of waste processed at overseas airports, where waste destinations are not always reported by third parties.	2021 volumes remain much lower than 2019 due to reduced flying activity.
Overall recycled and recovered	• Excludes waste sent to incineration.	Overall recycling/recovery rates have improved due to a higher share of flying from Spanish hub airports, where more waste can be recycled at processing facilities.

B.3. Noise and air quality

Reference to GRI, TCFD and SASB standards: GRI 305-7. Supports SDGs 3, 11

IAG remains committed to reducing the impact of aircraft noise and air pollution on local communities near airports.

The average noise per journey – per landing and take-off cycle – has reduced by 19 per cent in the past five years. Due to the early retirement of Airbus A340s and B747s in 2020, an 8 per cent drop in average noise per sector was achieved in 2021 alone, almost meeting the 10 per cent noise reduction target set for 2025.

IAG will update noise targets in 2022.

Operating companies continue to work to minimise noise impacts. They regularly monitor noise and air quality performance using national databases and global aircraft noise standards. Improvements are driven via fleet modernisation and specific operational practices like continuous descents. Airlines also engage with stakeholders such as community groups, regulators and industry partners and participate in research and operational trials.

IAG supports innovation to reduce noise impacts. In 2021, Iberia participated in the EU AVIATOR project to better understand air pollution impacts at airports using research on real aircraft. In 2022 a testing campaign will be carried out using SAF.

Detailed descriptions on all noise metrics are available in the IAG NFIS.

Metric	Unit	Vly	v2019	**2021**	2020	2019	2018	2017
Noise per cycle	QC per LTO	-8%	-12%	**0.88**	0.96	1.00	1.07	1.06
NO_x per cycle	kg per LTO	-8%	-1%	**9.10**	9.84	9.23	9.71	nr
ICAO Chapter 14	% at standard	-2%	+3%	**56%**	58%	53%	50%	46%
CAEP Chapter 6	% at standard	0%	+2%	**80%**	80%	78%	74%	69%
CAEP Chapter 8	% at standard	3%	+8%	**43%**	40%	35%	29%	26%

% at standard is based on the fleet position at the end of 2021, including parked aircraft and excluding leased aircraft. Metrics per LTO are based on operational aircraft during the year.

Related risk: Operational noise restriction and charges

Risk description	Mitigating actions
Airport operators and regulators apply operational noise restrictions and charging regimes which may introduce additional costs or restrict airlines' ability to operate e.g. restrictions on night flights.	• Investing in new quieter aircraft as part of fleet modernisation • Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures • Internal governance and training and external advocacy in UK, Ireland and Spain to manage noise challenges

C. People and Prosperity

C.1. Workforce overview

Reference to GRI, TCFD and SASB standards: GRI 403-4, 408-1, 409-1

Supports SDG 12

2021 has been another challenging year for the Group and for our colleagues as we continue to navigate the impacts of the COVID-19 pandemic, aligning our resourcing levels to the operational needs of the business, ensuring we are ready to take advantage of opportunities as restrictions are lifted, and ensuring we protect the safety and wellbeing of colleagues and customers.

IAG aims to create an environment in which employees feel motivated, safe and able to thrive as this is central to the continued success of the Group. Core principles in the Code of Conduct include fair and equal treatment, non-discrimination, fairness and respect for human rights. This Code applies to all Directors, managers and employees of the Group and e-learning training to support it is mandatory and applicable to all employees and Directors. In addition to the Code of Conduct, individual operating companies have responsibility for policies and procedures relating to their employees, including appropriate reward frameworks to ensure they can continue to attract and retain the best talent for every role.

At the end of 2021, 56,658 people were employed across the Group in 81 countries, a decline of 2 per cent in the year. Our voluntary turnover rate for 2021 was 5 per cent compared with 15 per cent in 2020, a change that reflects the completion of the necessary resizing of the business in response to COVID-19 but also giving some indication of new hiring and role creation in 2021. The necessary changes put in motion in 2020 and 2021 have positioned the business to a place which has allowed us to safeguard jobs in key areas of the business and take advantage of the opportunities as travel restrictions ease.

As the business pivots towards recovery from COVID-19, there has been a key emphasis and focus on maintaining and retaining employees during 2021 – which is reflective in our workforce measures. There has been no material change in our headcount position compared to 2020 and there is some evidence of headcount growth in areas where we have seen a more regular pattern of flying return. As the world begins to open there is the expectation that our recovery will continue into 2022 and this will be reflected within our workforce population and composition.

As public health guidance changed and in line with operational requirements, employees across the Group started returning to our offices and our operating companies have taken approaches to coordinate and support the safe and flexible return of our employees. Our operating companies have promoted a balanced, flexible and hybrid working model which enables the right balance between flexibility whilst bringing the benefits of being together as a team. At Aer Lingus this is being promoted as "hybrid working" and is guided by the principles that people are expected to develop the right balance between home and office working, reflecting role requirements and personal circumstances. Similarly, British Airways has recently introduced a hybrid model of working, which allows employees to create a mix of remote and office working which is right for them based around the concept of "neighbourhood" communities for teams and hot-desking. Iberia has also welcomed back employees to its offices and has an individualised return to work programme for teams – launching targeted managerial and all employee guidance and mandatory training for all employees.

Operating companies have also been making considerable investments in the workplace and both Vueling and IAG Loyalty have recently modernised and moved into new office facilities. These new facilities have been created to foster a more open and modern office environment which will help to facilitate collaboration and communication between teams.

Measures to support employee satisfaction and talent management are primarily managed within operating companies and each operating company has its own established methods of measuring employee satisfaction. In addition, IAG has introduced an organisational health survey, initially focused on management populations across all operating companies to benchmark management practices against a globally recognised metric. This survey was run initially in November 2020 and repeated in October 2021. Insights from the survey are used to shape and prioritise cultural development plans.

Individual operating companies are responsible for learning, development and talent within their business, to enable them to ensure they have the right skills and capabilities required to support their strategy. In 2021, IAG launched a new leadership and talent strategy, building on the work within each operating company and enabling improved attraction, retention and mobility of talent across the Group. IAG is currently working to align the talent management framework across the Group, initially focusing at Group level on the IAG Management Committee and their direct reports. IAG has a strong track record of retaining and promoting talent into senior roles, as evidenced by the Management Committee appointments during 2020 and 2021, and this new approach will improve the rigour and consistency of talent management across the Group.

IAG has employees based in European countries which comply with the conventions of the International Labour Organization (ILO), covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Outside of the EU, IAG recognises trade unions in many jurisdictions, has collective agreements and meets/exceeds all relevant labour standards.

IAG has a European Works Council (EWC) which brings together employee representatives from the different European Economic Area (EEA) Member States in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA Member States. During 2021, IAG hosted one full meeting of the EWC and 11 Select Committee meetings, which have all been held virtually. In November 2021 we commenced the nominations and elections process for new representatives of the EWC, a process which had been postponed due to the pandemic. Reflecting the changing geopolitical landscape and the specific role of the EWC to manage transnational issues for EEA Member States, the UK will cease to have representatives within the EWC, and we will continue to engage with UK employee representative groups on matters relevant to them. The EWC election and appointment process for the new Select Committee and Chair will be completed in February 2022.

Within the Group, individual operating companies have responsibility for the policies and procedures relating to their employees, including reward frameworks to ensure they can continue to attract and retain the best talent for every role.

Due to the diverse nature of Group businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level. Each is responsible for determining the specific courses offered within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following mandatory corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection.

C.2. Health, safety and wellbeing

Reference to GRI, TCFD and SASB standards: Supports SDG 3

IAG is committed to safeguarding the health and safety of our employees, customers and all others affected by our activities. This means operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. Health and safety are fundamental to our business, whether in the air or on the ground. It is our highest priority.

IAG has robust governance processes in place led by the safety committees in each operating company. The IAG Safety, Environment and Corporate Responsibility Committee monitors all matters related to the operational safety and Corporate Responsibility of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

IAG's customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

COVID-19 continues to be present in our communities and impacts our people and the Group continues to follow expert guidance from bodies such as the IATA Council Aviation Recovery Taskforce (CART), the WHO, Public Health England and Spanish and Irish authorities. New safety and hygiene measures have been introduced for all employees and customers. All these measures have been carefully thought through alongside the need to reflect the latest advice from public health authorities and aviation regulators.

To support employee wellbeing across the Group, each operating company has continued to create new websites and has deployed internal resources to support mental health and COVID-19 safety. For example, British Airways built on existing resources put in place throughout 2020 and issued daily press updates which continue to highlight wellbeing and the support available such as information about its Employee Assistance Programme and the UNMIND mental health digital application. The latter includes webinars, interviews and other resources, and access was extended to family members of employees in the second half of 2020.

Iberia has also continued with its COVID-19 prevention training which is now mandatory for all employees returning to the office. In collaboration with local authorities in Madrid, Iberia has also assisted in the vaccination programme and operated a vaccination centre on premises between July 15 and September 30. Additionally, Iberia has taken part in the "Elige Cuidarte" ("Choose to take care of yourself") programme aimed at getting all its employees vaccinated against both COVID-19 and the flu.

C.3. Diversity, inclusion and equality

Reference to GRI, TCFD and SASB standards: GRI 406-1

Supports SDG 5

IAG has a Group-wide Equal Opportunities policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation. At Group level, IAG also has a Directors Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the IAG Management Committee. These policies have been approved by the Board of Directors.

Key 2021 progress on gender diversity and equality:

- IAG has increased the number of women in senior executive roles to 33 per cent, a 3 per cent increase on last year. In 2021, working with senior leaders across the Group, we have reviewed our targets and plans and are delighted to announce an increase in our external target to 40 per cent women in senior roles by 2025;
- Iberia and Vueling have revised their equality plans covering all employees in Spain reflecting new legislation;
- British Airways has made commitments to equal opportunities within its recruitment processes and has announced a commitment to 100% open recruitment, diverse shortlisting and diverse interview panels;
- IAG launched the Elevate programme – a peer networking programme for senior women;
- Iberia has successfully launched its "Take the Lead" programme aimed at cross-mentoring for women within the business;
- Iberia participated in the III Business Summit #MujeresyLiderazgo (Women and Leadership), organised by the consulting firm 50 & 50 Gender Leadership in collaboration with CEOE;
- Vueling and Iberia, alongside the Spanish Aviation Safety and Security Agency (AESA) and Airbus, produced an awareness campaign video on International Women's Day to showcase women in the aviation sector;
- IAG and IAG GBS, to mark and celebrate International Women's day, hosted a "fireside chat" led by female members of our Senior Executive community; and
- Aer Lingus achieved the "Investors in Diversity" Bronze accreditation.

Key 2021 progress for other under-represented groups

In 2021 we created a new Diversity Panel to share best practice and to lead the co-design of new diversity and inclusion initiatives. We are reviewing key employment policies, to ensure they are inclusive and fair for all, and are looking into how we manage declarations in our core countries of operation reflecting the cultural and regulatory environment, with an aim to use data and insights to set targets and develop action plans.

Key initiatives for under-represented groups:

- Our procurement team is using the EcoVadis tool to evaluate our top suppliers including a review of diversity and inclusion, enabling us to promote and support inclusion throughout our supply chain;
- British Airways launched its Reverse Mentoring programme for ethnic minority colleagues up to Management Committee level and celebrated Black History Month with several events including: videos and interviews with the Senior Leaders; an all-Black gate team; and a webinar from Tessy Ojo OBE, Chief Executive Diana Award UK;
- Aer Lingus launched visual guides on aerlingus.com to support customers with cognitive disabilities and has rolled out disability awareness training for all front line employees; and
- GBS ran Lunch and Learn session led by an external expert to celebrate BHM and encourage people to speak about racism and allyship.

C.4. Human rights and modern slavery

Reference to GRI, TCFD and SASB standards: Supports SDGs 3, 4, 5

IAG had no known cases of human rights violations across the Group during 2021. IAG GBS screens suppliers to identify and mitigate potential incidences of human rights violations, and modern slavery clauses feature in all new supplier contracts as well as contract renewals.

IAG is taking steps to prevent incidences of modern slavery within the Group and across its supply chains. In terms of policies associated with human rights, IAG asks suppliers to adhere to the IAG Group Slavery and Human Trafficking Statement, which was last updated in 2021 and is available on the IAG website. This statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA).

IAG is taking steps to prevent human trafficking. Human trafficking is of particular concern to IAG and to the wider aviation industry, as the Group transports millions of passengers every year and has tens of thousands of suppliers across the world. Operating airlines work closely with governments and the airports in which they operate to ensure that any suspected trafficking on our flights is identified, reported and dealt with appropriately. IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

Operating airlines also train staff to recognise and respond to the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected. This training is managed at airline level. In 2021, over 27,000 employees have completed over 38,000 hours of training covering Human Rights topics.

In 2022, IAG plans to review the assessment of human rights risks within the business.

Human rights

Risk description	2021 Mitigating actions
Not preventing potential incidences of human trafficking via IAG routes, damaging efforts to improve human rights and associated legal and reputational impacts. Potential human rights or modern slavery violations in the supply chain leading to fines, compliance issues, business interruption or reputational damage.	• Updated Group Slavery and Human Trafficking Statement • Training for staff to recognise signs of potential human trafficking and guidance and processes in place to report this • See A.6. Supply chain sustainability

C.5. Community engagement and charitable support

Reference to GRI, TCFD and SASB standards: GRI 102-13, 201-1. Supports SDG 11

IAG operating companies have long-standing partnerships to support community causes both locally and around the world. Key partnerships include:

- British Airways has partnered with the Disasters Emergency Committee for eight years and helped raise over £1.5 million supporting 17 humanitarian appeals;
- Vueling has been working with Save the Children for seven years and is the second-largest sponsor of this NGO in Spain;
- Iberia has been contributing to the UNICEF children's immunisation programme for eight years. This programme focuses on diseases like polio and measles and has paid for the vaccinations for more than a million children in Chad, Angola and Cuba;
- Aer Lingus staff have had an annual "Make a Difference" day for staff volunteering for a decade. While this did not go ahead in 2020 and 2021, Aer Lingus was a significant contributor to the COVID-19 global response via flights of medical equipment between Europe and China; and
- British Airways has been working with the "Flying Start" global charity programme, in partnership with Comic Relief, for over a decade. This programme has helped over 864,000 people in some of the world's poorest communities.

Key 2021 milestones:

- IAG Cargo transported over 19 million COVID-19 vaccines, including a 4 million dose shipment to Abuja, Nigeria in collaboration with UNICEF and its COVAX initiative and 300,000 doses to Jamaica, donated by the UK Government;
- IAG GBS employees supported the "Business versus Smog" programme in Poland, improving environmental awareness among children;
- Iberia launched its corporate volunteering programme "Cada acción suma", and via a collaboration with NGO Mano a Mano and Iberia Express, sent almost five tonnes of supplies to La Palma residents affected by the volcanic eruption; and
- Vueling supported multiple causes including the Spanish Association Against Cancer, Caritas, ASPANOB and LOVAAS foundation which supports children with different degrees of autism.

In 2021, €2.7 million was raised for charitable causes across the Group. Of this, 33 per cent came from customer contributions, 10 per cent from company donations, 50 per cent from employee contributions, and 7 per cent from in-kind donations. The total remains lower than 2019 due to reduced flying affecting customer contributions and reduced business activity limiting fundraising campaigns.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Total raised	€ million	-42%	-53%	**2.7**	4.6	5.7	nr	nr

C.6. Workforce measures

Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1

Description and commentary for key workforce metrics

Metric	Unit	Description	Commentary
Employment	Average manpower equivalent	• Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. • The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.	• The 17.1% decrease reflects the resizing of the business in 2020. This is an average figure and most of the resizing took place in Q4 2020. • This measure accounts for employees' contractual schedule of work and therefore does not account for the impact of COVID-19 job retention scheme.
Headcount	Number of people	• Headcount is the actual number of people employed across the Group (employees) at December 31, 2021.	• Overall headcount decreased over the year by 2.2%. • Reflects the necessary workforce actions taken in 2020 and in the beginning of 2021.
Composition	% headcount by employment type, contract and employee categories	• Composition is a breakdown of headcount as at December 31, 2021. • Full-time employees are defined as those working full contractual hours as at December 31, 2021. • A temporary employment contract has a defined end date. • The employee category breakdown portrays the distribution of the major groups within IAG's workforce "in the air" – Pilots and Cabin Crew – and "on the ground" – Airport, Corporate and Maintenance & Logistics.	• Increase in temporary workers to 4%, driven by a stronger summer season in Spain, particularly in Vueling, mostly in Airport based roles. • The modest increase in temporary employees has also increased our ratio of part time employees to 22%; these roles are typically focused on covering specific peak hours. • A change in categorisation of employees in our Cargo and Logistic units has seen increases in maintenance and logistic roles to 13% and related reductions in Airport and Corporate. This aside, the Group has seen modest recovery in Airport employees linked to the broader recovery of travel.
Employees by country	Number of people	• This metric depicts the distribution of the Group's employees according to the country in which they are based.	• The increase in the proportion of Group employees based in the Spain is due to the increased summer flying schedules at Iberia and Vueling. At the end of 2021 IAG had employees based in 81 countries.
Gender diversity	% women at Board, senior executive, and Group level	• The share of women as a proportion of all staff at specific levels of seniority across the Group.	• There were 194 senior executives as at December 31, 2021. • IAG increased the proportion of women in senior executive roles to 33% by the end of 2021. IAG has maintained gender diversity of the Board at 42%. • A decrease in the proportion of women across the whole Group is explained by the impact of COVID-19 and restructuring in 2020 and the underlying gender mix of the teams affected e.g. cabin crew

Metric	Unit	Description	Commentary
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group. The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to Captains and Cabin Service Managers.	The increase in the proportion of employees over 50 years of age is explained by larger voluntary turnover figures in younger cohorts. The group lost 1,035 < 30 year olds (1.8% turnover); 1,335 30-50 year olds (2.4% turnover); and 565 > 50 year olds (1.0% turnover). The decrease in the proportion of employees under 30 years of age is explained by the end of temporary contracts and greater levels of voluntary leavers.
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).	The overall annual turnover in 2021 was 6% – a total of 5,054 employees, of which 691 were non-voluntary leavers. This compares to 21% in 2020, a total of 13,654 of which 3,456 were non-voluntary leavers. This significant decrease in turnover reflects the Group resizing completed in 2020

Table of key measures

Metric	Unit	Sub-category	vly	**2021**	2020	2019	2018	2017
Employment	Average manpower equivalent[1]		-17.1%	**50,222**	60,612	66,034	64,734	63,422
Headcount	Number of people[2]		-2.2%	**56,658**	57,928	72,268	71,134	nr
Composition	% headcount by employment type	Full-time:	-1pt	**78%**	79%	74%	75%	nr
		Part-time:	1pt	**22%**	21%	26%	25%	nr
Composition	% headcount by employment contract	Permanent:	-1pts	**96%**	97%	94%	94%	nr
		Temporary:	1pts	**4%**	3%	6%	6%	nr
Composition	% headcount by employee categories	Cabin Crew:	1pt	**32%**	31%	35%	35%	nr
		Pilots:	0pts	**13%**	13%	11%	11%	nr
		Airport:	-2pts	**23%**	25%	26%	26%	nr
		Corporate:	-1pts	**19%**	20%	17%	18%	nr
		Maintenance:	2pts	**13%**	11%	11%	10%	nr
Employees by country	% of people	UK:	-1pts	**49%**	50%	54%	nr	nr
		Spain:	2pts	**36%**	34%	31%	nr	nr
		Ireland:	-1pts	**7%**	8%	7%	nr	nr
		India:	0pts	**2%**	2%	2%	nr	nr
		USA:	1pts	**2%**	1%	1%	nr	nr
		Other:	-1pt	**4%**	5%	5%	nr	nr

Note: "nr" means "not reported previously".

1 The mean of the manpower equivalent captured quarterly to reflect seasonality. This is not adjusted for time not worked whilst under COVID-19 job retention schemes and it reflects normal contractual hours.

2 Actual number of people employed across the Group at December 31, 2021.

Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1								
Metric	Unit	Sub-category	vly	**2021**	2020	2019	2018	2017
Gender diversity	% women at Board level[1]		0pts	**42%**	42%	33%	33%	25%
Gender diversity	% women at senior executive level		3pts	**33%**	30%	30%	27%	24%
Gender diversity	% women at Group level		-1pts	**42%**	43%	44%	45%	44%
Age diversity	% of managerial staff in each age band	<30	-1pts	**2%**	3%	4%	7%	6%
		30-50	-2pts	**55%**	57%	55%	57%	65%
		50+	3pts	**43%**	40%	41%	36%	29%
Age diversity	% of non-managerial staff in each age band	<30	-2pts	**16%**	18%	21%	22%	17%
		30-50	-1pts	**53%**	54%	50%	50%	51%
		50+	3pts	**31%**	28%	29%	28%	32%
Workforce turnover	% voluntary and non-voluntary	Voluntary	-11pts	**5%**	16%	7%	8%	8%
		Non-voluntary	-4pts	**1%**	5%	2%	3%	2%
Workforce turnover	Overall % by age group	<30	19pts	**35%**	16%	37%	35%	nr
		30-50	13pts	**46%**	33%	36%	34%	nr
		50+	-32pts	**19%**	51%	27%	31%	nr
Workforce turnover	Overall % by gender	Women	-3pts	**49%**	52%	47%	51%	nr
		Men	3pts	**51%**	48%	53%	49%	nr

Reference to GRI, TCFD and SASB standards: GRI 102-41, 403-9, 404-1. TR-AL-310a1.							
Metric	Unit	vly	**2021**	2020	2019	2018	2017
Social dialogue and trade unions	% covered by collective bargaining agreements	0pts	**89%**	89%	87%	86%	88%
Average hours of training	Average hours per employee per year	+47%	**38.9**	26.4	48.4	41.1	45.8
Lost Time Injury (LTI) frequency rate	LTI per 200,000 hours worked[2]	-9.1%	**2.19**	2.41	4.341	4.201	nr
LTI severity rate	Average days lost per LTI[2]	-10.1%	**34.00**	37.80	22.64	21.12	nr
Fatalities	Number of fatalities	0pts	**0**	0	0	1	nr

Note: “nr” means “not reported previously”.

1 In 2020 Female board composition metric normalised for consistency with 2021 at 42%.
2 The 2018 and 2019 LTI frequency rates have been restated due to change in standardising factor to better align to GRI standards.

D. Alignment with external frameworks

Key: Green is GRI CORE

Sustainability section	Sustainability subsection	Partial/full alignment with GRI Standard	SASB
Governance	A.1. Defining sustainability and material issues	**102-43, -44, -46, -47**	
	A.2. Sustainability governance	**102-46, -48**	
	A.4. Sustainability risk management	**102-11**, 102-15	
	A.5. Sustainability stakeholder engagement	**102-13, 102-43, -44**	
	A.6. Supply chain sustainability	308-2, 414-2	
	A.7. Ethics and integrity	**102-16**, 102-17, 205-1, -2, -3	
Planet	B.1. Climate change and TCFD disclosures	*See next table*	TR-AL-110a1, -a2
	B.2. Waste	306-1, -2, -3 (2020)	
	B.3. Noise and air quality	305-7	
People and Prosperity	C.1. Workforce overview	403-4, 408-1, 409-1	
	C.3. Diversity, inclusion and equality	406-1	
	C.5. Community engagement and charitable support	**102-13**, 201-1	
	Other metrics	*See next table*	TR-AL-310a1

Key climate change metrics in Section B	Partial/full alignment with GRI standard	SASB
Scope 1	305-1	TR-AL-110a1
Scope 2	305-2	
Scope 3	305-3	
Emissions intensity	305-4	
Electricity, energy	302-1	
Jet fuel use	301-1	
GHG reduction initiatives	305-5	

Key people metrics in Section C	Partial/full alignment with GRI standard	
Employment	**102-7**	
Headcount	**102-7**	
Employment composition	**102-8**	
Employees by country	**102-8**	
Gender diversity	405-1	
Age diversity	405-1	
Workforce turnover	401-1	
Social dialogue and trade unions	**102-41**	TR-AL-310a1
Hours of training	404-1	
Lost Time Injury (LTI) frequency rate	403-9	
Fatalities	403-9	

Agile risk management to support the delivery of sustainable long-term value

Enterprise risk management (ERM) approach

Agility in risk management

The risk management framework remains responsive to the needs of the business and our stakeholders by: continuing to develop the Group's assessment of the interdependencies of risks; further building on scenario planning to quantify risk impact under different assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the business in response to the pace of the transformation agenda. This allows the Board and management to assess and respond quickly to changes across the Group's principal and other key risks.

In the year, improvements to further develop the framework have been considered and discussed with management and the Board, including an assessment of how the risk appetite framework aligns to the business and risk landscape following the COVID-19 pandemic impacts. New guidance from regulators and investors is reviewed on an ongoing basis and best practice sought from other risk management sources. Where appropriate, enhancements and adaptions are then implemented across the Group.

Emerging risks and longer-term threats

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends and risks that have increased in speed of potential impact. These include competitor actions, regulations, governments' interventions, customer trends and sentiment to travel, sustainability concerns and stakeholder considerations or business disruptors that could impact the Group's business strategy and plans.

IAG considers risks to the Strategic Business Plan ("the plan") over the short term up to two years, medium term from three to five years and in the longer term beyond five years.

ERM policy and framework

The Group Enterprise Risk Framework is set out in the Enterprise Risk Management (ERM) policy, which has been approved by the Board. The comprehensive risk management process and methodology ensures a robust identification and assessment of the risks facing the Group, including emerging risks. The risk management framework is embedded across the Group businesses. Enterprise risks are defined as any risk that could impact the plan (above a threshold). They are assessed and plotted on an Enterprise risk map, based on probability and impact. Emerging risks are monitored within the overall risk framework as 'on watch' until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact over the next two to three years can be made, and appropriate mitigations can be put in place or the risk becomes a principal risk. Other high-impact, low-likelihood risks have been discussed. This process is led by the Management Committee supported by the ERM function.

Risk outcomes are quantified as the potential cash impact to the plan over two years. Non-financial considerations include the Group's sustainability commitments, potential for increased regulatory scrutiny, as well as damage to customer and employee trust impacting the Group's brand and share price.

Key controls and mitigations are documented, including appropriate response plans. Where risk treatments require time to implement, short-term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every principal risk has clear Management Committee oversight.

Risk maps for each operating company and central function are reviewed by each operating company's management committee and function leadership team, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Where the Group's operating companies have a reliance on other parts of the Group for services delivery, risks are reflected appropriately across risk maps to ensure accountability is clear.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map.

Risk appetite

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, of the Board's appetite for certain risks.

Each risk appetite statement applies either on a Group-wide basis or for specific programmes, initiatives or activity within the Group. The framework has continued to operate throughout the year, with the Board assessing its appetite across all of the framework statements at the half year and year end against the Group's performance and its anticipated delivery of the Board-approved strategic business plan priorities and initiatives. The Board is satisfied that the Group continued to perform and deliver initiatives throughout 2021 as planned to mitigate risk as set out in its framework statements or necessary additional mitigations to risks have been addressed as they occurred.

The appetite framework has been subject to review in 2021. Adaptions to the framework to set tolerances more dynamically, assess interdependencies of tolerances and link to the future strategic goals and prioritisation of investment will be implemented in 2022.

Risk assurance

The Group's risk heatmap is used to inform the annual Internal Audit plan. The ERM function also works with other compliance and Group functions, such as Government Affairs, Investor Relations and Sustainability, leveraging their frameworks and assessments where appropriate.

Viability assessment

The Board's assessment of the viability of the Group, including the selection of appropriate scenarios to determine the assessment, are directly informed by the outputs of the ERM framework. Full details of our approach, scenarios modelled and the viability assessment are shown at the end of this report.

Risk management roles and responsibilities

Risk owners and management

Across the Group, risk owners are responsible for identifying potential risks and appropriately managing decisions within their area of responsibility that could impact business operations and delivery of the plan.

As the Group undertakes transformation activities within its operating companies, the pace and agility of the changes required creates risks and opportunities. For transformational risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders.

Emerging risks are assessed and risk owners consider and identify any potential impact to plans. Longer-term "on watch" risks are subject to review as part of the framework.

Management is responsible for the effective operation of the internal controls and execution of the agreed risk mitigation plans.

Operating companies' management committees

Operating companies review risk during the year including risk map reviews semi-annually, in advance of the Group risk heatmap reviews.

They escalate risks that have a Group impact or require Group consideration in line with the Group ERM framework.

They confirm to their operating company board and audit committees as to the identification, quantification and management of risks within their operating company as a whole at least annually.

Local heatmaps are in place for subsidiary businesses, together with Group support platforms including Group Business Services and IAG Tech.

IAG Management Committee

The IAG Management Committee reviews risk during the year, including the Group risk map semi-annually in advance of reviews by the Audit and Compliance Committee, in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Management Committee review the performance of the Group at half year and full year against the risk appetite framework and reports any near tolerance or out of tolerance assessments to the Audit and Compliance Committee.

The Management Committee recommends scenarios for stressing the strategic business plan as part of the annual Group viability assessment.

IAG Board and Audit & Compliance Committee

The IAG Board has overall responsibility for ensuring that the Group has an appropriate, robust and effective risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives.

The Audit and Compliance Committee discusses risk and considers the risk environment as part of wider Board discussions at every meeting in addition to the bi-annual risk map review, including a review of the assessment of Group's performance against its risk appetite, scenarios for assessment of viability and the outputs from the viability modelling. The Audit and Compliance Committee has early sight of management consideration of scenarios to enable it to challenge subjectivities and confirm rationale.

The Group risk map is reviewed by the IAG Board annually.

Enterprise Risk Management function

The Enterprise Risk Management function provides support across the Group to ensure risk management processes are appropriately embedded and applied consistently, as well as working with management to identify risk, challenge assessments and strengthen the risk culture across the Group. The function provides enterprise risk management guidance and shares best practice across the Group and its operating companies, keeping them informed of any risk related regulatory developments. The function is responsible for ensuring that the enterprise risk management framework remains agile and responsive to meet the needs of the business and its stakeholders.

Key

Interested stakeholders

Customers
Employees
Suppliers
Governments and regulators
Shareholders and other financial stakeholders

Link to principal risk

See Business model section of this report

Strategic priorities

1 2 3

Risk trend

Increase
Stable
Decrease

Considered in viability assessment scenarios

V 1 2 3 4

Principal risk	Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
Strategic					
1 **Brand and customer trust** Chief Strategy Officer	**1** 2 3	Customers, Employees, Suppliers, Shareholders and other financial stakeholders	Decrease	Stable	2
2 **Competitive landscape** Chief Strategy Officer	**1** **2** **3**	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Increase	Increase	1 2
3 **Critical third parties in the supply chain** Chief Transformation Officer	**1** **2** **3**	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Increase	Increase	
4 **Economic, political and regulatory environment** Chief Strategy Officer	**1** **2** 3	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Stable	Increase	1
5 **Sustainable aviation** Chief People, Corporate Affairs & Sustainability Officer	**1** **2** 3	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Increase	Stable	4
Business and operational					
6 **Cyber attack and data security** Group CIO	1 **2** **3**	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Stable	Increase	3
7 **Event causing significant network disruption** Chief Strategy Officer/Operating Company CEOs	**1** 2 **3**	Customers, Employees, Governments and regulators, Shareholders and other financial stakeholders	Stable	Increase	1 3
8 **IT systems and IT infrastructure** Group CIO/Chief Transformation Officer	**1** 2 **3**	Customers, Employees, Shareholders and other financial stakeholders	Increase	Increase	3
9 **People, culture and employee relations** Chief People, Corporate Affairs & Sustainability Officer/Operating Company CEOs	**1** 2 **3**	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Increase	Increase	2
10 **Safety or security incident** Operating Company CEOs	1 **2** 3	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	Stable	Stable	
11 **Transformation and change** Chief Transformation Officer	**1** **2** **3**	Customers, Employees, Suppliers, Governments and regulators, Shareholders and other financial stakeholders	NEW	N/A	2

Principal risk	Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
Financial risk including tax					
12 **Debt funding** Chief Financial Officer	1 2 3		=	↑	1
13 **Financial and treasury-related risk** Chief Financial Officer	1 2 3		=	↑	1
14 **Tax** Chief Financial Officer	1 2 3		=	↑	
Compliance and regulatory					
15 **Group governance structure** General Counsel	1 2 3		=	=	
16 **Non-compliance with key regulation and laws** General Counsel	1 2 3		=	=	

Principal risks influence

The relative level of influence each principal risk has on the other principal risks

Principal risk radar

The assessed likelihood of risk materialisation for each principal risk

Year in review

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks.

The Group's exposure to certain risks outside of its direct control has continued in 2021 as a result of the COVID-19 pandemic's unprecedented impact on the travel and aviation industry. These risks include:

- changes in political and economic environment
- government restrictions over travel and movement of their citizens, governance requirements and regulations
- external events causing operational disruption including civil unrest, adverse weather or pandemic
- volatility in the markets and availability of funding and distortion caused by differing government aviation-specific support schemes

Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature.

The principal risks have been assessed as the Group moves back into recovery of its operations and adapts its model accordingly. One new principal risk of 'Transformation and change' has been identified as part of this exercise. It reflects the significance of the Group's transformation agenda and pace required to deliver the plan.

Principal risk register

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the Board and Management Committee believe to be the most likely to have a potential material impact on the Group.

Strategic

1 Brand and customer trust

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3				V

Status The Group's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the Group's airlines' brands and their associated reputation for customer service and value. The Group's airlines' brands are, and will continue to be, vulnerable to adverse publicity regarding events impacting service and operations. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. Where customers have been stranded as a result of governments' imposition of new restrictions, all airlines have worked directly with their customers to ensure their safe return. IAG remains focused on strengthening its customer-centricity to ensure that its operating companies continue to adapt and focus their business models to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. The Group's airlines have implemented all required measures to ensure customer and employee safety in line with governments' regulations. The resilience and engagement of our people and leaders is critical to retaining brand and customer trust.

Risk description

Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.

If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.

Failure to meet customer expectations on sustainability and the Group's impact on stakeholders and society could impact the Group and its brands.

Strategic relevance

- The Group's brands are positioned in their respective markets to meet their customer propositions and deliver commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.
- IAG will continue to focus on its customer propositions to ensure competitiveness in its chosen priority customer demand spaces and to ensure that it adapts to meet changing customer expectations.
- The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.

Mitigations

- All IAG airlines are considered within the brand portfolio review.
- Brand initiatives for each operating company have been identified and are aligned to the plan.
- Product investment to enhance the customer experience supports the brand propositions and is provided for in the plan.
- All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
- IAG Customer Steering Group meets monthly and shares initiatives.
- Hygiene and travel protocols have been implemented across the Group's airlines to address regulatory requirements resulting from the COVID-19 pandemic.
- Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.
- Enhanced flexibility in airline booking policies.
- Increased focus on the end-to-end customer journey from flight search through to arrival and baggage reclaim.
- The Group's global loyalty strategy builds customer loyalty within IAG airlines.
- The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.
- Robust portfolio process to determine the right investments across the Group.
- The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.

Strategic

2 Competitive landscape

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		↑	↑	V

Status The scale of governmental support and aviation-specific state aid measures have varied by market and the potential consequential impact to the competitive landscape is under continuous assessment. Governmental restrictions continue to impact access to markets. The dynamic nature of the restrictions have required significant agility within our networks to manage the impact on our customers and business. In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In December 2021, IAG and Globalia announced the termination of the agreement under which Iberia had agreed to acquire Air Europa, but noted that the parties intended to evaluate alternative structures. Any future deal would be subject to regulatory approval.

The Group continues to lobby over the negative impacts of government policies, such as increases in Air Passenger Duty (APD).

Risk description

Competitor capacity growth in excess of demand growth could materially impact margins.

Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.

Governments' support schemes for the aviation sector create distortionary effects across the markets in which IAG's airlines operate.

Strategic relevance

- The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.
- Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

Mitigations

- The IAG Management Committee meets weekly.
- The Board discusses strategy throughout the year and dedicates two days per year to undertake a detailed review of the Group's strategic plans.
- Additional Management Committee and Board meetings have been convened as required.
- The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit opportunities and accelerate change.
- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.
- The Group maintains rigorous cost control and targeted investment to remain competitive. The Group Procurement function has led an ongoing review of all critical contracts.
- The Group has restructured its businesses with greater flexibility and resilience built into the operations.
- The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.
- The IAG Management Committee regularly reviews the commercial performance of joint business agreements.
- The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.
- The Group's Government Affairs function monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.

3 Critical third parties in the supply chain

Chief Transformation Officer

Strategic priorities: 1 2 3

Interested stakeholders

Risk trend
2021 ↑ 2020 ↑

Status Ongoing governments' restrictions through 2021 have required the Group's airlines to flex their operations and adjust capacity. The operations of the Group's suppliers, including aircraft manufacturers, has increased the risk of significant business interruption, delays or disruptions, including a lack of availability of labour to support supplier operations and/or problems in maintaining supply. This has led to increased costs to secure such services. Additional focus has been placed on key suppliers following the removal of governments' support schemes to ensure that the business and operations are not impacted.

The Group continues to lobby and raise awareness of the negative impacts of ATC airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly through the recovery period. The Group relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities. A third runway expansion proposal at London Heathrow and additional facilities at Dublin and Madrid Airports are among examples where the Group supports solutions that are efficient, cost effective and of value to our customers.

The Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow. A future aviation package review by the UK Government is expected in 2022.

Risk description

IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group sustainability programme.

IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.

IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.

IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.

IAG is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which the Group operates.

Strategic relevance

- Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers and impacting our brand and reputation.
- Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.
- London Heathrow has no spare runway capacity.
- An uncontrolled increase in the planned cost of expansion could result in increased landing charges.
- Airport charges represent a significant operating cost to the airlines and have an impact on operations.
- Inflationary cost pressures within the supply chain may increase the cost of travel.

Mitigations

- The Group mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions, to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
- The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
- The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.
- The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
- The Group procurement function has oversight of all critical contracts across the Group's businesses.
- Alternative suppliers are identified where feasible.

Strategic

4 Economic, political and regulatory environment

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		=	↑	V

Status The COVID-19 pandemic has resulted in governments' measures, which led to an unprecedented impact on air travel and has also resulted in economic uncertainty and volatility across markets. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status as the Group's airlines rebuild their operational capabilities and schedules. There can also be no clear certainty as to the level of demand for the Group's services as restrictions are lifted. The stress of the COVID-19 pandemic could have further far-reaching impacts including currency devaluations, inflation, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies. The Group airlines have utilised the slot alleviation waivers granted by regulatory bodies in 2021.

Wider macroeconomic trends are being monitored such as tone of dialogue between the US, Russia, China and the EU and UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to the Group is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered across the Group.

Developments in relevant international relationships and air services agreements throughout the year, including the EU and the UK, are being monitored. Any further macroeconomic trends or potential requirements arising from Brexit are monitored by government affairs specialists across the Group businesses.

See the Regulatory environment section

Risk description

Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.

Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.

Political decisions to respond to the COVID-19 pandemic impact economies across all markets, causing longer-term economic stress.

Strategic relevance

- IAG remains sensitive to political and economic conditions in the markets globally.

Mitigations

- The Board and the Management Committee review the financial outlook and business performance of the Group through the monthly trading results, financial planning process and the reforecasting process.
- Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.
- External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring.
- IAG Government Affairs function monitors governments' initiatives, represents the Group's interest and gives the Group and its operating companies early sight of likely changes to laws and regulations e.g. any review of slot alleviation policy in the UK. It also continues to discuss with governments and industry bodies, approaches for the implementation of consistent, customer-centric testing.

Strategic

5 Sustainable aviation

Chief People, Corporate Affairs and Sustainability Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	2020	Viability scenario
1 2 3				V

Status IAG was the first airline group to commit to a target of net zero carbon emissions by 2050. In 2021, the Group committed to extend net zero carbon emissions requirements to the Group's supply chain, with the Global Business Services (GBS) procurement function supporting the Scope 3 commitment. GBS will have a key role to play in ensuring its delivery for the Group with supplier sustainability ratings a key consideration for future contract negotiations and renewals. IAG has also committed to 10% Sustainable Aviation Fuel (SAF) usage on average across its fleet by 2030.

In July 2021, the EU announced its "Fit for 55" package of proposals. This requires an at least 55% emission reduction target set for 2030 and aims to bring the EU climate and energy legislation in line with the 2030 goal. The Group is currently modelling potential impacts and costs based on the published proposals, which includes the removal of aviation jet fuel tax exemption from 2024.

Iberia has agreed deals in Spain for the production of SAF this year. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by the Group in the medium to longer term, where markets may not have such strict eco targets or government set policy.

The Group has completed the retirement of its aged fleet of Boeing 747s and Airbus A340s.

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. The Group continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. The Group has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes.

See the Sustainability risk and opportunities section

Risk description

Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.

New taxes, the potential removal of aviation jet fuel exemptions and increasing price of carbon offsets impact on demand for air travel. Customers may choose to reduce the amount they fly.

The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity. Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.

Strategic relevance

- IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.
- Our stakeholders and potential investors seek confirmation over our sustainability agenda and may link their purchasing, investment or lending decisions to our commitments and progress against them.

Mitigations

- IAG climate change strategy to meet target of net zero carbon emissions by 2050.
- British Airways offsets all UK domestic flight carbon emissions.
- IAG investment in Sustainable Aviation Fuels (SAF), including British Airways' partnership with Velocys and Iberia's agreement with Repsol and Cepsa to produce SAF.
- Aer Lingus internal SAF working group planning.
- BA customers may choose to offset their flights for carbon emissions or pay for sustainable fuel for their flight or both.
- Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.
- The appointment of EcoVadis to work with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.
- Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.
- Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes.
- Horizon scanning of potential partners and technology.

Business and operational

6 Cyber attack and data security

Group CIO

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		=	↑	V

Status The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. The Group airlines are subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).

Investment in cyber security systems and controls continue as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to a Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the Cloud across the Group's airlines will further help to improve the security controls environment. As the Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.

Risk description

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.

If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.

Changes in working practices and environments for the Group's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.

Strategic relevance

- The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.
- The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews their own cyber projects at least quarterly.
- The IAG Chief Information Security Office provides assurance and expertise around strategy, policy, training and security operations for the Group.
- Detection tools and monitoring are in place. The Group-wide security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the Group's defences.
- Threat intelligence is used to analyse cyber risks to the Group.
- There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure, and regulations are adhered to.
- Data Protection Officers are in place in all operating companies, coordinated through a Group-wide Privacy Steering Group.
- Working practices are reviewed to ensure the integrity of the cyber and data security.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.
- Security architecture team embedded into Datacentre migrations programmes.
- Desktop exercises to test business response plans have been held across the Group's airlines during the year.

Business and operational

7 Event causing significant network disruption	Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
Chief Strategy Officer Operating company CEOs	1 2 3		=	↑	V

Status The outbreak of the COVID-19 pandemic in 2020 resulted in an unprecedented level of disruption to the aviation sector, as well as global economic impacts and this remained the situation in 2021. Other potential high-impact, low-likelihood events have been considered that could have the potential to disrupt IAG and/or the aviation sector. Many of these events remain outside of the Group's control such as adverse weather, another pandemic, civil unrest or a terrorist event seen in cities served by the Group's airlines.

Risk description

An event causing significant network disruption or the inability to promptly recover from short-term disruptions may result in lost revenue, customer disruption and additional costs to the Group.

The COVID-19 pandemic is likely to continue to have an adverse effect on the Group where governments choose to reimpose restrictions to manage public health concerns, as would any future pandemic outbreak or other material event impacting operations or customers ability to travel.

Strategic relevance

- The Group's airlines may be disrupted by a number of different events.
- A single prolonged event, or a series of events in close succession, impact on the Group's airlines' operational capability, financial status and brand strength.
- The Group needs to adhere to local governments' restrictions and regulations especially related to safety and public health and is therefore sensitive to any consequential impact on demand.

Mitigations

- Management has business continuity plans to mitigate this risk to the extent feasible, with focus on operational and financial resilience and customer and colleague safety and recovery.
- Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.

Business and operational

8 IT systems and IT infrastructure

Group CIO
Chief Transformation Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		↑	↑	V

Status The Group recognises the importance of technology and all of its digital and IT resources are managed together in IAG Tech, reporting to the Chief Information Officer (CIO), a member of the IAG Management Committee. All of the Group's businesses have a Chief Digital and Information Officer (CDIO) who represents their business within IAG Tech. This has strengthened IAG Tech's focus on understanding business requirements, helping to transform the Group's businesses and deliver a digital customer experience. The IAG Tech Management Committee governance structure is mirrored across into the Group's businesses to ensure that IT investment and operating company requirements are appropriately prioritised and delivered. There is an increased focus on service delivery and services management as the Group addresses its legacy environment. Plans and investment to upgrade or transform away from obsolete systems or architecture have been subject to ongoing review and plans accelerated where required to meet new regulations around travel documentation.

Risk description

The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.

The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed.

Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation, particularly if the Group needs to defer investment to preserve cash.

Technology disruptors may use tools to position themselves between our brands and our customers.

Strategic relevance

- IAG is dependent on IT systems for most key business processes. Increasingly, the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure e.g. airport baggage operators.
- Competitors and new entrants to the travel market may use digital tools and technology more effectively and disrupt the Group's business model.

Mitigations

- IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.
- Operating companies' IT boards are in place to review delivery timelines.
- IAG Tech leadership and professional development framework.
- Reversion plans are developed for migrations on critical IT infrastructure.
- System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
- Robust portfolio process to determine the right investments across the Group.
- IAG Tech CIO and MC have strategic relationships with all critical IT suppliers and oversight of all critical IT contracts across the Group's businesses.
- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.
- IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

Business and operational

9 People, culture and employee relations

Chief People, Corporate Affairs and Sustainability Officer
Operating company CEOs

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		↑	↑	V

Status The resilience and engagement of our people and leaders has been critical through the COVID-19 pandemic to ensure the Group is best positioned to resume operations and adapt as needed to the uncertain external environment. The duration and scale of the pandemic has required the Group to restructure and employee consultations across the Group's businesses to support restructuring proposals have been undertaken as required. Where possible, job retention and wage support schemes have been utilised to reduce people impacts.

As the Group rapidly transforms all its operations to adjust for the new environment, the engagement and support of the Group's employees is going to be a critical enabler. The Group businesses are focused on building and maintaining employee relationships and trust to deliver operational readiness and meet changing customer, employee and business demands.

In 2021, the Company implemented a new Remuneration Policy that is closely aligned to the Company's strategy and supports the aim of attracting and retaining exceptional talent across the Group. The Group is focused on staff wellbeing and people morale and motivation, particularly as our people return to their offices and the Group businesses adapt and implement hybrid working models. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. All operating companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description

Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.

Our people are not engaged, or they do not display the required leadership behaviours.

The Group businesses fail to attract, motivate, retain or develop our people to deliver service and brand excellence.

Critical skillsets are not in place to execute on the required transformation and drive the business forward.

If the Group's airlines cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.

Strategic relevance

- The Group has a large unionised workforce represented by a number of different trades unions. IAG relies on the successful agreement of collective bargaining arrangements across its operating companies to operate its airlines.
- The right skillsets and culture are needed to transform our businesses at the pace required.

Mitigations

- Ongoing information sharing, consultation and collective bargaining with unions across the Group takes place on a regular basis led by operating companies' human resources specialists, who have a strong skillset in industrial relations.
- Operating companies' people strategies are in place in our businesses.
- Succession planning within and across operating companies has been reviewed by the IAG Management Committee and Board and a consistent process is being implemented across the Group.
- Focus on recruiting and developing skills to run and transform our business.
- Operating companies' engagement and organisational health surveys have been conducted with subsequent action plans developed.
- Access to support individuals' wellbeing.
- IAG Code of Conduct is supported by an annual training requirement for all of our staff.

Business and operational

10 Safety or security incident

Operating company CEOs

Strategic priorities

1
2 3

Interested stakeholders

Risk trend

2021 2020

Status The Group's airlines were focused on a safe return to operations in the year, with additional refresher training as flight crews, cabin crews and ground colleagues returned to service, building back their skills and knowledge.

The IAG Safety, Environment and Corporate Responsibility Committee (SECR) of the Board and the Board of each operating company continued to monitor the safety performance of IAG's airlines. Safety and security responsibility lies with each Group airline in accordance with its applicable standards. Further detail is provided in the SECR Committee report.

Risk description

A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact the Group's brands, operations and financial performance.

Strategic relevance

- The safety and security of our customers and employees are fundamental values for the Group.

Mitigations

- The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.
- The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.
- There is ongoing security engagement with airports, regulators and public authorities across the airlines' networks.
- Incident centres respond in a structured way in the event of a safety or security incident or intelligence.

Business and operational

11 Transformation and change

Chief Transformation Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		NEW	N/A	V

Status The Group has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives across the Group. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board.

Risk description

Failure to transform the business to effectively maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions.

The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.

The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.

Further standardisation, simplification and efficiencies of the Group platforms are not delivered.

Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of the Group.

The Group focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.

Strategic relevance

- The transformation agenda is critical to the Group's ability to compete in the new competitive marketplace, where distortionary effects of aviation support schemes may have allowed competitors to accelerate their change agendas and invest to improve capabilities and customer propositions.

Mitigations

- The Chief Transformation Officer has clear oversight of all programmes.
- Consistent core metrics and dashboard reporting is used to assess performance against plan.
- The dashboard and progress against delivery is assessed by a core group of the IAG Management Committee weekly.
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.
- There is operating company-led communications to our employees on change initiatives and changes that may affect them.
- Consideration is given to the Group's sustainability commitments and agenda for all programmes.
- Any potential changes that could impact the brand are reviewed to mitigate against brand damage.

Financial risk including tax

12 Debt funding

Chief Financial Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3				V

Status Despite disruption in the financial markets since the spread of the COVID-19 pandemic, the Group has proactively focused on protecting liquidity by raising new non-aircraft debt, agreeing new aircraft leases and entering into new multi-year credit facilities. Aircraft were successfully financed on long-term arrangements during the year.

See Financial review section.

Risk description

Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.

New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.

Strategic relevance

- The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions, financial institutions' appetite for secured aircraft financing and the financial market's perceptions of the future resilience and cashflows of the Group.

Mitigations

- The IAG Board and Management Committee have reviewed the Group's financial position and financing strategy on a very frequent basis throughout the period of the COVID-19 pandemic.
- The Group has maintained clear focus on protecting liquidity.
- Additional funding arrangements entered into, including raising additional equity in 2020.

Financial risk including tax

13 Financial and treasury-related risk

Chief Financial Officer

Strategic priorities: 1, 2, 3

Interested stakeholders

Risk trend 2021 / 2020

Viability scenario: V

Status The financial markets were impacted by the uncertainty derived from the COVID-19 pandemic. The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography have all been re-evaluated this year to ensure the Group responds to the rapidly changing financial environment appropriately. Details are set out in the Group financial statements.

Risk description	Strategic relevance	Mitigations
Failure to manage the volatility in the price of oil and petroleum products. Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airlines' local currencies of euro and sterling. Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases. Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.	• The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. • The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results. • The volatility in floating interest rates can have a material impact on the Group's operating results. • The Group is exposed to non-performance of financial contracts that may result in financial losses.	• Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite. • All airlines hedge in line with the Group hedging policy under the Group Treasury oversight. • The Group's fuel hedging policy was revised in early 2021 (and approved by the IAG Audit and Compliance Committee) to better reflect the circumstances caused by the COVID-19 pandemic and future capacity expectations. • The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions. • Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives. • All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation. • The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments. • The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis. • The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts. Any position outside of policy limits has to be approved by the IAG Audit and Compliance Committee.

Financial risk including tax

14 Tax

Chief Financial Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020
1 2 3			

Status Tax is managed in accordance with the Tax Strategy, found in the Corporate Policies section of the IAG website. Further information about taxes paid and collected by IAG is set out in note 10 of the Group financial statements.

Risk description

The Group is exposed to systemic tax risks arising from either changes to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation.

Businesses and consumers may be subject to higher levels of taxation as governments seek to increase environmental taxes, redesign the global tax framework and recover the national debts arising from COVID-19 pandemic support measures.

The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.

Strategic relevance

- Payment of tax is a legal obligation. Changes in the tax regulatory environment, including changes in tax rates, may result in additional tax costs for the Group and in additional complexity in complying with such changes. The Group's tax strategy aims to balance the needs of our key stakeholders, recognising that tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates.

Mitigations

- The Group adheres to the tax policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities.
- Tax risk is managed by the operating companies in conjunction with the IAG Tax function.
- Tax risk is overseen by the Board through the Audit and Compliance Committee.
- The Group seeks to understand its stakeholders' expectations on tax matters e.g. cooperative working with tax authorities and its interaction with non-governmental organisations.

Compliance and regulatory

15 Group governance structure

General Counsel

Strategic priorities: 1 2 3

Interested stakeholders

Risk trend
2021 2020

Status The aviation industry continues to operate under a range of nationality and other restrictions, some of which are relevant to market access under applicable bi-lateral and multi-lateral air service agreements, while some are relevant to eligibility for applicable operating licences. The Group will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

See Corporrate governance section.

Risk description

The governance structures the Group has in place include nationality structures to protect Aer Lingus', British Airways' and Iberia's operating licences and/or route rights.

IAG could face a challenge to its ownership and control structure.

Strategic relevance

- Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences, an EU airline must be majority-owned and effectively controlled by EU nationals. British Airways is a UK carrier and not subject to the same requirement.

Mitigations

- IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

16 Non-compliance with key regulation and laws

General Counsel

Strategic priorities: 1 2 3

Interested stakeholders

Risk trend
2021 2020

Status The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year.

Risk description

The Group is exposed to the risk of individual employee's or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.

Strategic relevance

- Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.

Mitigations

- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance monitored by the IAG Audit and Compliance Committee.
- There are mandatory training programmes in place to educate employees as required for their roles in these matters.
- Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.
- IAG Code of Conduct framework and mandatory training is in place for all Group businesses.
- Data Protection Officers are in place in all operating companies.

Viability assessment

Risk assessment across the timeline of the plan

The Directors have assessed key threats and trends faced by the industry, emerging risks and opportunities arising from the COVID-19 pandemic as well as other industry and Group specific risks that could impact the Group's business plan:

- These are considered in light of their impact on our business model and relevance, operations, customers, financial status and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities, technology trends, environmental implications and infrastructure developments that could impact our operations, as well as more existential threats to aviation
- When developing the Group's three-year business plan, longer-term considerations have been assessed by the Management Committee and the Board in conjunction with the priorities faced by the business
- The Board has also conducted its annual strategy session in addition to progress reviews during the year. Following this process, short-, medium- and longer-term priorities, challenges and opportunities have been identified and actions agreed

Longer-term trends and risk considerations

- The Directors have assessed industry, Group specific and non sector-specific longer-term trends over a timeframe beyond the plan period, such as climate change regulation, infrastructure proposals at hubs, availability and timing of technologies in fleet that will benefit the environment, move to and exploitation of the Cloud and disruptive innovation. This may require the business to consider strategic responses, plans to adapt and require new skillsets to implement ahead of any potential impact to the Group plan
- Other considerations include:
  - Economic trends and shifts in the relative strengths of global economies including market dynamics and changes in customer behaviours or sentiment to travel
  - Supply chains and connectivity, movement of physical goods, inflationary and availability pressures on key suppliers
  - Costs of compliance to environmental and climate change regulations and/or lack of availability of infrastructure within countries to meet commitments or government mandates
  - Areas of risk or opportunity for the Group, such as ageing populations in Europe, war for talent, diversity and inclusion ambitions, hybrid ways of working and different career expectations from new joiners into workforces and the aviation industry
  - The ongoing challenges posed by the COVID-19 pandemic, including structural changes in how customers travel, costs incurred by the Group in safeguarding customers and colleagues and the potential macroeconomic consequences of rising unemployment and inflation
  - The potential longer-term economic impact of Brexit
  - The Group's resilience to future events impacting aviation or global markets
  - Stakeholder expectations over commitment to acting with integrity to protect our planet, particularly climate change and carbon impacts

Viability scenario development

- The Group has undertaken extensive analysis, forecasting and scenario modelling over the last year. It has refined its forecasting models and depth of analysis to ensure that stresses considered reflect specifics to markets and regions relevant to the Group's airlines as well as the analysis completed at the Group level
- During 2021, the Board regularly reviewed scenarios stressing the financial plans. These exercises leveraged the existing processes and models used for viability assessment within the Group
- When considering the viability of the Group, for the purposes of this report, the Directors have evaluated the risk landscape facing the Group and recommended plausible but severe downside scenarios that could impact the Group's refreshed three-year plan to determine the Group's resilience to such impacts. The results of these scenarios on the plan have been presented both pre and post an assessment of the likely effectiveness of the mitigations that management reasonably believes would be available over this period (and not already reflected in the plan)
- The scenarios have been defined by management and designed to consider principal risks that could materialise over the viability period and weaken the Group's liquidity position, and therefore its sustainability. Each scenario considered the impact on liquidity, solvency and the ability to raise financing in an uncertain and volatile environment
- When considering the mitigations, management has assessed mitigations that are available to the business beyond operating cost reductions including further financing, capital expenditure plans and potential disposals. Options that may not have been previously considered as mitigations were presented with recommendations for the Board to consider. In assessing and approving the scenarios, the Board considered, amongst other matters, the availability and sufficiency of potential mitigations, the expected speed of implementation in response to the uncertainty and the future flexibility required for the Group to adapt further as needed
- Sensitivities in the scenarios' assumptions have been highlighted by management and challenged by the Board. In addition, the Board reviewed the results of capacity and margin reverse stress tests, which demonstrated the level of sustained capacity reductions, with losses capped as experienced through the pandemic and losses followed by margin decline (before mitigations) that would result in the Group using all available liquidity (including cash and currently available undrawn credit facilities) and compared this to the outputs from the scenarios
- The Downside Lockdown scenario was considered to be the most severly impactful but plausible scenario that could threaten the Group, and in excess of any other plausible combination of scenarios. Mitigating actions as described in the Downside Cases were also considered across all of the scenarios modelled
- Management has assessed and the Board considered the longer-term sustainability and climate risks, applying scenario analysis techniques as set out by the TCFD process. Further details can be found in the Sustainability report

Scenarios modelled

No.	Title	Link to principal risks
1	**Downside cases and sensitivities further stressing the plan**	
	Downside cases stressing the plan to model prolonged imposition of restrictions and a more gradual recovery relative to the plan. This could be caused by factors such as new variants emerging and differing governments' appetite for pandemic measures, including vaccine and testing requirements for entry, the availability of treatments in countries and border closures. Two scenarios were modelled and assessed, referred to as the "Downside Case" and "Downside Lockdown Case". Both scenarios reflect a capacity restricted environment, with the second of these having a more significant impact on the status of travel, with heightened restrictions being re-imposed worldwide significantly lowering capacity. The Downside Lockdown case is representative of the environment experienced in Q1 2021, with modelling the impact of national lockdowns and severe restrictions impacting the Group airlines in all regions for a period of two months during 2022, with capacity recovering to the Downside case levels in mid-2023. Both scenarios model a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul, as experienced in 2021. The Group does not need to draw down on its general credit facilities (being the multi operating company Revolving Credit Facility (RCF) of $1.755m and the BA UKEF £1.0 billion credit facility, both negotiated and executed in 2021) under the Downside scenario. In the Downside Lockdown scenario, it is assumed that these facilities would be fully drawn down. As part of the modelling, consideration was given to some of the key factors that could influence the evolution of cash in the Downside and Downside Lockdown cases. Cost mitigations were considered across all operating cost lines, including the impact of cost variability being lower than that assumed. Fuel was modelled directly, based on fuel curves and hedging plans. Working capital and capital expenditure adjustments were applied within the scenarios. The scenarios assume that the Group is able to continue to secure financing for future aircraft deliveries, having successfully financed all aircraft purchases during 2020 and 2021, and, in addition, has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience. The period to June 2023 of this Downside Lockdown case scenario has also been applied as the Downside case set out in the going concern analysis (see note 2 of the Group financial statements).	**2, 4, 7, 12, 13**
2	**Business transformation delays and gaps in critical skillsets**	
	Potential for lost revenue impact arising from delays in delivering and realising the benefits of business transformation initiatives. Increased costs from critical skills not being in place to deliver the transformation as a result of continuing uncertainty surrounding aviation industry, staff engagement and pace of required change.	**1, 2, 9, 11**
3	**Ransomware attack**	
	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period of 1-2 weeks resulting from the attack before full connectivity is restored, impacting customers and operations of the affected airline. It also assumes lost revenue due to disruption of operations at the affected airline with knock-on impact to other IAG airlines due to need to isolate and switch off connectivity of Group shared credentials platforms. There are also further lost revenues due to reputational impact and increased EU 261 costs. Associated costs of recovering from the incident include the disruption through the investigation period including increased IT costs as well as brand impacts, and the potential for regulatory scrutiny and fines.	**6, 7, 8**
4	**Increasing awareness of sustainability agenda impacting the Group**	
	A revenue stress on shorthaul operations across the Group in years 2 and 3 to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). The scenario also includes an assumption where there is a slower than anticipated return of corporate travel business (both long and shorthaul) versus plan expectations. This scenario allows the Board to understand the potential impacts of the Sustainability agenda on the Group's future financial performance over the life of the plan to 2024. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the EU Fit for 55 proposals, the cost and availability of sustainable aviation fuel are also subject to assessment and modelling by the Group.	**5**

Viability statement

The Directors have assessed the viability of the Group over three years to December 2024 considering the ongoing impact of the COVID-19 pandemic on the external environment and aviation industry, the assumptions of the plan, the strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the Directors have determined that a three-year period is an appropriate time frame for assessment as it is aligned with the Group's strategic planning period (as reflected in the plan) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and continue to drive change in the external risk environment. The Board recognises the pace of change required within the Group to further adapt and respond to this environment in addition to the rapidly changing competitive landscape and wider global macroeconomic conditions.

The Group has modelled the impact of mitigating actions to offset further deterioration in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Further details on debt financing can be found in the Going Concern disclosures in note 2 of the Group financial statements.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2024. However, this is subject to a number of significant factors that are outside of the control of the Group. In reaching this assessment the Directors have made the following assumptions when considering both the plan and the Downside Lockdown scenario case (the most severe and plausible of the downside scenarios considered):

- the Group will continue to have access to funding options and that the capital markets retain a level of stability and appetite for funding within the aviation sector;
- the Group can implement any further structural changes required in agreement with any union consultation processes and regulatory approvals;
- future COVID-19 pandemic impacts do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;
- and any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

Due to the uncertainty created by the COVID-19 pandemic, the potential for future waves of the COVID-19 pandemic and the consequential impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at February 24, 2022. The Group has been successful in raising financing since the outbreak of COVID-19, however the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur.

Making the case for positive policies

The political and regulatory environment in 2021 continued to provide IAG with significant challenges as states around the world maintained, and in many cases tightened, restrictions on international travel as part of their ongoing responses to the COVID-19 pandemic. While always seeking to maintain the safety of its customers and colleagues, IAG worked to influence common sense approaches to rule-making and the safe lifting of restrictions as vaccination programmes expanded.

The effects of the pandemic had additional knock-on impacts in a variety of areas as policy makers and regulators reacted to the reduction in traffic, leading to temporary changes in policy. Specifically, there were restrictions that impacted IAG carriers via the limitation of frequencies and allocation of capacity between competitor airlines in several international markets that the Group worked to reduce or remove.

Alongside the pandemic, sustainability continued to be the most important area of regulatory policy development affecting the industry. Interest around the world in the management of carbon emissions grew in the run-up to COP26 in November with ongoing scrutiny of the contribution of air transport to emissions. This is a challenge to which IAG is leading the aviation industry's response.

COVID-19

Regulatory reaction to address the threat of COVID-19 required IAG and its operating companies to monitor and manage very many developments in the regulatory field throughout 2021.

In order to encourage the adoption of practical and reasonable rules, as well as to mitigate their impacts on the business, IAG and its operating companies took every opportunity to engage with the authorities in the countries in which its airlines are established and in other major markets directly and through trade associations. Understanding restrictions, implementing, and complying with associated regulations, as well as keeping customers informed of requirements, was unfortunately made ever more difficult by the very considerable variations between jurisdictions and further by constant changes to regulations, often implemented with little or no notice.

Swift development of digital applications by the Group, such as British Airways' in-house Right To Fly or Iberia's and Vueling's AirCheck system, as well as collaboration with independent apps such as VeriFLY, were essential in helping verify customers' travel documents and managing demand as passenger volumes began to return in the second half of the year.

As well as the unprecedented level of engagement with governments over this period, IAG established internal working groups, both cross department within operating companies and across Group companies, to manage the process of implementing rule changes, thus benefitting from the wide range of experience and expertise across the Group.

IAG's engagement included highlighting the benefits and value of aviation, especially that of transatlantic traffic, at the highest levels. The Group was well prepared to meet the US authorities' requirements for track and trace data when the country opened to vaccinated foreign visitors in November.

The US opening came as part of a gradual removal of restrictions in IAG's key home markets and around the world along with the welcome simplification of the UK's traffic light system and the removal of hotel quarantine requirements in the UK and Ireland.

The unpredictable nature of the pandemic was emphasised when further restrictions on travel to certain countries were imposed by governments in response to the spread of the Omicron variant. IAG continues to argue for such policy action to be proportionate so that future variants of concern should not, for example, result in blanket measures on all travellers, such as the need for onerous and costly testing regardless of origin.

Throughout the pandemic IAG has advocated the establishment of a global approach to imposing restrictions and to rule-making through ICAO to reduce confusion for customers and airlines alike. The Group continues to urge governments to come together to develop a joint approach to crisis management that applies a consistent set of requirements whether for future pandemics (including moving to a traveller-based approach to risk rather than bans by country, allowing fully vaccinated passengers to travel without restriction, and setting standard architectures for digital health certificates) or for other upheavals that could impact the operation of this global industry.

Sustainability – Brussels

IAG has continued to champion the cause of sustainable aviation and to share its plans for reducing carbon emissions as the industry recovers.

To explain and promote its sustainability position, the Group has engaged with representatives of the institutions of the European Union over the European Commission's Fit for 55 package. This commits the EU to reducing net greenhouse gas emissions by at least 55% by 2030 (compared with 1990) and to reaching climate neutrality by 2050.

IAG welcomes Fit for 55, and its objectives with which the Group is aligned, as a powerful package for change. However, IAG continues to argue that the design of some elements may reduce the EU's capacity to invest in sustainability and make it less competitive compared with other non-EU aviation markets.

IAG does not support the imposition of the jet fuel tax that Fit for 55 proposes. This is not a solution for decarbonisation but will reduce the sector's ability to invest in more effective measures. Instead, we are firmly of the view that policy should focus on increasing the use of Sustainable Aviation Fuels (SAF) and market-based measures such as the EU Emissions Trading System (ETS) and ICAO's Carbon Offsetting and Reduction Scheme (CORSIA).

IAG contends that increasing the use of SAF, which reduce lifecycle CO_2 emissions by up to 85 per cent, provides the primary near-term opportunity to drive down industry emissions. In April, IAG became the first European airline group to commit to powering 10 per cent of its flights with SAF by 2030. We encourage the EU to include a package of investment incentives to enable scaled-up production of SAF alongside the blending mandate requirement that Fit for 55 introduces.

British Airways launched its BA Better World sustainability strategy in September and also procured the use of sufficient SAF to power all flights between London and Glasgow during COP26.

IAG has long been an advocate for and contributor to the design of CORSIA. The Group believes the Fit for 55 package must work alongside global measures, not duplicate them, and that the EU ETS should apply to intra-EU flights and CORSIA to extra-EU flights. Applying both systems to flights between EU Member States risks undermining support for CORSIA outside Europe.

Other policy issues

Slot allocation

A key impact of the pandemic, given the dramatic reduction in demand, was the need for a waiver from regulators to the slot allocation rules that would otherwise risk breaking up long-established airline networks. IAG worked with its trade association, the International Air Transport Association (IATA) to advocate the adoption of a system agreed with airports and slot coordinators that would recognise the value to consumers to allow temporary alleviation from "the use it or lose it" rules so as to maintain networks of airlines who have built them up over the years. The UK and others sensibly adopted full waivers of the "use it or lose it" rules but the patchwork of approaches adopted, including the different position of the EU from that of the US and other key markets, was disappointing. IAG continues to support the use of the proven, effective global rules of the IATA Worldwide Airport Slots Guidelines.

Competition

Another feature of the impacts of the pandemic in 2021 was that in some markets, governments imposed peremptory or arbitrary restrictions on capacity to protect their home carriers on the pretext of safeguarding public health. IAG and its operating companies continue to work through the governments of its home countries and in the markets in question to promote the benefit of competition to consumers and the health of the aviation industry and to encourage a full return to normal operations in 2022.

Airport charges

Working with the trade association Airlines for Europe (A4E), IAG continued to promote the need for changes to airport charges legislation in Europe to make the industry fit for a more competitive future. The Group continues to monitor developments and engage with regulators around the world as airports seek to increase charges to pass on their losses over the last two years to their airline customers. A key focus during 2021 was on Heathrow's regulatory price review. The airport sought to double charges when other hubs (e.g. all airports in Spain) are keeping rates flat or seeing only small increases (e.g. Frankfurt). It was disappointing to see the Civil Aviation Authority (CAA) announce, in December, that it would allow Heathrow to increase charges by 50 per cent in 2022 (the interim price cap). British Airways and IAG are fully engaged in the CAA's review process that continues through the first half of 2022. We seek to demonstrate that charges should in fact more reasonably be reduced at Heathrow over the remainder of the regulatory period to 2026 in the interests of preserving the competitiveness of UK aviation and providing a better outcome for both IAG's airlines and for consumers.

Market access

During the pandemic, regulatory approval was secured for a range of flights for Aer Lingus, British Airways and Iberia to new destinations or for new purposes including cargo and passenger charter services. As restrictions began to be lifted attention turned to strategic actions to expand markets.

The start of Aer Lingus's operations from Manchester to the Caribbean demonstrated the Group's flexible business model, including IAG's central Government Relations team helping to secure regulatory permission from both UK and US authorities for the new UK-based operation. Further regulatory engagement with several countries in the Caribbean, Africa and Asia has also helped secure the significant expansion of code share networks, in particular with Kenya Airways and Qatar Airways.

IAG monitored, as usual, developments in relevant international relationships and air services agreements throughout the year, including the discussions in the Autumn between the EU and the UK on the Northern Ireland protocol (since the UK-EU Trade and Cooperation Agreement includes provisions on aviation). Any potential changes to the status of the protocol are not expected to have an impact on the air services arrangements between the EU and the UK.

In 2021 overall, the Group took every opportunity to emphasise the economic and social value of aviation in facilitating trade, tourism and in reuniting families separated by the pandemic, and also to demonstrate that this is being done in a responsible and environmentally sustainable manner.

ANNUAL CORPORATE GOVERNANCE REPORT AND DIRECTORS REMUNERATION REPORT

The 2021 annual corporate governance and directors' remuneration reports of International Consolidated Airlines Group, S.A., prepared according to Circular 3/2021, of September 28, of the Spanish National Stock Exchange Commission are part of this Management Report and, from the date of the publication of the 2021 Financial Statements, are available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

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

Independent Assurance Report on the Consolidated Non-Financial Information Statement of International Consolidated Airlines Group, S.A. and subsidiaries for 2021

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

Pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review of the Consolidated Non-Financial Information Statement (hereinafter NFIS) of International Consolidated Airlines Group, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) for the year ended 31 December 2021, which forms part of the accompanying consolidated Directors' Report of the Group for 2021.

The consolidated Directors' Report includes additional information to that required by prevailing mercantile legislation concerning non-financial information, which has not been the subject of our assurance work. In this respect, our work was limited exclusively to providing assurance on the information contained in the "Table of contents" of the accompanying consolidated Directors' Report.

Directors' Responsibility

The Directors of the Parent are responsible for the content and authorisation for issue of the NFIS included in the Group's consolidated Directors' Report. The NFIS has been prepared in accordance with prevailing mercantile legislation and selected Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) based on each subject area in the "Table of contents" of the aforementioned consolidated Directors' Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFIS is free from material misstatement, whether due to fraud or error.

The Directors of the Parent are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS was obtained.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG

Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, which refers exclusively to 2021. The data for previous years was not subject to the assurance envisaged in prevailing mercantile legislation.

We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management, as well as of the different units and areas of the Parent that participated in the preparation of the NFIS, reviewing the processes for compiling and validating the information presented in the NFIS and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with the Parent's personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these matters and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the NFIS for 2021 based on the materiality analysis performed by the Parent and described in the "Defining sustainability and material issues" section, considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFIS for 2021.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFIS for 2021.
- Corroboration, through sample testing, of the information relative to the content of the NFIS for 2021 and whether it has been adequately compiled based on data provided by the information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the NFIS of International Consolidated Airlines Group, S.A. and subsidiaries for the year ended 31 December 2021 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in the "Table of contents" of the aforementioned consolidated Directors' Report.

Emphasis of Matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment stipulates the obligation to disclose information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable in relation to climate change mitigation and climate change adaptation. This obligation applies for the first time for the 2021 fiscal year, provided that the Non-Financial Information Statement is published from 1 January 2022 onwards. Consequently, the attached NFIS does not contain comparative information on this matter. Additionally, certain information has been included in respect of which the Directors of the Parent have opted to apply the criteria that, in their opinion, best allow them to comply with the new obligation, and which are those defined in section "Description of EU Taxonomy and 2021 related activities" in the accompanying NFIS. Our conclusion is not modified in respect of this matter.

Other Matters

On 2 March 2021 a different assurance provider issued a favourable independent assurance report on the Consolidated Non-Financial Information Statement of International Consolidated Airlines Group, S.A. and subsidiaries for 2020.

Use and Distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

Marta Contreras Hernandez

2 March 2022

INTERNATIONAL AIRLINES GROUP

Consolidated Statement of Non-Financial Information 2021

Consolidated Statement of Non-Financial Information

The present statement was prepared to comply with the requirements of Law 11/2018, of December 28, 2018 on non- financial information and diversity (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), and is part of the Group's Management Report.

We provide information about environmental, social, employee- related, and human rights-related issues, which is relevant to the Company and important for the execution of business activities.

The consolidated statement of non-financial information contains the following sections:

A unique model that enables us to connect the world

We are an international airline group, with leading airlines in Spain, the UK and Ireland. We were formed to create a unique model in the industry based around consolidation, strategic flexibility and financial performance.

Our purpose and values

Our role in the world is to connect people, businesses and countries. We do this and create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose.

Our operating model

The Group has a unique and innovative business model within the airline industry, based on a light structure at the centre and agile, empowered and focused airline operating companies who benefit from the Group's scale and are accountable for their results.

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 adding incremental 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. The neutrality of IAG's platform and independence from the brands supports the Group in taking part in industry consolidation processes.

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

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

Our operating model

Principles

- Operating companies' execution and accountability
- Light structure at the centre for central functions and intra-Group coordination
- Central execution only where it provides additional value

Corporate parent

- Sets long-term strategy to deliver the vision for the Group
- Defines portfolio, M&A and partnerships
- Sets targets and oversees operating companies' performance
- Allocates capital and secures funding
- Drives ESG agenda for the Group
- Manages investor relations
- Shares best practice
- Defines, drives and monitors response to COVID-19

Airline operating companies

- Drive and execute commercial strategy
- Ensure operational efficiency
- Define product strategy for target customer segments
- Deep understanding of customer and competitive environment
- Standalone profit centres and independent credit identities
- Individual brand, cultural identity and management teams

Common integrated platform

Provides common services and allows the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale

The role of the Centre

The role of the Centre is to oversee intra-Group coordination, manage and execute central functions, and leverage its central platforms to create additional synergies for the Group. This is underpinned by a role to foster collaborative working between the operating companies and the sharing of best practices across the Group.

IAG

BRITISH AIRWAYS | IBERIA | vueling | Aer Lingus | IBERIA EXPRESS | LEVEL

Central platforms

IAG Cargo | IAG Loyalty | IAG GBS | IAG Tech

Intra-group coordination

Fleet | Maintenance, repair and overhaul | Fuel | Network | Commercial | Customer

Central functions

Investor relations | Finance | People | Sustainability | Communications | Legal | Strategy | Merger and acquisition

The role of the Centre during the COVID-19 pandemic

The Group's corporate parent has had a crucial role during the COVID-19 pandemic, managing the crisis and coordinating the Group's response, taking action to secure the business in the short term, and driving the transformation of IAG and its operating companies to ensure we emerge competitive from the crisis.

Our common integrated platform also provided strong support to the Group during the crisis, helping control costs, driving synergies and bringing additional sources of non-flying revenue to the Group.

Some of the key actions taken at IAG and by its central platforms and central functions during the COVID-19 pandemic have been to:

- Secure funding for the Group to maintain a strong liquidity position, secure the business and exit the crisis in a competitive shape
- Lead and coordinate capital expenditure, working capital and operating cost initiatives to minimise cash outflows
- Renegotiate deals and deferrals with key suppliers to support the business
- Increase our sources of revenue and raise additional cash through the launch of new and renewal of existing loyalty partnerships, including our agreement with American Express
- Engage in aircraft deferrals, lease payment renegotiations, and sale and leaseback transactions to preserve cash; and collaborate with the operating companies to temporarily park and retire older aircraft from their fleets
- Continuously track, monitor and forecast market re-openings and air travel demand to optimise capacity plans, including the deployment of additional cash-generative cargo capacity and cargo-only flying
- Provoke and oversee business transformations at the operating companies, coordinating plans and setting targets for the Group and its businesses to emerge more efficient from the crisis
- Engage with our existing **one**world, joint business and other airline partners to maintain, adapt and strengthen our relationships during the crisis and collaborate with the operating companies to further expand our partnership portfolio
- Engage closely with national governments, regulators and industry associations to support the development of safety and security guidance, as well as best practices that allowed travel to continue
- Drive IAG's sustainability strategy by collaborating with partners and regulators to take further steps in the industry's decarbonisation roadmap, playing a leading role in setting and progressing towards ambitious carbon targets and building industry momentum towards a net zero world.

Driving change to create truly sustainable aviation

We are committed to creating and delivering long-term sustainable value for our stakeholders, who include our colleagues, all those we do business with, the communities where we operate, investors, regulators, customers, and our society.

We ensure that we understand the needs of all of our key stakeholders to prioritise their requirements in our plans to deliver a fully sustainable business.

A critical aspect of delivering a fully sustainable business is recognising, managing and reducing our impact on the planet, which is critical to driving change across the industry so that we can play our full part in tackling climate change.

Having previously set clear and ambitious targets relating to our most material issues, we worked this year to embed our net zero transition pathway within our business strategy and shift our focus to delivery of our plans this decade.

We have done this by accelerating progress in sustainable aviation fuels and operational efficiency and by continuing our investment in green technologies such as hydrogen-powered planes and carbon removal as well as new aircraft which are up to 40 per cent more fuel efficient than those they replace.

Meanwhile, we also stepped up in the delivery of our social targets, including improving our diversity performance, our employee engagement and the implementation of our programme to reach all our stakeholders. As part of our commitment to ensure we are a diverse and inclusive organisation last year we set a new target of having at least 40 per cent of senior roles held by women by 2025.

We are determined to support the long-term prosperity of the communities we serve. In 2021, we continued to support countries' efforts to combat the pandemic by helping out wherever we could, transporting vaccines and humanitarian aid to places that needed us most.

To ensure we fully understand our stakeholders' concerns, in 2021 we completed a comprehensive review using an independent, specialist third party, Simply Sustainable, to analyse 26 different environmental, social and governance (ESG) topics that are crucial to our operations. With these issues as the foundation, we then conducted 34 internal and external stakeholder interviews and gathered a further 131 responses from stakeholder surveys. We also benchmarked the results against industry peers.

The findings led to the production of two materiality matrices, over three-year and ten-year timescales respectively, with issues grouped into four different areas: People, Planet, Prosperity, and Governance. By aligning these with our strategic priorities and measuring our performance, we are best able to put all our stakeholders at the heart of our decision-making to ensure IAG can have a positive impact on society over the long term.

"We are determined to support the long-term prosperity of the communities we serve."

Contents of this section:

This sustainability report has also been prepared in reference to GRI standards, which are listed under relevant section headings. Criteria for choosing specific standards are based on compliance with Spanish Law 11/2018 and on material issues.

Driving efforts to tackle climate change

IAG has been the leading airline group building global momentum towards net zero aviation. As well as taking pioneering actions within our business, IAG has proactively engaged with other airlines to build consensus around net zero. This successful advocacy will enable faster emissions reductions across the industry.

IAG is delighted that IATA has joined the journey to net zero emissions. Since IAG's net zero commitment in October 2019, over 290 airlines are now also committed to net zero, representing over 82 per cent of global air traffic. This rapid shift within two years is profound.

IAG supports efforts for a long-term target for aviation at the ICAO General Assembly in 2022.

IAG was also pleased to gain another climate "Leadership" (A-) grade from the Carbon Disclosure Project (CDP) in 2021. This placed IAG in the top 6 per cent of global respondents. We are the only airline group worldwide to gain three leadership grades in the past five years.

The business will continue to lay the groundwork to accelerate emissions reductions both for our operations and at an industry level.

Key achievements and 'firsts' include:

- October 2019. First airline group to commit to net zero carbon emissions by 2050, setting a precedent for aviation;
- November 2019. First airline group to publish a roadmap for achieving this, a detailed plan which could be emulated;
- February 2020. Actively supported the first national aviation commitment and roadmap to net zero (UK, via Sustainable Aviation);
- January 2021. British Airways was the first airline to receive a sustainability-linked loan tied directly to ESG targets;
- February 2021. Actively supported the first regional aviation commitment and roadmap to net zero (Europe, via A4E);
- September 2021. Actively drove the first global aviation alliance commitment and roadmap to net zero (via **one**world);
- April 2021. First European airline group to commit to 10 per cent sustainable fuels by 2030; and
- April 2021. First airline group worldwide to commit to net zero Scope 3 emissions by 2050.

Our Hangar 51 platform continues to engage with and support innovative companies like ZeroAvia to accelerate new zero emissions technologies.

A. Principles of Governance

A.1. Defining sustainability and material issues

Reference to GRI, TCFD and SASB standards:
GRI 102-43, 102-44, 102-46, 102-47

In this context, sustainability covers both environmental and social issues.

IAG's sustainability strategy, initiatives and reporting are based on a rigorous assessment of which business activities have a material impact on the environment and people and what is most important to key stakeholders.

In 2021, IAG repeated a comprehensive materiality assessment to assess these issues. This was facilitated by leading sustainability consultancy Simply Sustainable as an independent third party, with the scope as described in the introduction to this section.

The internal stakeholders included all IAG Management Committee members, certain Board members, and operating company sustainability representatives. External stakeholders included investors, corporate customers, policymakers, trade associations, fuel suppliers, airports, and NGOs. The materiality assessment was complemented by an ESG staff survey distributed in English and Spanish.

The results have informed our disclosures and strategy.

Tackling climate change remains our most material issue in the long run, and engagement with policymakers, customers and suppliers was identified as key to this effort. In the short term, as the business recovers from COVID-19, profitability and customer and employee engagement remain a high priority. In addition, wellbeing is a material issue and IAG has elevated its focus on this.

Water consumption, biodiversity and light pollution were assessed as non-material for IAG. More information on water and biodiversity is available in the Additional Disclosures section of the Non-Financial Information Statement (NFIS).

IAG does not have specific risk provisions, targets or guarantees related to these non-material issues.

Material issues as identified in 2021

The icons represent UN Sustainable Development Goals (SDGs).

Principles of Governance

- Investing in the future
- Planning for climate-resilient operations
- Working with suppliers

Planet

- Reducing our climate impact
- Influencing policy

Prosperity

- Running a profitable business
- Pleasing our customers

People

- Engaging with employees
- Building a diverse, inclusive and equal workplace

The above four categories are aligned to best practice in the 2020 World Economic Forum "Measuring Stakeholder Capitalism" report.

Changes in material issues to 2030

To 2023 (Three-year timeframe)	To 2030 (Ten-year timeframe)
1 Running a profitable business	1 Investing in the future
2 Engaging with our employees	2 Reducing our climate impact
3 Reducing our climate impact	3 Influencing policy
4 Pleasing our customers	4 Building a diverse, inclusive and equal workplace
5 Investing in the future	5 Working with suppliers
6 Planning for climate-resilient operations	6 Pleasing our customers

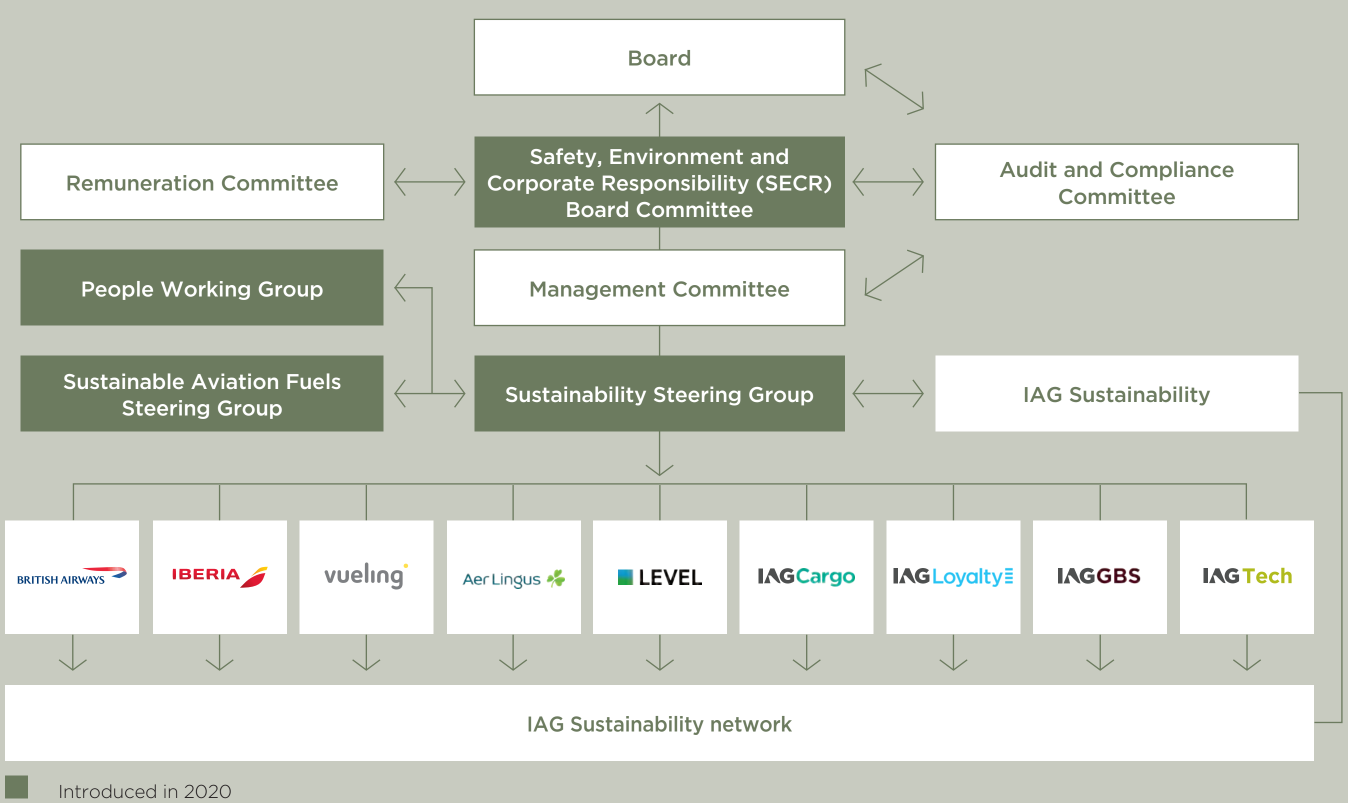
Note: the most material issues are assessed using the combination of their importance to stakeholders, and their residual impact to the business after current mitigation plans.

Supporting UN Sustainable Development Goals to 2030

The UN has identified 17 SDGs to support as part of the global 2030 Agenda for Sustainable Development. IAG has identified four priority SDGs to support, with examples below. Within the Group, Iberia is a member of the UN Global Compact.

SDG	Description	See sections	Examples of 2021 activities which support SDG
5 GENDER EQUALITY	Gender equality	C.1. Workforce overview C.3. Diversity, inclusion and equality	The IAG Board has maintained the same ratio of seven male and five female directors from 2020 to 2021 (42% female representation) IAG received the "gender equality" award at the Vocento Business Awards in Spain for its efforts to encourage diversity
7 AFFORDABLE AND CLEAN ENERGY	Affordable and clean energy	Spotlight: Sustainable Aviation Fuel	British Airways, Iberia, Vueling and IAG Cargo used SAF in flights for the first time Multiple Sustainable Aviation Fuel (SAF) deals to secure future supply
8 DECENT WORK AND ECONOMIC GROWTH	Decent work and economic growth	C.1. Workforce overview	Doubling of staff engagement in Group-wide Occupational Health Surveys
13 CLIMATE ACTION	Climate action	A.5. Sustainability stakeholder engagement B.1. Climate change and TCFD disclosures	IAG was instrumental in driving industry coalitions at national, regional and global levels to set net zero climate targets, and lobbying for UK policy support for SAF

Sustainability governance structure



A.2. Sustainability governance

Reference to GRI, TCFD and SASB standards: GRI 102-46, 102-48. TCFD Governance a, b

Overview

IAG has multiple levels of governance in place to ensure robust, aligned and progressive sustainability decision-making.

In 2021, IAG appointed a Chief People, Corporate Affairs and Sustainability Officer (CPCASO) to further drive forward environmental and social initiatives. The CPCASO is a member of the Management Committee and reports into the IAG CEO. The IAG Group Head of Sustainability and Group Head of People report into the CPCASO.

The Group sustainability strategy covers Group policies and objectives, governance structures, risk management, strategy and targets on material issues, sustainability performance indicators, and communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme which is regularly reviewed to ensure alignment with the Group strategy.

The IAG Board provides oversight and direction for sustainability programmes. The IAG Management Committee provides the key forum for reviewing and challenging these programmes and setting strategy.

Key governance structures include:

- quarterly meetings of the Board Safety, Environment and Corporate Responsibility (SECR) Committee to provide dedicated oversight of the Group's sustainability programme and a link between the IAG and operating company management committees and the IAG Board;
- quarterly meetings of the Sustainability Steering Group (SSG), comprised of senior representatives from each operating company and key IAG teams, to provide oversight of environmental and social initiatives and reporting;
- monthly meetings of the IAG Sustainability Network, comprised of sustainability representatives from all operating companies, to share ideas and updates;
- regular meetings of the SAF Steering Group and People Working Group reporting into the SSG; and
- as part of the Group-wide Enterprise Risk Management (ERM) process, bi-annual reporting of the principal sustainable aviation risks to the IAG Management Committee and Board's Audit and Compliance Committee.

Internal Group-wide policies related to sustainability help to ensure that wider decision-making aligns with the sustainability strategy. These include the Code of Conduct, Supplier Code of Conduct and specific policies on Environmental Sustainability, Modern Slavery, Anti-Bribery and Corruption, Equal Opportunities and Selection and Diversity. These are approved by the Board of Directors.

Individual airlines are also adopting ISO 14001-aligned internationally recognised environmental assessment and management tools. All four main airlines are working towards Stage 2 accreditation for the IATA Environmental Assessment (IEnvA)[1] management system. Only seven airlines worldwide have this accreditation. British Airways, Aer Lingus and Vueling have already achieved Stage 1 certification and Iberia plans to complete Stage 1 in 2022.

Reporting standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement, which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised)[2] standards.

IAG complies with current and emerging standards on sustainability reporting. These include obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, the 2018 UK Streamlined Energy and Carbon Reporting (SECR) regulation, and the Task Force on Climate-related Financial Disclosures (TCFD), and the EU Taxonomy Regulation (2020/852).

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, and relevant criteria from external ESG rating agencies. IAG supported IATA and the Global Reporting Initiative (GRI) to develop the IATA handbook.

This sustainability report has also been prepared in reference to GRI standards, which are listed under relevant section headings. Criteria for choosing specific standards are based on compliance with Spanish Law 11/2018 and on material issues. In cases where GRI alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used and described.

Data governance

Unless otherwise stated:

- The scope of environment performance data in this report includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This scope is consistent with environment-related policies and KPIs;
- LEVEL, IAG Loyalty and IAG GBS functions are not in scope for environmental reporting as the environmental impacts of these business units are not material; and
- Workforce data includes all IAG operating companies and support functions.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU Emissions Trading Schemes (ETS), and for all flights for the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

In specific cases where full year data was not available, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust. Any prior year restatements are indicated next to relevant metrics with reasons provided.

1 IEnvA is the airline industry version of ISO 14001, the international standard for environmental management systems. IEnvA is tailored specifically for airlines and is fully compatible with the International Organization for Standardization (ISO).
2 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

A.3. Sustainability strategy

IAG has a vision to be the world's leading airline group on sustainability. That means using its scale, influence and track record to not only transform the business, but drive the system-wide change required to create a truly sustainable aviation industry. IAG is committed to delivering best practices in sustainability programmes, processes and impacts, while executing on Group strategy. Creating a truly sustainable business is fundamental to our long-term growth.

IAG has three overall strategic priorities for its business. The environmental strategy is aligned to these:

Strengthening a portfolio of world-class brands and operations	Growing global leadership positions	Enhancing IAG's common integrated platform
• Ensuring customers have visibility of, and are engaged in, our sustainability programmes	• Demonstrating industry leadership • Maturing our transition pathway towards a net zero business • Leadership in carbon disclosures	• Investing in efficient aircraft fleet and delivering best practice in operational efficiency • Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low-carbon technologies

In 2021, the Board agreed to a broadening of the sustainability strategy and progress is now tracked against nine priorities.

Nine strategic priorities	Key 2021 progress
1. Clear and ambitious targets relating to IAG's most material issues	• See B.1. 'Climate change and TCFD disclosures' section • 2021 materiality review • New SAF, waste, diversity, Scope 3 emissions targets
2. Low-carbon transition pathways embedded in business strategy	• Sustainability budgets form part of operating company three-year business plans updated annually. Carbon costs are integrated into business cases for fleet purchasing and planning. (see below)
3. Management incentives aligned to delivering a low-carbon transition plan	• IAG was the first airline group to explicitly agree climate targets as part of annual incentive plans. See remuneration section for more details. These are expected to be reinstated in 2022.
4. Leadership in carbon disclosures	• CDP (climate-specific ranking): A-, top 6% of scored companies • TPI (climate-specific ranking): Met 17 of 18 criteria, highest level • Sustainalytics (cross-sector ESG ranking): 9th out of 68 airlines
5. Accelerating progress in low-carbon technologies including aircraft technology, SAF, carbon offsets and carbon removals	• See "Spotlight: Sustainable Aviation Fuel"
6. Accelerating innovation in low-carbon technology as above	• Dedicated sustainability category in Hangar 51 accelerator programme
7. Industry leadership in the innovation and deployment of SAF including power-to-liquids	• 10 per cent SAF by 2030 commitment and several new supply partnerships
8. Stepping up our social commitments including on diversity, employee engagement and sustainability as a core value	• New diversity targets set
9. Industry leadership in stakeholder engagement and advocacy	• Continued leadership positisions in key industry associations with more action planned for 2022

To embed low-carbon transition pathways in business strategy, IAG concurrently applies internal carbon prices to financial planning and scenario analysis. Prices are based on market values and reputable external forecasts:

- EU ETS prices are based on market prices and the UK Department for Transport (DfT) Aviation Forecast to 2050; and
- CORSIA prices are based on International Energy Agency (IEA) and ICAO price forecasts to 2035.

For the period 2021-35, EU ETS prices of €50-€166/tonne and CORSIA prices of $8-$40/tonne were used for modelling compliance costs. The Fleet team used updated carbon prices and price forecasts for shorthaul and longhaul fleet purchasing decisions.

To support management incentives, in 2020, climate-related incentives were agreed by IAG's MC, Remuneration Committee and Board so that 60 of the most senior executives across the Group, including the IAG CEO, would have a proportion of their annual incentives linked to achievement of annual carbon intensity targets. More details are in the report of the Remuneration Committee.

To support leadership in carbon disclosures, in 2021 IAG Investor Relations completed a survey of key IAG investors to identify their expectations, views on best practice in ESG reporting, and those ratings they prioritise. IAG plans to engage with relevant rating agencies in 2022 to enable more accurate calculations of IAG's scores and to identify actions to improve the scores.

IAG is the only airline group worldwide to receive three leadership (A-/A) grades from CDP in the past five years and in 2021 received the joint-highest score of any airline from the Transition Pathways Initiative (TPI), which assesses companies' readiness for a low-carbon economy.

A.4. Sustainability risk management

Reference to GRI, TCFD and SASB standards: GRI 102-11, 102-15. TCFD Governance a, b, Strategy a, b, c, Risk Management a, b, c

Sustainable aviation risks have been collectively identified as one of IAG's principal risks.

In 2021, IAG received 'A' grades from CDP for its climate risk and opportunities disclosures to CDP. This response is available on the IAG website.

Climate-related risks are considered and assessed under the Group Enterprise Risk Management (ERM) framework which is presented to the Board. More details on the framework and process for how risks are assessed, and how Group risks inter-relate, can be found in the 'Risk Management, Principal risks and uncertainties' section.

Sustainability risks and opportunities, including climate-related risks and opportunities, are also identified and assessed by the Group Sustainability team, in conjunction with the Group ERM team. This assessment includes risks over medium-term (two to five years) and long-term (greater than five years) timescales.

Sustainability enterprise risks are bi-annually reported to and reviewed by the IAG Management Committee and the IAG Audit and Compliance Committee. Detailed sustainability risks and opportunities are also reported to the IAG CPCASO who reports to the IAG CEO. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business.

Sustainability risk assessments have informed specific decisions related to business operations and strategy, and IAG allocates significant resources to environmental risk management. Examples include:

- IAG has maintained its commitment to invest in SAF development, production and supply as part of its 20-year US$400 million (€360 million) SAF commitment, to manage climate policy risks and take advantage of energy-related opportunities;
- in 2018, TCFD-aligned scenario analysis identified a need for more ambitious action on climate change, which led to the 2019 decision to design and adopt the industry-leading Flightpath Net Zero strategy to deliver net zero emissions byy 2050;
- in 2021, IAG set a new net zero target by 2050 for Scope 3 emissions and IAG GBS appointed EcoVadis to help to track supplier sustainability performance and mitigate supply chain-related sustainability risks; and
- all operating airlines to work towards Stage 2 accreditation of the environmental management system IEnvA[1], including investments in people and IT systems, to manage environmental compliance risks.

IAG is committed to mitigating the impacts of hazards which, if they occur, have uncertain but potentially negative outcomes on the environment or people. As such, IAG adopts precautionary measures to mitigate these hazards, an approach known as the precautionary principle. The precautionary principle is applied to the planning of operations and the development and launch of new services, by integrating climate considerations into business plans and financial forecasts and aligning activities with the Flightpath Net Zero strategy.

Detailed mitigation for climate-related risks is outlined in Section B.1.

Related risk: Environmental regulation compliance

Risk description	Mitigating actions
An inadvertent breach of compliance requirements related to ESG reporting, emissions or waste management, or other environmental issues, leading to fines and potential reputational damage.	• Strengthening sustainability governance including reviews of annual disclosures via the Audit and Compliance Committee • Internal governance, training and assigning ownership for environmental compliance obligations • Working towards IEnvA[1] accreditation to improve internal compliance processes

1 See A.2. Sustainability governance

A.5. Sustainability stakeholder engagement

Reference to GRI, TCFD and SASB standards: GRI 102-13, 102-43, 102-44

Engagement with key stakeholder groups is outlined over the next three pages.

IAG is a member of multiple trade associations which deal with environmental and climate-related issues.

If the climate-related positions of trade associations are inconsistent with internal stances, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stances and constructively move to alignment.

IAG's stance on climate change is to align its efforts with the latest science on achieving 1.5°C pathways. This applies both to the goal of achieving net zero by 2050 and to pathways aligned to the science. IAG sees both gross and net reductions in emissions as crucial elements of aviation decarbonisation, supports the mechanisms of fleet modernisation, airspace and operational efficiency, sustainable aviation fuels, carbon pricing schemes and voluntary offsets and removals, and advocates for effective policies to promote those that are effective, and fair, and ideally global. IAG also supports the principle of carbon pricing, which is to drive emissions reductions where they are most cost-effective. IAG does not support carbon taxes as it has been proven that these are environmentally inefficient.

IAG has internal governance to ensure that wider stakeholder engagement on sustainability is consistent with its material issues and environmental goals.

Stakeholders	Why we engage	Key 2021 activities
Industry associations	• To develop common policy positions • To improve advocacy effectiveness • To ensure consistency between IAG sustainability goals and the goals of associations of which IAG or operating airlines are members • To share environmental and policy expertise to drive a more sustainable industry	• Supporting IATA industry commitment to net zero emissions • Key inputs to A4E 'Destination 2050' roadmap to net zero for aviation • Coordinated **one**world roadmap to net zero and 10% SAF by 2030 commitment • Working group for new 2030 and 2040 emissions targets for UK aviation industry • Policy advocacy on evolution of EU 'Fit for 55' climate policies
Government and other regulators	• To support UK and EU commitments to net zero emissions • To build support for a net zero emissions target for aviation through the UN aviation regulator ICAO • To influence UK, Spanish, Irish, EU and global policies • To increase research and funding for low-carbon aircraft, SAF and carbon removal technologies	• Responses to UK SAF Mandate and Jet Zero Consultations • IAG staff chair two of four groups of the UK Jet Zero Council (JZC) • Direct advocacy with EU policymakers over proposed EU 'Fit for 55' climate policies
Customers	• To demonstrate IAG's sustainability commitments to action, initiatives and leadership • To facilitate passenger action on the environment • To stay attuned to changing customer demands • To offer employment opportunities	• British Airways, Aer Lingus, Iberia and Vueling continued and updated sustainability communications to customers
Workforce	• To align individual airline sustainability programmes with Group • To share ideas and best practice • To respond to demands from internal stakeholders • To drive positive employee engagement • To improve recruitment and retention opportunities	• Occupational Health and Engagement Surveys across the Group • Frequent sustainability presentations at internal forums • Vueling created a new Vision, Mission and Values which included sustainability

Stakeholders	Why we engage	Key 2021 activities
Suppliers	• To minimise exposure to ESG risks • To support manufacturers in improving aircraft efficiency • To gain support for SAF • To identify opportunities to reduce supplier emissions	• Interviews and surveys of key suppliers as part of materiality assessment • IAG GBS appointed EcoVadis to track supplier environmental performance
Shareholders and other financial stakeholders	• To understand their approach to ESG, to enable us to better align our programmes with their priorities • To demonstrate action and leadership externally • To maintain and increase transparency • To respond to legal obligations	• Completed ESG investor survey • 2021 and 2020 CDP scores A- • 2021 TPI score the joint-highest of any airline • British Airways receives first financial loan linked to ESG targets.
Communities	• To support vulnerable or under-served communities via charitable causes • To increase IAG's positive wider impacts • To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near to where airlines operate	• Multiple IAG airlines supported efforts to distribute COVID-19 vaccines and aid • €2.7 million raised for charitable causes • See Section C.5. 'Community engagement and charitable support'
NGOs and academic institutions	• For independent reviews of materiality • To maintain an informed position on sustainability leadership • To share sustainability expertise for the benefit of industry progress on the environment	• Updated Group materiality assessment • Continued engagement with Cranfield University supporting a range of sustainability projects • Engaged with the Science Based Targets initiative (SBTi) as one of 11 airlines on the aviation Technical Working Group and one of 84 companies to road-test the SBTi Net Zero Standard

Member of organisation	Scope of organisation	Stance on climate change*	2021 role and leadership action
Sustainable Aviation (SA)	UK	Consistent	• IAG is one of twelve members of the SA Council, which governs activities for 36 member organisations • Part of working group which developed new 2030 and 2040 emissions targets
Jet Zero Council (JZC)	UK	Consistent	• IAG staff chair two of the four groups: SAF Delivery Group, COP26 subgroup • British Airways CEO a member
Royal Aeronautical Society (RAeS)	UK	Consistent**	• IAG on Executive Committee of Greener by Design group
Grupo Español para el Crecimiento Verde	Spain	Consistent	• Iberia is one of 53 corporate members
Airlines 4 Europe (A4E)	European	Consistent	• IAG actively supported development of Destination 2050 net zero roadmap for European aviation, organised by five aviation industry organisations
Coalition for Negative Emissions	Global	Consistent	• One of eleven founding members and seven steering group members • Active contributor to landmark Case for Negative Emissions report, produced in collaboration with McKinsey
oneworld	Global	Consistent	• IAG representative chairs Environment and Sustainability Best Practice Group (ESB) consisting of 14 airlines • Coordinated first roadmap to net zero • Coordinated 10 per cent SAF by 2030 commitment
Air Transport Action Group (ATAG)	Global	Consistent	• Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap
World Economic Forum	Global	Consistent	• Contributed expertise to SAF evidence base as part of Cleaner Skies for Tomorrow coalition • Supported 10 per cent SAF by 2030 ambition statement
IATA	Global	Consistent	• IAG representative chairs the IATA Sustainability and Environment Advisory Council (SEAC) of 20 airlines. IATA represents 290 airlines • Representatives on four IATA working groups – SAF, Fuels, Long-Term Targets, Waste

* In relation to aiming for net zero emissions by 2050. The approaches for achieving this goal can vary by organisation.

** Based on the Greener by Design objectives on their website.

A.6. Supply chain sustainability

Reference to GRI, TCFD and SASB standards: GRI 308-2, GRI 414-2. Supports SDG 12

In 2021, IAG led the industry by becoming the first airline group worldwide to extend its net zero commitment to its supply chain. The Group will liaise with, support and monitor suppliers to ensure net zero emissions by 2050 for products and services provided to IAG.

IAG Global Business Services (IAG GBS) manages the relationships and interactions with suppliers on behalf of the Group. This important supply chain sustainability programme is being delivered by the IAG GBS Group Procurement Team, with relationship owners and buyers closely involved in the collaboration with suppliers.

Opportunities for impact

The Group supply chain covers approximately 13,272 suppliers across every category. Working with key partners, including fuel suppliers, the business will target Scope 3 net zero emissions by 2050, and a 20 per cent reduction by 2030 relative to 2019. In 2021, Scope 3 emissions are 23 per cent of IAG's total CO_2 and 68 per cent of Scope 3 emissions relate to fuel and energy.

In 2021 the Group appointed EcoVadis, a market-leading provider of business sustainability ratings, to support us in understanding every aspect of sustainability in our supply chain, including environment, labour and human rights, and ethics.

From insight to action

Transparency in sustainable supply chain performance is right at the top of the IAG GBS Procurement agenda. We will work with EcoVadis to assess our suppliers against a range of measures and identify opportunities to improve our sustainable performance. This will give IAG, and its suppliers, a baseline for collaboration on emissions reduction and achievement of the Scope 3 targets. We want to work with suppliers who share our vision and want to join us in this vitally important work. Additionally, suppliers can share the findings of the EcoVadis assessment with their other customers via a simple scorecard, meaning that the overall impact of this work could reach well beyond IAG.

The Supply Chain Sustainability Programme includes four other key pillars:

- Code of Conduct
- Risk screening
- Corporate Social Responsibility (CSR) Audits
- Joint programmes to promote sustainability initiatives

The IAG GBS Supplier Code of Conduct clarifies the standards of behaviour expected from all suppliers working with any part of our business, emphasising the importance of sustainability. It has already been issued to the existing supply chain and integrated into the supplier onboarding process. IAG will only work with businesses that share our standards and ways of working.

Social and corporate governance is also a high priority. We expect our suppliers to provide a safe and healthy environment for their workforce. Supplier selection considers potential industry and geographical risk and where necessary on-site audits are carried out. These audits are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2021, 30 audits were completed.

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. The Procurement and Compliance Teams assess any suppliers identified as having potentially higher levels of risk and implement a mitigation plan where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In 2022, sustainability will be a key part of the IAG GBS continuous transformation plan. As well as continuing the measures outlined above, the plan includes embedding sustainability KPIs into procurement processes and the criteria for awarding new business to suppliers. We are also developing a wider training programme for employees, building sustainability awareness and driving higher sustainability performance across the entire organisation.

Year	Total number of suppliers	Suppliers screened	Suppliers with additional compliance assessment	Critical suppliers under regular risk monitoring	Independent CSR Audits in year
2021	**13,272**	**13,272**	**1,510**	**34**	**30**
2020	22,947	22,947	1,818	35	25
2019	27,033	18,369	2,912	n/a	28

Related risk: Supply chain sustainability compliance

Risk description/impact	Mitigating actions
Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial penalties, legal, environmental, social and/or reputational impacts.	• IAG GBS procedures including Integrity, sanctions and CSR audits, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct • Internal governance on supplier management to identify challenges and mitigation actions • Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability

A.7. Ethics and integrity

Reference to GRI, TCFD and SASB standards: GRI 102-16, 102-17, 205-1, 205-2, 205-3

All Directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

IAG's Group Code of Conduct, issued in 2019 and approved by the Board, sets out the general guidelines that govern the conduct of all Directors and employees of the Group when carrying out their duties in their business and professional relationships. Mandatory training and communications activities are carried out for Directors, employees and third parties on a regular basis to maintain awareness and understanding of the principles that govern the conduct of the Group.

If any employee has a concern about unethical behaviour or organisational integrity, they are encouraged to first speak with their manager or a member of the Legal, Compliance or Human Resources teams. Similarly, suppliers are encouraged to contact their primary contact within the business. IAG maintains Speak Up channels provided by independent third-party providers, Safecall and Ethicspoint, where concerns can be raised on an anonymous basis. These Speak Up channels are available to members of staff as well as suppliers, with information on how to access published in the Code of Conduct and Supplier Code of Conduct respectively.

The IAG Audit and Compliance Committee reviews the effectiveness of the Speak Up channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; process and responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements or reputation of the Group or other areas of compliance.

In 2021, a total of 164 Speak Up reports were received via the Group's independently provided Speak Up facilities, compared with 193 in 2020.

These reports concerned issues relating to employment matters (60 per cent), dishonest behaviour/reputation (14 per cent), health and safety (23 per cent) and regulatory matters (2 per cent). All reports were followed up and investigated where appropriate.

Anti-corruption and anti-money laundering

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in the Group Code of Conduct and supporting policies which are available to all Directors and employees. An anti-bribery policy statement is also set out in our Supplier Code of Conduct.

Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams from across the Group meet regularly through Working Groups and Steering Groups, under the IAG General Counsel, and annually they conduct a review of bribery risks at operating company and Group level.

In 2021, the main risks identified were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. No material compliance breaches were identified in 2021.

Anti-bribery and corruption training is mandatory for all relevant personnel in IAG operating companies, Group functions and the Board and takes the form of e-learning supplemented by face-to-face sessions as necessary. Individual training requirements are set by each operating company and function and are determined by factors such as the level and responsibilities of an employee. The Group-wide anti-bribery e-learning was rolled out in 2019. Employees are required to complete this every three years. In 2021, 1,404 employees completed the anti-bribery e-learning, This lower number is as expected due to those employees who have previously completed the training not being required to retrain.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based-third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

There were no legal cases regarding corruption brought against the Group and its operating companies in 2021 and management is not aware of any impending cases or underlying issues.

IAG has processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls which help to combat money laundering in the business.

	vly	**2021**	2020	2019
Employees completing anti-bribery e-learning	-29%	**1,404**	1,984	7,933

B. Planet

B.1. Climate change and TCFD disclosures

IAG was pleased to be an early adopter of Task Force on Climate-related Financial Disclosures (TCFD) guidance. A high-level summary of TCFD-aligned activities is below.

TCFD section	Current TCFD-aligned activities and processes	Planned activities
Governance	Board oversight of programmes via SECR Committee; appointed CPCASO; multiple layers of governance; repeated materiality assessment for 2023 and 2030	Regular SECR meetings planned for 2022; materiality assessment to be repeated by 2024
Strategy	Delivering on 2019 Flightpath Net Zero strategy; TCFD-aligned scenario analysis carried out in 2018 and 2021	Implementing new sustainability strategy approved in December 2021, rolling TCFD-aligned scenario analysis, further integration of climate strategy into financial planning
Risk management	Sustainable aviation risks are treated as a principal risk; risk disclosures received ‘A’ rating from CDP	Further work on risk quantification and further integration of climate-related impacts into financial planning
Metrics and targets	Clear metrics and targets for 2025, 2030 and 2050; first airline to set a net zero Scope 3 emissions target	Re-introduction of management remuneration targets. A focus on performance improvements and policy advocacy to support delivery of existing targets

IAG has made climate-related disclosures consistent with the eleven recommendations of the TCFD listed below. More details are in the relevant sections.

TCFD recommendation	Relevant section/s
Governance: Disclose the organisation’s governance around climate-related risks and opportunities.	
A. Describe the Board’s oversight of climate-related risks and opportunities. B. Describe management’s role in assessing and managing climate-related risks and opportunities.	A.2., A.4.
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning where such information is material.	
A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. B. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning. C. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	A.4., B.1.3., ‘Risk management, Principal risks and uncertainties’, ‘Stakeholder engagement’ Business model B.1.2.
Risk management: Disclose how the organisation identifies, assesses and manages climate-related risks.	
A. Describe the organisation’s processes for identifying and assessing climate-related risks. B. Describe the organisation’s processes for managing climate-related risks. C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management.	A.4., B.1.3. ‘Risk management, Principal risks and uncertainties’
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	
A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks. C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	B.1.4., B.1.6.

B.1.1. Governance

Reference to GRI, TCFD and SASB standards: TCFD Governance a, b

See "Principles of Governance" section for sustainability-related governance, which includes climate-related governance.

B.1.2. Strategy – scenario analysis

Reference to GRI, TCFD and SASB standards: TCFD Strategy c

In 2021, IAG conducted analyses modelling climate risk scenarios. These included ongoing analysis of climate mitigation to 2050, detailed modelling of the impacts of the EU Fit for 55 proposals to 2035; and TCFD-aligned scenario analysis under a timeframe of 2030.

TCFD analysis is a formal process to identify ways to strengthen organisational resilience in the face of climate change and related impacts. TCFD guidance outlines a six-step process, where scenarios assess climate-related impacts on business input costs, operating costs, revenues, supply chain, and business interruption. Potential responses are then mapped out in terms of changes to business model/s, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

Companies choose emissions scenarios for this analysis. In 2018 IAG chose a 4°C and 2°C scenario. In 2021, a 3°C, 1.5°C orderly[1], and 1.5°C disorderly scenario were used. This change was based on the impacts of the latest global emission pledges versus the goal of the 2015 Paris Agreement.

Scenario workshops were hosted virtually to engage IAG representatives in the UK, Ireland and Spain. A wide range of teams were represented including Strategy, Treasury, Finance, Government Affairs, Commercial Planning, Investor Relations, People, IAG Tech, IAG GBS, IAG Loyalty and sustainability representatives from all operating airlines.

Four categories of TCFD-aligned climate impacts were explored – physical, market, technology, and policy.

This exercise identified that key potential impacts were industry-wide policy and market shifts. Significant uncertainty also exists around the global policy, technology and market pathways for aligning with 1.5°C by 2030.

The business is broadly resilient to the identified impacts, based on Flightpath Net Zero plans. However, there are further opportunities to maximise resilience to wider societal changes. These results informed our climate-related risk assessment and disclosures.

In December 2021, the SSG also agreed that TCFD-aligned scenario analysis would become a rolling exercise from 2022 onwards. Ten year time horizons would be further embedded into sustainability-related planning wherever relevant.

B.1.3. Climate-related risk management

Reference to GRI, TCFD and SASB standards: TCFD Risk Management a, b, c

See "A.4. Sustainability risk management"
See "Risk management, Principal risks and uncertainties"

IAG takes a proactive approach to managing climate-related risks and is committed to managing the regulatory, reputational, market and technology aspects of these.

In 2021, IAG Sustainability and the ERM team undertook a review of all climate-related risks and opportunities. This was informed by the materiality assessment and TCFD scenario analysis.

A revised summary of risks, trends and potential impacts over short-, medium- and long-term timescales are disclosed on the next page. The risk environment has changed and this is reflected in the updated set of risks.

Trends and the external environment continue to be reviewed on an ongoing basis. Mitigating actions are also reviewed on an ongoing basis. Carbon reduction targets are the key measures for assessing the mitigation of these risks and other measures will be reviewed.

1 "Orderly" and "disorderly" as defined in the TCFD report "Guidance on Scenario Analysis for Non-Financial Companies". These scenarios compare smooth and idealised climate-related changes with variable, abrupt and disjointed changes.

Revised summary of risk trends

Risk trends below are grouped by risk type. Short term is 1-2 years, medium term is 3-5 years, long term is more than 5 years.

Primary TCFD risk type	Risk description	Timeframe	Trend
Market	*Loss of ESG-conscious customers	Short term	↑
	Perceptions of aviation industry CO_2 progress	Medium term	↑
	Viability of offset projects	Medium term	=
Physical	*Resilience to acute weather events	Short term	=
	Reduced flying to chronically climate-affected destinations	Long term	=
Policy	*EU Fit for 55 and UK climate policy	Medium term	↑
	*Carbon pricing	Medium term	↑
	Policy asymmetry	Medium term	↑
	Extra regulation on activity not emissions	Long term	↑
	*Lack of supporting SAF infrastructure or policy	Medium term	↑
	Regulation on non-CO_2 effects	Long term	↑
Technology	Use of lower-emission technologies	Medium term	=
	Use of lower-emission sources of energy	Long term	=

* Risks as described in the 'Risk management, Principal risks and uncertainties' section.

Summary of climate-related risk impacts and mitigation/adaptation

See the table above for risk trends. Specific risks are mitigated through existing processes, additional investments, or specific strategies as outlined in the table below. The potential for further mitigating actions is reviewed on an ongoing basis.

Market risks

Loss of ESG-conscious customers

Risk description	Potential financial impacts	Mitigating/adapting actions
• ESG concerns becoming an increasing factor in customer choices may mean they choose to travel less frequently, less far, or choose different travel modes. Corporates may travel less to meet internal emission targets. • A potential loss of customers to other airlines with more comprehensive ESG programmes.	• Lost revenue due to corporate or leisure passengers reducing flying, or travelling with other airlines perceived to be greener.	• IAG refined Group ESG messaging to clarify stances to external stakeholders • Continued operating company engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns in advance of changes in behaviour • British Airways launched the BA Better World programme in 2021, including a voluntary SAF offer to customers and updated communications across multiple channels • Iberia planned new communications for 2022 • Aer Lingus launched a new sustainability webpage outlining its ESG efforts • Vueling launched an external sustainability challennge to engage customers • IAG Loyalty began integrating sustainability objectives into the Avios proposition

This risk presents an opportunity for IAG to differentiate its brands by showing leadership, innovation and action to mitigate climate impacts, so attracting climate-conscious corporates and agreeing deals to support green solutions.

Perceptions of aviation industry CO_2 progress

Risk description	Potential financial impacts	Mitigating/adapting actions
Perceptions that industry action is at odds with national or international climate goals and publicly stated ESG progress, could lead to more restrictive policies, loss of customers or funding, or industry-wide reputational impacts.	Lost revenue due to corporate and leisure passengers choosing not to fly. Costs from extra regulation as described on the next page.	• Working to accelerate wider industry progress through trade associations, by supporting new commitments and roadmaps to net zero emissions at national, regional and global levels, building momentum for a net zero target at ICAO in 2022 • Building global momentum around 2030 SAF ambitions of at least 10 per cent, to enable more passengers to reduce emissions from flights

This risk presents an opportunity for IAG to show faster progress than the industry and to attract funding and customers relative to peers.

Viability of offset projects

Risk description	Potential financial impacts	Mitigating/adapting actions
Offset projects around the world are used for CORSIA compliance and voluntary IAG and customer offsetting. Spikes in prices or sudden changes in the availability or credibility of these projects could increase costs, or negatively impact the ability to meet net emissions targets, damaging credibility.	Additional compliance costs under UK and EU ETS or CORSIA programmes, or increased costs associated with use of voluntary offsets.	• Working in collaboration with key reputable partners such as the not-for-profit charity Pure Leapfrog • Carrying out due diligence to select reputable providers and carbon reduction projects that meet and align with verified quality standards such as Gold Standard and Verified Carbon Standard (VCS) • Using an effective procurement strategy for carbon credits to protect against price volatility • Engaging with external organisations like CORSIA and SBTi to clarify and refine offset eligibility criteria

Physical risks

Resilience to acute weather events

Risk description	Potential financial impacts	Mitigating/adapting actions
Potential low resilience to increased frequency of acute weather events such as high winds, fog events, storms, turbulence, sustained extreme heat events or a stronger jet stream could increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs above planned spend. Local climate-related circumstances such as fires, algal blooms and droughts could make destinations temporarily less attractive.	Lost revenue due to weather-related disruption, or increased operational costs due to physical impacts, that are unable to be effectively mitigated or planned for.	• Operating airlines continuing to manage multiple forms of disruption across IAG's global network within existing roles and processes, such as flight operations departments and customer call centres • Continuing to work closely with IATA and other industry bodies to better understand e.g. the impacts and locations of turbulence and how the business can mitigate these

Reduced flying to chronically affected destinations

Risk description	Potential financial impacts	Mitigating/adapting actions
Chronic changes in weather and physical impacts of climate change such as flooding, drought, forest fires, heat waves, algal blooms, coral bleaching, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.	Revenue loss in a scenario where no changes have been made to the route network in the face of changing physical impacts.	• Operational and network development teams continuing to assess and understand changes in customer demand globally and managing network developments and flight schedules to respond to such changes • Analysis of historical weather-related impacts to support future planning • TCFD-aligned scenario analysis to better understand potential physical impacts of climate change in future, and the potential locations of this e.g. more turbulence on transatlantic flights, fires in Meditteranean destinations, and hurricanes in the Caribbean

Policy risks

Carbon pricing

Risk description	Potential financial impacts	Mitigating/adapting actions
IAG carries passengers within the UK and Europe, where aviation emissions are subject to carbon prices due to the UK and EU Emissions Trading Schemes. Increases in carbon unit prices above planned levels, or unplanned exposure to carbon pricing, could mean increasing operating costs.	Additional compliance costs under UK and EU ETS.	• Minimising emissions and so exposure to carbon pricing, via the Flightpath Net Zero programme • Operating airlines factoring carbon prices into operational decisions • Fleet team using up-to-date models of carbon prices to inform fleet-purchasing decisions • Using an effective procurement strategy for carbon allowances and offsets to protect against price volatility

EU Fit for 55 and UK climate policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Current and proposed UK and EU policy includes an intra-EU kerosene tax, SAF mandates, and non-implementation of CORSIA on intra-EU flights. Policy risks include layering (airlines paying for the same carbon twice) and competitive distortion between EU and non-EU carriers. Taxes increase compliance and operating costs without leading to lower CO_2 emissions.	Lost demand due to potential passthrough of significantly higher compliance costs to customers. Traffic lost to non-EU carriers which don't face the same costs.	• Minimising emissions and so exposure to climate-related policies • Responding to the 2021 ReFuelEU consultation and UK SAF Mandate consultation to minimise the risks of any mandates creating competitive distortion or carbon emissions from other flights or regions • IAG Government Affairs engaging in direct advocacy with EU policy-makers and via trade associations SA, A4E and IATA to try to ensure finalised policies address climate change in an effective and fair way

Policy asymmetry and patchwork

Risk description	Potential financial impacts	Mitigating/adapting actions
A patchwork of differing national and regional carbon regulations could lead to duplication of compliance costs and effects that distort competition between airlines.	Additional compliance costs, and loss of traffic and revenue due to competitive distortion i.e. other carriers not experiencing the same costs.	• Advocacy for a global policy approach based on carbon pricing, by building momentum for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022. Actions include supporting a European roadmap to net zero and **one**world roadmap to net zero and convergence around a 10 per cent SAF ambition by 2030 • Continuing to support the UN CORSIA scheme as part of policy advocacy at national and regional levels • Allocating resources to engage with governments, trade associations, IATA and ICAO

Extra regulation on activity not emissions

Risk description	Potential financial impacts	Mitigating/adapting actions
The UK Climate Change Committee has recommended aviation demand management by 2050 in the sixth carbon budget. While the UK government has not adopted this approach, it remains a potential risk in the long term. Other long-term risks include enforced fleet renewal, additional taxes and frequent flyer levies, which are costly and ineffective policies for reducing CO_2.	Lost revenue due to lower flying activity, and potential operational costs due to need to shrink operations relative to plan or absorb or pass through additional costs.	• Working via Sustainable Aviation to set 2030 and 2040 net reduction targets and demonstrating credible industry pathways to net zero without the need for demand management • Advocacy for a global policy approach based on carbon pricing, by supporting European and **one**world roadmaps to build momentum for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022 • Allocating resources to engage with governments, trade associations, IATA and ICAO

Lack of supporting SAF infrastructure or policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Meeting UK and EU SAF mandates and IAG SAF commitment in 2030 is partly contingent on adequate policy support. A potential lack of supporting government policy to enable infrastructure could limit SAF supply, leading to SAF imports with lower sustainability performance, or higher ETS costs or reputational damage.	Higher UK and EU ETS compliance costs if SAF supply cannot meet demand or mandated volumes.	• Building global momentum for SAF ambitions and policies by working with trade associations • Through JZC, lobbying for UK government support in the form of loan guarantees and financial support for first-of-a-kind SAF plants, and a price stability mechanism to reduce risks for investors • €8.6 million invested in 2021 as part of $400 million SAF commitment, along with multiple SAF projects in multiple regions to secure future supply and a procurement strategy to minimise price-related risks

Regulation on non-CO_2 effects

Risk description	Potential financial impacts	Mitigating/adapting actions
EU or other policy makers taking a punitive approach to reducing non-CO_2 impacts, by incorporating them into climate compliance schemes and climate-neutral policy objectives, which could increase compliance or operating costs.	Lost revenue due to industry demand impact of higher compliance costs, applied to all airlines not just IAG.	• Working through trade association SA and research partnerships with the RAeS to identify actionable solutions to reduce non-CO_2 impacts • A 2030 SAF commitment to accelerate uptake of SAF, which early external research suggests reduces non-CO_2 effects

Technology risks/opportunities

Use of lower-emission technologies

Risk/Opportunity description	Potential financial impacts	Mitigating/enabling actions
Potential low supply of new zero-emissions technology meaning its use is restricted across the industry or is not available to IAG. Suppliers not being ready to use new technology means uptake is low or costly.	Limited ability to access or scale-up new technologies could lead to increased operating costs and carbon compliance costs relative to competitors. Lower fuel and compliance costs from a fleet averaging 80g CO_2/pkm, the Group 2025 target	• €10.8 billion committed for deliveries of 110 new fuel-efficient aircraft between 2022-27 • Hangar 51 platform making early investments in innovative companies to accelerate their development e.g. work with ZeroAvia • Ongoing horizon scanning by IAG Tech for new technologies and opportunities for ventures investment • A dedicated sustainability category in the Group ten-week accelerator programmes, to identify low-carbon innovators to work with
There is an opportunity to make use of latest-generation aircraft, which can reduce fuel burn and carbon impact by 15 to 40 per cent compared with the aircraft they replace.		

Use of lower-emission sources of energy

Risk description	Potential financial impacts	Mitigating/enabling actions
Potentially limited global supplies of SAF could affect the ability to uptake SAF in the EU ETS and meet IAG 2030 SAF commitment. This could also lead to reputational damage.	Additional operating costs and compliance costs.	• Ongoing investments as part of $400 million SAF commitment, along with multiple SAF projects to secure future supply • IAG staff chairing the SAF Delivery Group of the JZC, lobbying for a price stability mechanism to reduce risks to investors of scaling up SAF supply and securing UK Government support to incentivise 10 per cent SAF in 2030 • An effective IAG SAF procurement strategy to secure early supply and minimise price-related risks
Securing supplies of sustainable fuel presents a commercial and environmental opportunity, reducing operating costs relative to other carriers and reducing compliance costs for CORSIA and the UK and EU ETS.		

B.1.4. Metrics

Reference to GRI, TCFD and SASB standards: GRI 301-1, 302-1, 305-1, 305-2, 305-3, 305-4, 305-5. TCFD Metrics and Targets a, b, c

IAG tracks and verifies Scope 1, 2 and 3 CO_2-equivalent (CO_2e) emissions.

Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report.

2021 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available.

IAG discloses methane (CH_4) and nitrous oxide (N_2O) as Scope 1 non-CO_2 greenhouse gases (GHGs), in line with these conversion factors.

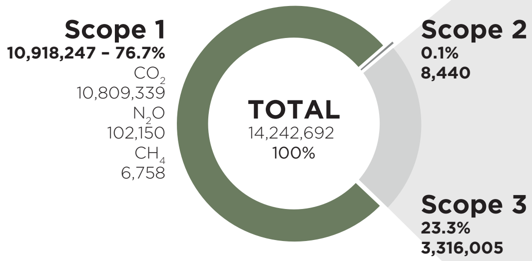
Emissions were 65 per cent below 2019 levels due to COVID-related impacts, and are expected to rise as flying demand recovers. However, internal forecasts suggest 2019 could represent peak emissions, due to future use of a more fuel-efficient fleet and greater use of SAF.

IAG focuses on reducing CO_2 from jet fuel use, as this represents 99.6 per cent of CO_2e emissions.

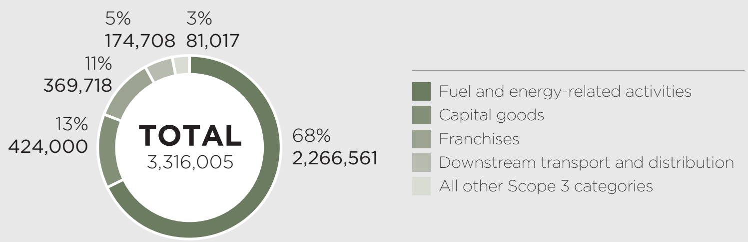
Renewable energy was 0.5 per cent of total energy use due to the low availability of sustainable jet fuel. Renewable electricity was 86 per cent of electricity use.

UK energy use was 55 per cent of total IAG energy use, based on British Airways Scope 1 emissions and Group electricity use in UK-based offices.

Total GHG emissions in tonnes CO_2e[1]



Scope 3 GHG emissions in tonnes CO_2e[1]



1 Scope 1 MWh is 41,960,297, Scope 2 MWh is 189,013.

Commentary on key metrics

Metric	Description	Commentary
Gross Scope 1 emissions	Direct emissions associated with IAG operations including use of jet fuel, diesel, petrol, natural gas, and halon. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines. SAF use is counted as a reduction in gross emissions in line with globally recognised accounting standards	2021 emissions remained low due to low flying activity as a result of the COVID-19 pandemic.
Scope 2 emissions	Indirect emissions associated with electricity use in ground facilitites like offices, lounges, data centres and hangars. **Market-based** emissions are based on the carbon intensity of electricity purchased from suppliers. **Location-based** emissions are based on the carbon intensity of national electricity grids. CO_2e is calculated using gCO_2e/kWh factors from national agencies in the UK, Ireland and Spain, and IEA national electricity emissions factors.	The 19% decrease in location-based emissions was driven by lower electricity use and greener national electricity grids e.g. from lower use of coal. Where the electricity use of overseas offices was not available, kWh was based on leased space in m^2, multiplied by relevant kWh/m^2 factors based on historical data.
Scope 3 emissions	Indirect emissions associated with products IAG buys and sells. Twelve out of fifteen Scope 3 categories, as defined by the GRI, are relevant to IAG. Detailed descriptions of these categories are in the Additional Disclosures section of the IAG NFIS.	81% of Scope 3 emissions relate to fuel use and aircraft deliveries and retirements. Total Scope 3 emissions remained low due to low business activity.

Key carbon footprint metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Scope 1 CO_2e	MT CO_2e	-1%	-65%	**10.92**	11.02	30.13*	29.99	28.76
Net Scope 1 CO_2e	MT CO_2e	-4%	-62%	**10.50**	10.85	26.95*	27.22	26.17
Scope 2 location-based	kt CO_2e	-19%	-47%	**39.2**	48.2*	68.6	70.4	92.6
Scope 2 market-based	kt CO_2e	-9%	-57%	**8.4**	9.3*	21.7	40.7	61.9
Scope 3	MT CO_2e	-9%	-60%	**3.32**	3.63*	8.20*	8.79	7.88

Other metric	Unit	% vly	v2019	**2021**	2020	2019	2018	2017
Flight-only emissions intensity	gCO_2/pkm[1]	-11%	+5%	**94.6**	106.2	89.8	91.5	92.3
Scope 2 emissions intensity	gCO_2/pkm	-28%	+55%	**0.34**	0.47*	0.20	0.22	0.28
Revenue per tonne CO_2e	€/tonne CO_2e	+9%	-7%	**771**	705	827	811	796
Jet fuel[2]	MT fuel	-1%	-65%	**3.42**	3.45	9.65	9.41	9.02
Electricity	'000 MWh	-6%	-29%	**189.0**	200.1*	267.7*	234.9	253.2
Energy	Mn MWh	+1%	-42%	**42.1**	41.9*	119.7	119.4	114.4
Renewable electricity	%	0%	+14%	**86%**	86%	72%	54%	54%
Renewable energy	%	+0.1%	0.3%	**0.5%**	0.4%	0.2%	nr	nr

Note: "nr" means "not reported". * means restated using the latest robust data and assumptions.
Descriptions and commentary on other metrics is available in the 'Additional Disclosures' section of the IAG Non-Financial Information Statement.
1 pkm means "passenger-km" as defined in the commentary below.
2 SAF use was 2,350 tonnes of fuel in 2021 and delivered 6,506 tonnes of CO_2 savings. See B.1.7. 'Gross emissions reductions'

Commentary on key metrics

Metric	Description	Commentary
Flight-only emissions intensity	Grammes of CO_2 per passenger kilometre (gCO_2/pkm) is a standard industry measure of flight fuel efficiency. It is calculated by dividing total jet fuel use by total passenger-km, assuming ten cargo-tonne-km is equivalent to one passenger-km. For accuracy, IAG excludes the jet fuel used by franchises, cargo carried on other airlines, and engine testing, and excludes no-show passengers. The passenger-km used in the 2021 calculation is 77,280 million and the cargo-tonne-km is 3,656 million.	The 11% improvement in 2021 is driven by a recovery in passenger load factors, although average load factors remain below 2019 levels. Average Group fuel efficiency is forecast to be below 90g CO_2/pkm in 2022 and on track for the 2025 target of 80g CO_2/pkm. IAG remains committed to the 2025 target.
Net Scope 1 emissions	Net emissions are calculated based on gross emissions and then subtracting any carbon savings from EU ETS compliance obligations, volumes of offsets purchased to meet CORSIA compliance obligations, and the volumes of offsets voluntarily purchased. EU ETS allowances purchased from other sectors equate to a net reduction as per European Commission guidance. IAG has been disclosing net emissions since 2017 using this methodology	2021 net emissions are reduced by 0.42 MT due to compliance with the UK, Swiss and EU ETS in addition to voluntary offsetting by Group airlines and passengers. Net emissions reductions are also expected to be achieved via CORSIA credits when global international emissions rise above 2019 levels.
Renewable electricity	The share of electricity generated by renewable sources such as solar power and wind, based on volumes procured from renewable electricity suppliers. In cases where data on electricity sources was unavailable, the source of electricity is assumed to be the national grid.	Renewable electricity use across the Group has increased by 32 percentage points since 2017. This percentage is expected to increase in 2022. It will be difficult to attain 100% due to use of electricity supplied at airports and at overseas office locations where renewable electricity is not available.

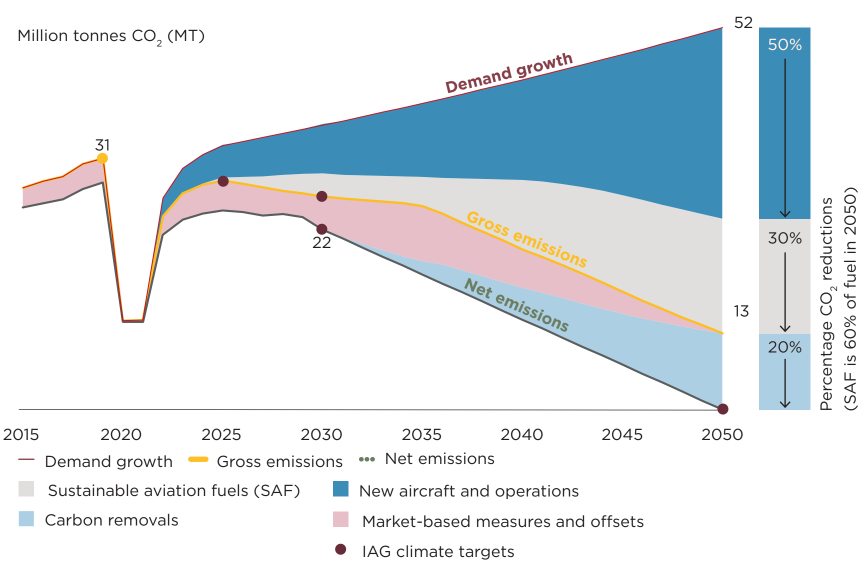
B.1.5. Transition plan

IAG recognises that all transport modes need to transition to net zero emissions to keep global warming below 1.5°C.

In 2019 IAG was the first airline group to sign the Business Ambition for 1.5°C Pledge and to commit to a transition to net zero emissions by 2050. The IAG Flightpath Net Zero strategy included a 30-year emissions roadmap to meet this outcome as well as short- and medium-term targets and a commitment to climate-related management incentives. The roadmap currently informs ongoing scenario analysis, planning, strategy, and risk management. The latest scenario is shown below with key assumptions on the next page.

IAG has also been a leader in developing aviation industry transition plans. It was the first airline group to support roadmaps to net zero emissions across national, regional and global industry alliances, one of only two airlines worldwide to engage in both the SBTi Technical Working Group for aviation targets and the road-testing of the SBTi Net Zero Standard, and one of only three airlines to be acknowledged in the ATAG Waypoint 2050 work on global aviation decarbonisation. In 2021, via industry association SA, IAG staff helped to develop and launch the first 2030 and 2040 climate targets for UK aviation: 20% and 40% net reductions respectively.

IAG will continue working with multiple industry partners, regulators, and stakeholders on pathways for aviation that support global 1.5°C ambitions, and to increase the ability of the industry to deliver emissions reductions.



IAG is working to increase the contribution of gross emissions reductions to the net zero target. Each roadmap version reflects this.

% of expected emissions reductions in 2050	**2021 version**	2020 version	2019 version
New aircraft and operations	**50%**	45%	39%
SAF	**30%**	25%	18%
Carbon removals	**20%**	30%	43%

Pillar of carbon roadmap	Related actions to accelerate progress and innovation (also see Section B.1.9. 'Innovation')
New aircraft and operations	• Ongoing fleet modernisation • British Airways was the first airline worldwide to invest in hydrogen, with a Ventures investment in ZeroAvia at the beginning of 2021 • Venture capital investment in i6 fuel management software company
Sustainable Aviation Fuels (SAF)	• See "Spotlight: Sustainable Aviation Fuel" • Venture capital investment in leading sustainable fuels company Lanzatech
Market-based measures with offsets	• Support for the global CORSIA scheme to limit net emissions from aviation
Carbon removals	• Horizon scanning of carbon capture and removal opportunities

B.1.6. Targets

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. TCFD Metrics and targets c. Supports SDG 13

IAG's net zero emissions by 2050 target will be delivered by working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development. In this context, net zero emissions means that all CO_2 that IAG operations emit in a year will be balanced out by an equivalent amount of CO_2 removed from the atmosphere.

IAG will review targets on non-CO_2 impacts when the science around these becomes robust enough to attribute impacts and reductions to individual airlines. Key actions to reduce non-CO_2 impacts include greater uptake of SAF and route optimisation, and IAG continues to explore these solutions through its trade associations.

IAG GBS is developing supply chain sustainability targets in conjunction with EcoVadis. To meet Scope 3 targets IAG will focus on influencing change, identifying collaborative emissions reduction projects and phasing in contractual requirements. Some suppliers will use a combination of gross and net reductions to meet their own targets and IAG plans to report more detail on this balance in future.

IAG remains committed to science-aligned targets. Independent guidance on 1.5°C-aligned targets for aviation has yet to be published and we will review future guidance to ensure it accounts for the practical differences between aviation and other sectors. Where possible, we will also work with the SBTi and other relevant stakeholders to build understanding of these differences and of industry decarbonisation pathways.

IAG will continue working with other stakeholders to enable delivery of targets.

Current transition plan targets:

Base year	Target year	Target
2020	2020	Net zero CO_2 emissions for all British Airways UK domestic flights from 2020 onwards. Achieved in 2020 and 2021.
2019	2025	11 per cent improvement in gross fuel efficiency. From 89.8g CO_2/pkm in 2019 to 80g CO_2/pkm in 2025.
2019	2030	10 per cent SAF. Equivalent to approximately 1 million tonnes of fuel in 2030.
2019	2030	20 per cent reduction in combined net Scope 1 and 2 CO_2 emissions. From 27.6 MT in 2019 to 22 MT.
2019	2030	20 per cent reduction in net Scope 3 CO_2 emissions. From 8.1 MT in 2019 to 6.5 MT.
2019	2050	Net zero Scope 1, 2 and 3 emissions. Use of removals to mitigate any residual Scope 1 and 2 emissions.
Operating company-specific climate targets for sustainability-linked loans		
2019	2025	88.3g CO_2/pkm in 2025 for British Airways, an 8 per cent reduction compared to 2019.

In January 2021, British Airways was the first airline worldwide to receive a loan linked explicitly to achievement of ESG targets.

Current transition plan assumptions:

The roadmap chart to the left represents a core Group scenario which assumes continued policy support for aviation decarbonisation, an overall recovery to 2019 levels of passenger demand by 2023, and then annual demand growth aligned with industry growth forecasts and external guidance. Scenario and cost analysis is ongoing.

Key roadmap updates in 2021 are:

- A 2040 introduction for zero-emission shorthaul aircraft, based on manufacturer announcements and certification timelines;
- 60 per cent SAF in 2050, based on policy moves in the UK, Europe and USA;
- Net emissions reductions via the compliance schemes the UK and EU ETS, CORSIA and voluntary offset projects;
- A clearer pathway to full use of carbon removals in 2050 for any residual emissions.

IAG is working with relevant stakeholders to accelerate progress in every pillar of the roadmap.

Delivery of current plans, dependent on appropriate policy support, will enable an approximately 70 per cent drop in gross emissions by 2050 and an 80 per cent improvement in gross gCO_2/pkm, relative to 2019. Only 10 per cent of total emissions reductions delivered between 2020 and 2050 are expected to be from compliance and voluntary offset projects.

IAG will update this core roadmap scenario in 2022 to account for relevant business, policy, scientific and technology developments.

B.1.7. Gross emissions reductions and efficiency

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. GRI 305-5. Supports SDGs 3, 8, 13

IAG is actively driving reductions in its gross emissions. Based on the latest carbon roadmap, these represent 80 per cent of total emission reductions in the year 2050. There are four main methods of achieving these reductions:

- Modernising the aircraft fleet. Purchasing the latest aircraft models like the Airbus A320neo, Boeing 777 and Airbus A350, which are up to 40 per cent more efficient than aircraft they replace, whilst retiring older aircraft;
- Optimising the use and efficiency of the aircraft fleet. For example, optimising flightpaths, allocating fuel-efficient aircraft to specific routes and implementing in-flight efficiency initiatives which save fuel without compromising safety, service or flight schedules. These initiatives include optimised engine washes, single-engine taxiing, continuous descents, landing flaps and reducing weight onboard;
- Increasing the use of cleaner energy sources in the fleet. For example, use of SAF displaces fossil fuel use and delivers lower CO_2 emissions over a comparable lifecycle. Fuels from bioenergy and non-fossil carbon-rich feedstocks are also used outside the aviation industry; and
- Increasing the use of renewable electricity and renewable energy for ground faciilities and operations.

IAG continues to develop operational and fuel efficiency initiatives for both aircraft and ground operations.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
GHG reduction initiatives	CO_2e tonnes	247%	-9%	**59,725**	17,208	77,386	65,887	nr
Fleet age	years	+8%	-2%	**11.2**	10.6	11.4	11.3	11.4

Key 2021 emission reduction milestones:

- 6,506 tonnes of CO_2 saved due to SAF use in 2021 and a pipeline of projects in support of our 2030 SAF target;
- Regular meetings of an IAG-wide sustainability Fuel Efficiency Working Group to support and enable fuel efficiency practices across IAG's global network, including ongoing use of the Honeywell Flight Efficiency software;
- British Airways carried out a "perfect flight" from London to Glasgow on a fuel-efficient Airbus A320neo, delivering emissions 62 per cent lower than to a similar flight a decade ago due to a 35 per cent SAF blend and maximising on-ground and in-flight efficiency;
- Vueling reduced 1,000 tonnes of onboard weight by using lightweight trolleys and worked with the Spanish air traffic management provider ENAIRE to improve airspace efficiency;
- Aer Lingus carried out more robust evaluation of fuel efficiency trends;
- Iberia started receiving electricity from 10,000m^2 of solar panels on its engine maintenance hangar in Madrid, the largest site to self-generate electricity of any company in the IBEX 35; and
- IAG Cargo successfully completed trials of new electric vehicles at London Heathrow and Dublin airports.

Spotlight: Sustainable Aviation Fuel

In April 2021, IAG was the first European airline to commit to 10% SAF by 2030, dependent on appropriate government policy support.

This is the equivalent of using 1 million tonnes of fuel in 2030, with the equivalent carbon saving of taking over 2 million cars off the road. IAG has a long-standing SAF commitment, having committed in 2017 to invest $400 million in SAF over 20 years, and is targeting use of at least 19 million tonnes of SAF between now and 2040 based on the latest roadmap.

IAG is a leader in the development of SAF projects not only through committed purchases of SAF, but also by making direct investments in new and innovative SAF production capacity, spurring the wider development of the SAF market. The Group's investments are backed up with SAF purchase agreements which are critical to the financeability of the new SAF production capacity. IAG has also been leading the industry at developing and advocating for "second-generation" SAF, which use carbon-rich waste feedstocks and advanced conversion technologies, as opposed to first-generation SAF which is predominantly manufactured using crop feedstocks.

2021 was a significant year for the Group SAF programme. It remains on track with a total of €8.6m million invested in SAF agreements. British Airways, Iberia and Vueling all operated flights using SAF blends, and IAG airlines had uptakes of mandated SAF volumes in Norway and Sweden.

Key firsts for the Group:

- Managing the import of the UK's first ever bulk SAF to supply IAG Cargo to operate the world's first net zero cargo charter flights between Stuttgart, Heathrow and Atlanta for its customer Kuehne+Nagel; and
- Developing the partnership with the UK refiner Phillips 66 to develop the UK's first SAF production facility, with British Airways the first airline in the world to receive SAF from this facility from 2022.

Some current SAF projects:

IAG continues to work with technology developers to establish a range of SAF supply options for the future. Below are some of the projects that are in the public domain and we continue to develop others including carbon capture projects.

Project/Partner	Feedstock	Production location	Planned production start
IAG Cargo/Neste	Used cooking oil (UCO)	Europe	2021 one-off
COP26/AirBP	UCO	Europe	2021 one-off
Phillips 66/Phillips 66	UCO/Food waste	Humber, UK	2022
Freedom Pines/LanzaJet	Agricultural wastes	Georgia, USA	2023
oneworld/Aemetis	Waste wood	California, USA	2024
Project Dragon/LanzaTech	Waste gases and agriculture	South Wales, UK	2025
Bayou Fuels/Velocys*	Forestry residues	Missisippi, USA	2026
Speedbird/LanzaTech/NovaPangea*	Waste wood, forestry residues	UK	2026
Altalto/Velocys*	Municipal waste	Immingham, UK	2027

*includes carbon capture and storage.

B.1.8. Net emissions reductions

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. Supports SDGs 7, 9, 13

Net/out-of-sector emissions reductions are a critical part of aviation decarbonisation pathways, as airlines proactively lay the groundwork for faster reductions in gross emissions in future.

IAG sees carbon offset projects as key to reducing its emissions in the short and medium term, en route to full use of carbon removals in 2050 to mitigate any residual emissions.

IAG is delivering net reductions via three key channels:

- Through the EU-regulated Emissions Trading Scheme, purchasing carbon allowances from other sectors which drives and funds additional emission reduction projects. Airlines have been participating since 2013;
- Through the UN-regulated CORSIA scheme, investing in a combination of fleet modernisation, efficiency, SAF and offsets to meet the global goal of keeping net international aviation emissions at or below 2019 levels; and
- Through voluntary funding of internationally verified offset or carbon removal ('negative emissions') projects in the UK, Europe and around the world. This funding can either come from customers who choose to mitigate the impact of their flights, or from IAG or operating companies funding projects directly. British Airways has offered voluntary offsetting since 2003.

When IAG or operating companies choose to voluntarily invest in carbon avoidance and removal projects, they work in collaboration with key partners, carry out due diligence to select reputable providers and select projects carefully to meet and align with verified quality standards such as Gold Standard- and Verified Carbon Standard (VCS)-verified carbon reduction projects.

2021 projects included rainforest protection in Cambodia, Peru and the Congo Basin, and sustainable cook stoves for communities in Sudan and Malawi.

IAG will be required to purchase credits for CORSIA when global emissions from international flights rise above 2019 levels.

Key 2021 progress:

- IAG contributed to a landmark report by McKinsey and the Coalition for Negative Emissions outlining the Case for Negative Emissions and the need for urgent government action to develop supportive carbon removals policy;
- British Airways and Aer Lingus continued to offer voluntary carbon offsetting for passengers and Iberia created a carbon calculator to enable passengers to establish their carbon impact; and
- The British Airways Carbon Fund, in partnership with not-for-profit charity Pure Leapfrog, worked to deliver four high-quality carbon reduction projects in the UK and Africa. One example was supporting community-owned renewable power close to the British Airways engineering/maintenance base in Wales.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Net emissions reduction through EU, UK, Swiss ETS	'000 tCO_2e	n/a	-93%	**219**	0*	3,182	2,634	nr
Via voluntary funding and projects	'000 tCO_2e	+17%	n/a	**197**	168	nr	nr	nr

* Emissions levels in 2020 were below the EU ETS sector cap for aviation so no net reductions were delivered.

B.1.9. Innovation

IAG invests in innovation to meet its targets, drive decarbonisation in the Group and to accelerate wider change towards a more sustainable industry.

Hangar 51 is IAG's core innovation platform, which continues to attract the world's top emerging technology companies working on sustainability solutions.

IAG also has established governance processes to review new potential investments in emerging climate technology and partnerships with start-ups. This process is overseen by the CSO, CFO, CIO and General Counsel.

IAG supports climate technology innovation via its accelerator, incubator, venture capital investments, university collaborations, active pilots, supporting applications for grant funding, and research and development consortia.

IAG representatives also sit on academic boards and public-private partnerships to support new technologies and innovation. For example, IAG staff sit on the UK Government's Jet Zero Council, academic boards (Cranfield and Heriot Watt Universities), the Aston Supergen consortium, and the Steering Board of the UK Biotechnology and Biological Sciences Research Council (BBSRC). Iberia continues the La Cátedra Iberia research collaboration with the Polytechnical University of Madrid.

In 2019, the Group launched the first dedicated sustainability accelerator in the aviation industry. In 2021, the focus of this broadened with the inclusion of a new Future Energy category. From hundreds of applications the Group chose to work with 12 pioneering start-ups covering topics such as new hydrogen fuel cell solutions, electrification infrastructure, customer engagement tools and carbon removal technologies.

In 2022, the Group will continue to expand its focus on sustainability innovation to accelerate decarbonisation.

B.1.10. Sustainable products and services

IAG offers customers including corporates a range of sustainable products and services to help them to reduce their carbon emissions and to support wider sustainability goals. These goals include community development and protecting biodiversity.

Within the Group, British Airways currently has the widest range of sustainability offers available for customers and has offered voluntary carbon offsets since 2003.

The British Airways Carbon Fund delivers carbon reduction projects in the UK and Africa with community co-benefits. British Airways receives no revenue from this fund.

All customers booking flights directly through British Airways are offered the choice to voluntarily donate to the BA Carbon Fund or an option to mitigate the carbon emissions of their flight through a standalone website: BA Carbon Neutral.

The British Airways Executive Club also allows customers to make a Carbon Fund donation using their Avios points.

In 2021, British Airways became one of the first airlines in the world to have a voluntary SAF offer available to customers including corporates.

All operating airlines are planning to expand their portfolios of sustainability products and services in 2022.

Spotlight: new waste targets

In 2021 IAG developed and approved new "5 through 2025" waste targets. More details are on the next page.

"5 through 2025" focus areas	2019 generation[1]	2025 generation target	2019 recycling	2025 recycling target
Single-Use Plastic (SUP)	–	Zero-based[2]	–	–
Onboard waste[3]	0.33 kg/pax	-20%	24%	40%
Office waste	96 kg/staff	-50%	35%	60%
Maintenance waste	0.63 kg/person-hour	-25%	50%	70%
Cargo waste	1.55 kg/kg cargo handled	-25%	63%	80%

1 Detailed definitions of waste types and metrics are available in the Additional Disclosures section of the IAG NFIS.
2 Zero-based means eliminating as much as possible in all areas of operation, acknowledging that some plastics may still be required in 2025 where alternatives do not exist.
3 The 40 per cent target is an average across the Group for waste processed at hub airports. Other targets apply to all operating companies as a minimum level of ambition.

B.2. Waste

Reference to GRI, TCFD and SASB standards: GRI 306-1 (2020), 306-2 (2020), 306-3 (2020)

Supports SDG 12

New targets:

IAG is committed to reducing, reusing and recycling waste. In 2021, IAG set new and comprehensive waste reduction targets as outlined on the previous page.

The "5 through 2025" waste strategy is expected to save approximately 20,000 tonnes a year from landfill and incineration compared to 47,728 tonnes sent to landfill or incineration in 2019.

This strategy covers the five core areas of single-use plastic (SUP), onboard, office, cargo, and maintenance waste. Separate reduction and recycling targets are applied to all four airlines and to IAG Cargo.

IAG plans to report detailed progress against these targets in 2022. Currently, the impacts of the COVID-19 pandemic make it difficult to establish meaningful year-on-year trends.

IAG will also advocate to national governments and via IATA for clear and supportive waste policies which would enable the Group to be more ambitious.

Key 2021 progress:

- IAG airlines worked together to identify common sustainable solutions for Group cutlery, to comply with the EU SUP ban which entered into force in July 2021;
- British Airways and Iberia launched new services (Buy-Before-You-Fly and DeliverFly) to give passengers the choice of buying fresh and ambient products before departure. These services remove food waste from unpurchased shorthaul economy meals while maintaining customer choice;
- Vueling developed an internal dashboard to track waste and set a target to segregate 60% of onboard waste by 2023; and
- IAG Cargo increased recycling rates by 6 per cent at both the London and Dublin hubs.

Waste commentary:

Onboard services are IAG's main source of waste. Key inputs include onboard meals and amenity kits supplied to passengers, and key outputs include plastic packaging, leftover food waste, drinks cans, and cabin items such as wrappers. Waste is typically offloaded and processed at airports by third-party caterers, with some materials recovered on-site and other materials incinerated or sent to landfill. The majority of cabin and catering waste is processed at IAG's hub airports – London Heathrow, Dublin, Madrid and Barcelona.

Waste regulations limit the amount which can be recycled. For example, Irish regulations require specific categories of onboard waste to be incinerated.

IAG supports innovation to minimise waste. For example, as part of the 2020 Hangar 51 platform, Iberia worked with Countalytics to track its flows of onboard waste and develop better onboard services.

Metric	Unit	vly	v2019	**2021**	2020	2019
Onboard waste at hub airports	'000 tonnes	-7%	-54%	**12.3**	13.2	27.0
Onboard waste generated per passenger at hubs	kg/pax	-19%	+42%	**0.47**	0.58	0.33
Overall waste (onboard, office, maintenance, cargo)	'000 tonnes	-10%	-54%	**27.6**	30.6	60.2
Overall recycled and recovered	%	+6%	+9%	**30%**	24%	21%

Note: 2019 and 2020 values have been restated due to a more rigorous methodology aligned to GRI standards.

Metric	Description	Commentary
Waste/pax at hubs	• Onboard catering waste generated per passenger, including volumes later recycled and recovered. • Passenger numbers are based on those inbound and outbound passengers who have their waste processed at hub airports London Heathrow and Gatwick, Madrid, Barcelona and Dublin.	Onboard waste generated per passenger decreased in 2021 due to more predictable passenger behaviour and a reduced share of longhaul flying, which has more comprehensive onboard meal services. This metric is likely to increase in 2022 even with an enhanced focus on waste reduction across the business.
Overall waste	• Includes waste from all streams – onboard, office, cargo and maintenance waste – and an extrapolation of waste processed at overseas airports, where waste destinations are not always reported by third parties.	2021 volumes remain much lower than 2019 due to reduced flying activity.
Overall recycled and recovered	• Excludes waste sent to incineration.	Overall recycling/recovery rates have improved due to a higher share of flying from Spanish hub airports, where more waste can be recycled at processing facilities.

B.3. Noise and air quality

Reference to GRI, TCFD and SASB standards: GRI 305-7. Supports SDGs 3, 11

IAG remains committed to reducing the impact of aircraft noise and air pollution on local communities near airports.

The average noise per journey – per landing and take-off cycle – has reduced by 19 per cent in the past five years. Due to the early retirement of Airbus A340s and B747s in 2020, an 8 per cent drop in average noise per sector was achieved in 2021 alone, almost meeting the 10 per cent noise reduction target set for 2025.

IAG will update noise targets in 2022.

Operating companies continue to work to minimise noise impacts. They regularly monitor noise and air quality performance using national databases and global aircraft noise standards. Improvements are driven via fleet modernisation and specific operational practices like continuous descents. Airlines also engage with stakeholders such as community groups, regulators and industry partners and participate in research and operational trials.

IAG supports innovation to reduce noise impacts. In 2021, Iberia participated in the EU AVIATOR project to better understand air pollution impacts at airports using research on real aircraft. In 2022 a testing campaign will be carried out using SAF.

Detailed descriptions on all noise metrics are available in the IAG NFIS.

Metric	Unit	Vly	v2019	**2021**	2020	2019	2018	2017
Noise per cycle	QC per LTO	-8%	-12%	**0.88**	0.96	1.00	1.07	1.06
NO_x per cycle	kg per LTO	-8%	-1%	**9.10**	9.84	9.23	9.71	nr
ICAO Chapter 14	% at standard	-2%	+3%	**56%**	58%	53%	50%	46%
CAEP Chapter 6	% at standard	0%	+2%	**80%**	80%	78%	74%	69%
CAEP Chapter 8	% at standard	3%	+8%	**43%**	40%	35%	29%	26%

% at standard is based on the fleet position at the end of 2021, including parked aircraft and excluding leased aircraft. Metrics per LTO are based on operational aircraft during the year.

Related risk: Operational noise restriction and charges

Risk description	Mitigating actions
Airport operators and regulators apply operational noise restrictions and charging regimes which may introduce additional costs or restrict airlines' ability to operate e.g. restrictions on night flights.	• Investing in new quieter aircraft as part of fleet modernisation • Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures • Internal governance and training and external advocacy in UK, Ireland and Spain to manage noise challenges

C. People and Prosperity

C.1. Workforce overview

Reference to GRI, TCFD and SASB standards: GRI 403-4, 408-1, 409-1

Supports SDG 12

2021 has been another challenging year for the Group and for our colleagues as we continue to navigate the impacts of the COVID-19 pandemic, aligning our resourcing levels to the operational needs of the business, ensuring we are ready to take advantage of opportunities as restrictions are lifted, and ensuring we protect the safety and wellbeing of colleagues and customers.

IAG aims to create an environment in which employees feel motivated, safe and able to thrive as this is central to the continued success of the Group. Core principles in the Code of Conduct include fair and equal treatment, non-discrimination, fairness and respect for human rights. This Code applies to all Directors, managers and employees of the Group and e-learning training to support it is mandatory and applicable to all employees and Directors. In addition to the Code of Conduct, individual operating companies have responsibility for policies and procedures relating to their employees, including appropriate reward frameworks to ensure they can continue to attract and retain the best talent for every role.

At the end of 2021, 56,658 people were employed across the Group in 81 countries, a decline of 2 per cent in the year. Our voluntary turnover rate for 2021 was 5 per cent compared with 15 per cent in 2020, a change that reflects the completion of the necessary resizing of the business in response to COVID-19 but also giving some indication of new hiring and role creation in 2021. The necessary changes put in motion in 2020 and 2021 have positioned the business to a place which has allowed us to safeguard jobs in key areas of the business and take advantage of the opportunities as travel restrictions ease.

As the business pivots towards recovery from COVID-19, there has been a key emphasis and focus on maintaining and retaining employees during 2021 – which is reflective in our workforce measures. There has been no material change in our headcount position compared to 2020 and there is some evidence of headcount growth in areas where we have seen a more regular pattern of flying return. As the world begins to open there is the expectation that our recovery will continue into 2022 and this will be reflected within our workforce population and composition.

As public health guidance changed and in line with operational requirements, employees across the Group started returning to our offices and our operating companies have taken approaches to coordinate and support the safe and flexible return of our employees. Our operating companies have promoted a balanced, flexible and hybrid working model which enables the right balance between flexibility whilst bringing the benefits of being together as a team. At Aer Lingus this is being promoted as "hybrid working" and is guided by the principles that people are expected to develop the right balance between home and office working, reflecting role requirements and personal circumstances. Similarly, British Airways has recently introduced a hybrid model of working, which allows employees to create a mix of remote and office working which is right for them based around the concept of "neighbourhood" communities for teams and hot-desking. Iberia has also welcomed back employees to its offices and has an individualised return to work programme for teams – launching targeted managerial and all employee guidance and mandatory training for all employees.

Operating companies have also been making considerable investments in the workplace and both Vueling and IAG Loyalty have recently modernised and moved into new office facilities. These new facilities have been created to foster a more open and modern office environment which will help to facilitate collaboration and communication between teams.

Measures to support employee satisfaction and talent management are primarily managed within operating companies and each operating company has its own established methods of measuring employee satisfaction. In addition, IAG has introduced an organisational health survey, initially focused on management populations across all operating companies to benchmark management practices against a globally recognised metric. This survey was run initially in November 2020 and repeated in October 2021. Insights from the survey are used to shape and prioritise cultural development plans.

Individual operating companies are responsible for learning, development and talent within their business, to enable them to ensure they have the right skills and capabilities required to support their strategy. In 2021, IAG launched a new leadership and talent strategy, building on the work within each operating company and enabling improved attraction, retention and mobility of talent across the Group. IAG is currently working to align the talent management framework across the Group, initially focusing at Group level on the IAG Management Committee and their direct reports. IAG has a strong track record of retaining and promoting talent into senior roles, as evidenced by the Management Committee appointments during 2020 and 2021, and this new approach will improve the rigour and consistency of talent management across the Group.

IAG has employees based in European countries which comply with the conventions of the International Labour Organization (ILO), covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Outside of the EU, IAG recognises trade unions in many jurisdictions, has collective agreements and meets/exceeds all relevant labour standards.

IAG has a European Works Council (EWC) which brings together employee representatives from the different European Economic Area (EEA) Member States in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA Member States. During 2021, IAG hosted one full meeting of the EWC and 11 Select Committee meetings, which have all been held virtually. In November 2021 we commenced the nominations and elections process for new representatives of the EWC, a process which had been postponed due to the pandemic. Reflecting the changing geopolitical landscape and the specific role of the EWC to manage transnational issues for EEA Member States, the UK will cease to have representatives within the EWC, and we will continue to engage with UK employee representative groups on matters relevant to them. The EWC election and appointment process for the new Select Committee and Chair will be completed in February 2022.

Within the Group, individual operating companies have responsibility for the policies and procedures relating to their employees, including reward frameworks to ensure they can continue to attract and retain the best talent for every role.

Due to the diverse nature of Group businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level. Each is responsible for determining the specific courses offered within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following mandatory corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection.

C.2. Health, safety and wellbeing

Reference to GRI, TCFD and SASB standards: Supports SDG 3

IAG is committed to safeguarding the health and safety of our employees, customers and all others affected by our activities. This means operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. Health and safety are fundamental to our business, whether in the air or on the ground. It is our highest priority.

IAG has robust governance processes in place led by the safety committees in each operating company. The IAG Safety, Environment and Corporate Responsibility Committee monitors all matters related to the operational safety and Corporate Responsibility of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

IAG's customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

COVID-19 continues to be present in our communities and impacts our people and the Group continues to follow expert guidance from bodies such as the IATA Council Aviation Recovery Taskforce (CART), the WHO, Public Health England and Spanish and Irish authorities. New safety and hygiene measures have been introduced for all employees and customers. All these measures have been carefully thought through alongside the need to reflect the latest advice from public health authorities and aviation regulators.

To support employee wellbeing across the Group, each operating company has continued to create new websites and has deployed internal resources to support mental health and COVID-19 safety. For example, British Airways built on existing resources put in place throughout 2020 and issued daily press updates which continue to highlight wellbeing and the support available such as information about its Employee Assistance Programme and the UNMIND mental health digital application. The latter includes webinars, interviews and other resources, and access was extended to family members of employees in the second half of 2020.

Iberia has also continued with its COVID-19 prevention training which is now mandatory for all employees returning to the office. In collaboration with local authorities in Madrid, Iberia has also assisted in the vaccination programme and operated a vaccination centre on premises between July 15 and September 30. Additionally, Iberia has taken part in the "Elige Cuidarte" ("Choose to take care of yourself") programme aimed at getting all its employees vaccinated against both COVID-19 and the flu.

C.3. Diversity, inclusion and equality

Reference to GRI, TCFD and SASB standards: GRI 406-1

Supports SDG 5

IAG has a Group-wide Equal Opportunities policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation. At Group level, IAG also has a Directors Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the IAG Management Committee. These policies have been approved by the Board of Directors.

Key 2021 progress on gender diversity and equality:

- IAG has increased the number of women in senior executive roles to 33 per cent, a 3 per cent increase on last year. In 2021, working with senior leaders across the Group, we have reviewed our targets and plans and are delighted to announce an increase in our external target to 40 per cent women in senior roles by 2025;
- Iberia and Vueling have revised their equality plans covering all employees in Spain reflecting new legislation;
- British Airways has made commitments to equal opportunities within its recruitment processes and has announced a commitment to 100% open recruitment, diverse shortlisting and diverse interview panels;
- IAG launched the Elevate programme – a peer networking programme for senior women;
- Iberia has successfully launched its "Take the Lead" programme aimed at cross-mentoring for women within the business;
- Iberia participated in the III Business Summit #MujeresyLiderazgo (Women and Leadership), organised by the consulting firm 50 & 50 Gender Leadership in collaboration with CEOE;
- Vueling and Iberia, alongside the Spanish Aviation Safety and Security Agency (AESA) and Airbus, produced an awareness campaign video on International Women's Day to showcase women in the aviation sector;
- IAG and IAG GBS, to mark and celebrate International Women's day, hosted a "fireside chat" led by female members of our Senior Executive community; and
- Aer Lingus achieved the "Investors in Diversity" Bronze accreditation.

Key 2021 progress for other under-represented groups

In 2021 we created a new Diversity Panel to share best practice and to lead the co-design of new diversity and inclusion initiatives. We are reviewing key employment policies, to ensure they are inclusive and fair for all, and are looking into how we manage declarations in our core countries of operation reflecting the cultural and regulatory environment, with an aim to use data and insights to set targets and develop action plans.

Key initiatives for under-represented groups:

- Our procurement team is using the EcoVadis tool to evaluate our top suppliers including a review of diversity and inclusion, enabling us to promote and support inclusion throughout our supply chain;
- British Airways launched its Reverse Mentoring programme for ethnic minority colleagues up to Management Committee level and celebrated Black History Month with several events including: videos and interviews with the Senior Leaders; an all-Black gate team; and a webinar from Tessy Ojo OBE, Chief Executive Diana Award UK;
- Aer Lingus launched visual guides on aerlingus.com to support customers with cognitive disabilities and has rolled out disability awareness training for all front line employees; and
- GBS ran Lunch and Learn session led by an external expert to celebrate BHM and encourage people to speak about racism and allyship.

C.4. Human rights and modern slavery

Reference to GRI, TCFD and SASB standards: Supports SDGs 3, 4, 5

IAG had no known cases of human rights violations across the Group during 2021. IAG GBS screens suppliers to identify and mitigate potential incidences of human rights violations, and modern slavery clauses feature in all new supplier contracts as well as contract renewals.

IAG is taking steps to prevent incidences of modern slavery within the Group and across its supply chains. In terms of policies associated with human rights, IAG asks suppliers to adhere to the IAG Group Slavery and Human Trafficking Statement, which was last updated in 2021 and is available on the IAG website. This statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA).

IAG is taking steps to prevent human trafficking. Human trafficking is of particular concern to IAG and to the wider aviation industry, as the Group transports millions of passengers every year and has tens of thousands of suppliers across the world. Operating airlines work closely with governments and the airports in which they operate to ensure that any suspected trafficking on our flights is identified, reported and dealt with appropriately. IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

Operating airlines also train staff to recognise and respond to the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected. This training is managed at airline level. In 2021, over 27,000 employees have completed over 38,000 hours of training covering Human Rights topics.

In 2022, IAG plans to review the assessment of human rights risks within the business.

Human rights

Risk description	2021 Mitigating actions
Not preventing potential incidences of human trafficking via IAG routes, damaging efforts to improve human rights and associated legal and reputational impacts. Potential human rights or modern slavery violations in the supply chain leading to fines, compliance issues, business interruption or reputational damage.	• Updated Group Slavery and Human Trafficking Statement • Training for staff to recognise signs of potential human trafficking and guidance and processes in place to report this • See A.6. Supply chain sustainability

C.5. Community engagement and charitable support

Reference to GRI, TCFD and SASB standards: GRI 102-13, 201-1. Supports SDG 11

IAG operating companies have long-standing partnerships to support community causes both locally and around the world. Key partnerships include:

- British Airways has partnered with the Disasters Emergency Committee for eight years and helped raise over £1.5 million supporting 17 humanitarian appeals;
- Vueling has been working with Save the Children for seven years and is the second-largest sponsor of this NGO in Spain;
- Iberia has been contributing to the UNICEF children's immunisation programme for eight years. This programme focuses on diseases like polio and measles and has paid for the vaccinations for more than a million children in Chad, Angola and Cuba;
- Aer Lingus staff have had an annual "Make a Difference" day for staff volunteering for a decade. While this did not go ahead in 2020 and 2021, Aer Lingus was a significant contributor to the COVID-19 global response via flights of medical equipment between Europe and China; and
- British Airways has been working with the "Flying Start" global charity programme, in partnership with Comic Relief, for over a decade. This programme has helped over 864,000 people in some of the world's poorest communities.

Key 2021 milestones:

- IAG Cargo transported over 19 million COVID-19 vaccines, including a 4 million dose shipment to Abuja, Nigeria in collaboration with UNICEF and its COVAX initiative and 300,000 doses to Jamaica, donated by the UK Government;
- IAG GBS employees supported the "Business versus Smog" programme in Poland, improving environmental awareness among children;
- Iberia launched its corporate volunteering programme "Cada acción suma", and via a collaboration with NGO Mano a Mano and Iberia Express, sent almost five tonnes of supplies to La Palma residents affected by the volcanic eruption; and
- Vueling supported multiple causes including the Spanish Association Against Cancer, Caritas, ASPANOB and LOVAAS foundation which supports children with different degrees of autism.

In 2021, €2.7 million was raised for charitable causes across the Group. Of this, 33 per cent came from customer contributions, 10 per cent from company donations, 50 per cent from employee contributions, and 7 per cent from in-kind donations. The total remains lower than 2019 due to reduced flying affecting customer contributions and reduced business activity limiting fundraising campaigns.

Metric	Unit	vly	v2019	**2021**	2020	2019	2018	2017
Total raised	€ million	-42%	-53%	**2.7**	4.6	5.7	nr	nr

C.6. Workforce measures

Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1

Description and commentary for key workforce metrics

Metric	Unit	Description	Commentary
Employment	Average manpower equivalent	• Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. • The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.	• The 17.1% decrease reflects the resizing of the business in 2020. This is an average figure and most of the resizing took place in Q4 2020. • This measure accounts for employees' contractual schedule of work and therefore does not account for the impact of COVID-19 job retention scheme.
Headcount	Number of people	• Headcount is the actual number of people employed across the Group (employees) at December 31, 2021.	• Overall headcount decreased over the year by 2.2%. • Reflects the necessary workforce actions taken in 2020 and in the beginning of 2021.
Composition	% headcount by employment type, contract and employee categories	• Composition is a breakdown of headcount as at December 31, 2021. • Full-time employees are defined as those working full contractual hours as at December 31, 2021. • A temporary employment contract has a defined end date. • The employee category breakdown portrays the distribution of the major groups within IAG's workforce "in the air" – Pilots and Cabin Crew – and "on the ground" – Airport, Corporate and Maintenance & Logistics.	• Increase in temporary workers to 4%, driven by a stronger summer season in Spain, particularly in Vueling, mostly in Airport based roles. • The modest increase in temporary employees has also increased our ratio of part time employees to 22%; these roles are typically focused on covering specific peak hours. • A change in categorisation of employees in our Cargo and Logistic units has seen increases in maintenance and logistic roles to 13% and related reductions in Airport and Corporate. This aside, the Group has seen modest recovery in Airport employees linked to the broader recovery of travel.
Employees by country	Number of people	• This metric depicts the distribution of the Group's employees according to the country in which they are based.	• The increase in the proportion of Group employees based in the Spain is due to the increased summer flying schedules at Iberia and Vueling. At the end of 2021 IAG had employees based in 81 countries.
Gender diversity	% women at Board, senior executive, and Group level	• The share of women as a proportion of all staff at specific levels of seniority across the Group.	• There were 194 senior executives as at December 31, 2021. • IAG increased the proportion of women in senior executive roles to 33% by the end of 2021. IAG has maintained gender diversity of the Board at 42%. • A decrease in the proportion of women across the whole Group is explained by the impact of COVID-19 and restructuring in 2020 and the underlying gender mix of the teams affected e.g. cabin crew

Metric	Unit	Description	Commentary
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group. The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to Captains and Cabin Service Managers.	The increase in the proportion of employees over 50 years of age is explained by larger voluntary turnover figures in younger cohorts. The group lost 1,035 < 30 year olds (1.8% turnover); 1,335 30-50 year olds (2.4% turnover); and 565 > 50 year olds (1.0% turnover). The decrease in the proportion of employees under 30 years of age is explained by the end of temporary contracts and greater levels of voluntary leavers.
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).	The overall annual turnover in 2021 was 6% – a total of 5,054 employees, of which 691 were non-voluntary leavers. This compares to 21% in 2020, a total of 13,654 of which 3,456 were non-voluntary leavers. This significant decrease in turnover reflects the Group resizing completed in 2020

Table of key measures

Metric	Unit	Sub-category	vly	**2021**	2020	2019	2018	2017
Employment	Average manpower equivalent[1]		-17.1%	**50,222**	60,612	66,034	64,734	63,422
Headcount	Number of people[2]		-2.2%	**56,658**	57,928	72,268	71,134	nr
Composition	% headcount by employment type	Full-time:	-1pt	**78%**	79%	74%	75%	nr
		Part-time:	1pt	**22%**	21%	26%	25%	nr
Composition	% headcount by employment contract	Permanent:	-1pts	**96%**	97%	94%	94%	nr
		Temporary:	1pts	**4%**	3%	6%	6%	nr
Composition	% headcount by employee categories	Cabin Crew:	1pt	**32%**	31%	35%	35%	nr
		Pilots:	0pts	**13%**	13%	11%	11%	nr
		Airport:	-2pts	**23%**	25%	26%	26%	nr
		Corporate:	-1pts	**19%**	20%	17%	18%	nr
		Maintenance:	2pts	**13%**	11%	11%	10%	nr
Employees by country	% of people	UK:	-1pts	**49%**	50%	54%	nr	nr
		Spain:	2pts	**36%**	34%	31%	nr	nr
		Ireland:	-1pts	**7%**	8%	7%	nr	nr
		India:	0pts	**2%**	2%	2%	nr	nr
		USA:	1pts	**2%**	1%	1%	nr	nr
		Other:	-1pt	**4%**	5%	5%	nr	nr

Note: "nr" means "not reported previously".

1 The mean of the manpower equivalent captured quarterly to reflect seasonality. This is not adjusted for time not worked whilst under COVID-19 job retention schemes and it reflects normal contractual hours.
2 Actual number of people employed across the Group at December 31, 2021.

Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1								
Metric	Unit	Sub-category	vly	**2021**	2020	2019	2018	2017
Gender diversity	% women at Board level[1]		0pts	**42%**	42%	33%	33%	25%
Gender diversity	% women at senior executive level		3pts	**33%**	30%	30%	27%	24%
Gender diversity	% women at Group level		-1pts	**42%**	43%	44%	45%	44%
Age diversity	% of managerial staff in each age band	<30	-1pts	**2%**	3%	4%	7%	6%
		30-50	-2pts	**55%**	57%	55%	57%	65%
		50+	3pts	**43%**	40%	41%	36%	29%
Age diversity	% of non-managerial staff in each age band	<30	-2pts	**16%**	18%	21%	22%	17%
		30-50	-1pts	**53%**	54%	50%	50%	51%
		50+	3pts	**31%**	28%	29%	28%	32%
Workforce turnover	% voluntary and non-voluntary	Voluntary	-11pts	**5%**	16%	7%	8%	8%
		Non-voluntary	-4pts	**1%**	5%	2%	3%	2%
Workforce turnover	Overall % by age group	<30	19pts	**35%**	16%	37%	35%	nr
		30-50	13pts	**46%**	33%	36%	34%	nr
		50+	-32pts	**19%**	51%	27%	31%	nr
Workforce turnover	Overall % by gender	Women	-3pts	**49%**	52%	47%	51%	nr
		Men	3pts	**51%**	48%	53%	49%	nr

Reference to GRI, TCFD and SASB standards: GRI 102-41, 403-9, 404-1. TR-AL-310a1.							
Metric	Unit	vly	**2021**	2020	2019	2018	2017
Social dialogue and trade unions	% covered by collective bargaining agreements	0pts	**89%**	89%	87%	86%	88%
Average hours of training	Average hours per employee per year	+47%	**38.9**	26.4	48.4	41.1	45.8
Lost Time Injury (LTI) frequency rate	LTI per 200,000 hours worked[2]	-9.1%	**2.19**	2.41	4.341	4.201	nr
LTI severity rate	Average days lost per LTI[2]	-10.1%	**34.00**	37.80	22.64	21.12	nr
Fatalities	Number of fatalities	0pts	**0**	0	0	1	nr

Note: “nr” means “not reported previously”.

1 In 2020 Female board composition metric normalised for consistency with 2021 at 42%.
2 The 2018 and 2019 LTI frequency rates have been restated due to change in standardising factor to better align to GRI standards.

D. Alignment with external frameworks

Key: Green is GRI CORE

Sustainability section	Sustainability subsection	Partial/full alignment with GRI Standard	SASB
Governance	A.1. Defining sustainability and material issues	**102-43, -44, -46, -47**	
	A.2. Sustainability governance	**102-46, -48**	
	A.4. Sustainability risk management	**102-11**, 102-15	
	A.5. Sustainability stakeholder engagement	**102-13, 102-43, -44**	
	A.6. Supply chain sustainability	308-2, 414-2	
	A.7. Ethics and integrity	**102-16**, 102-17, 205-1, -2, -3	
Planet	B.1. Climate change and TCFD disclosures	*See next table*	TR-AL-110a1, -a2
	B.2. Waste	306-1, -2, -3 (2020)	
	B.3. Noise and air quality	305-7	
People and Prosperity	C.1. Workforce overview	403-4, 408-1, 409-1	
	C.3. Diversity, inclusion and equality	406-1	
	C.5. Community engagement and charitable support	**102-13**, 201-1	
	Other metrics	*See next table*	TR-AL-310a1

Key climate change metrics in Section B	Partial/full alignment with GRI standard	SASB
Scope 1	305-1	TR-AL-110a1
Scope 2	305-2	
Scope 3	305-3	
Emissions intensity	305-4	
Electricity, energy	302-1	
Jet fuel use	301-1	
GHG reduction initiatives	305-5	

Key people metrics in Section C	Partial/full alignment with GRI standard	
Employment	**102-7**	
Headcount	**102-7**	
Employment composition	**102-8**	
Employees by country	**102-8**	
Gender diversity	405-1	
Age diversity	405-1	
Workforce turnover	401-1	
Social dialogue and trade unions	**102-41**	TR-AL-310a1
Hours of training	404-1	
Lost Time Injury (LTI) frequency rate	403-9	
Fatalities	403-9	

Agile risk management to support the delivery of sustainable long-term value

Enterprise risk management (ERM) approach

Agility in risk management

The risk management framework remains responsive to the needs of the business and our stakeholders by: continuing to develop the Group's assessment of the interdependencies of risks; further building on scenario planning to quantify risk impact under different assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the business in response to the pace of the transformation agenda. This allows the Board and management to assess and respond quickly to changes across the Group's principal and other key risks.

In the year, improvements to further develop the framework have been considered and discussed with management and the Board, including an assessment of how the risk appetite framework aligns to the business and risk landscape following the COVID-19 pandemic impacts. New guidance from regulators and investors is reviewed on an ongoing basis and best practice sought from other risk management sources. Where appropriate, enhancements and adaptions are then implemented across the Group.

Emerging risks and longer-term threats

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends and risks that have increased in speed of potential impact. These include competitor actions, regulations, governments' interventions, customer trends and sentiment to travel, sustainability concerns and stakeholder considerations or business disruptors that could impact the Group's business strategy and plans.

IAG considers risks to the Strategic Business Plan ("the plan") over the short term up to two years, medium term from three to five years and in the longer term beyond five years.

ERM policy and framework

The Group Enterprise Risk Framework is set out in the Enterprise Risk Management (ERM) policy, which has been approved by the Board. The comprehensive risk management process and methodology ensures a robust identification and assessment of the risks facing the Group, including emerging risks. The risk management framework is embedded across the Group businesses. Enterprise risks are defined as any risk that could impact the plan (above a threshold). They are assessed and plotted on an Enterprise risk map, based on probability and impact. Emerging risks are monitored within the overall risk framework as 'on watch' until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact over the next two to three years can be made, and appropriate mitigations can be put in place or the risk becomes a principal risk. Other high-impact, low-likelihood risks have been discussed. This process is led by the Management Committee supported by the ERM function.

Risk outcomes are quantified as the potential cash impact to the plan over two years. Non-financial considerations include the Group's sustainability commitments, potential for increased regulatory scrutiny, as well as damage to customer and employee trust impacting the Group's brand and share price.

Key controls and mitigations are documented, including appropriate response plans. Where risk treatments require time to implement, short-term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every principal risk has clear Management Committee oversight.

Risk maps for each operating company and central function are reviewed by each operating company's management committee and function leadership team, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Where the Group's operating companies have a reliance on other parts of the Group for services delivery, risks are reflected appropriately across risk maps to ensure accountability is clear.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map.

Risk appetite

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, of the Board's appetite for certain risks.

Each risk appetite statement applies either on a Group-wide basis or for specific programmes, initiatives or activity within the Group. The framework has continued to operate throughout the year, with the Board assessing its appetite across all of the framework statements at the half year and year end against the Group's performance and its anticipated delivery of the Board-approved strategic business plan priorities and initiatives. The Board is satisfied that the Group continued to perform and deliver initiatives throughout 2021 as planned to mitigate risk as set out in its framework statements or necessary additional mitigations to risks have been addressed as they occurred.

The appetite framework has been subject to review in 2021. Adaptions to the framework to set tolerances more dynamically, assess interdependencies of tolerances and link to the future strategic goals and prioritisation of investment will be implemented in 2022.

Risk assurance

The Group's risk heatmap is used to inform the annual Internal Audit plan. The ERM function also works with other compliance and Group functions, such as Government Affairs, Investor Relations and Sustainability, leveraging their frameworks and assessments where appropriate.

Viability assessment

The Board's assessment of the viability of the Group, including the selection of appropriate scenarios to determine the assessment, are directly informed by the outputs of the ERM framework. Full details of our approach, scenarios modelled and the viability assessment are shown at the end of this report.

Risk management roles and responsibilities

Risk owners and management	Operating companies' management committees	IAG Management Committee	IAG Board and Audit & Compliance Committee
Across the Group, risk owners are responsible for identifying potential risks and appropriately managing decisions within their area of responsibility that could impact business operations and delivery of the plan. As the Group undertakes transformation activities within its operating companies, the pace and agility of the changes required creates risks and opportunities. For transformational risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders. Emerging risks are assessed and risk owners consider and identify any potential impact to plans. Longer-term "on watch" risks are subject to review as part of the framework. Management is responsible for the effective operation of the internal controls and execution of the agreed risk mitigation plans.	Operating companies review risk during the year including risk map reviews semi-annually, in advance of the Group risk heatmap reviews. They escalate risks that have a Group impact or require Group consideration in line with the Group ERM framework. They confirm to their operating company board and audit committees as to the identification, quantification and management of risks within their operating company as a whole at least annually. Local heatmaps are in place for subsidiary businesses, together with Group support platforms including Group Business Services and IAG Tech.	The IAG Management Committee reviews risk during the year, including the Group risk map semi-annually in advance of reviews by the Audit and Compliance Committee, in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies. The IAG Management Committee review the performance of the Group at half year and full year against the risk appetite framework and reports any near tolerance or out of tolerance assessments to the Audit and Compliance Committee. The Management Committee recommends scenarios for stressing the strategic business plan as part of the annual Group viability assessment.	The IAG Board has overall responsibility for ensuring that the Group has an appropriate, robust and effective risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. The Audit and Compliance Committee discusses risk and considers the risk environment as part of wider Board discussions at every meeting in addition to the bi-annual risk map review, including a review of the assessment of Group's performance against its risk appetite, scenarios for assessment of viability and the outputs from the viability modelling. The Audit and Compliance Committee has early sight of management consideration of scenarios to enable it to challenge subjectivities and confirm rationale. The Group risk map is reviewed by the IAG Board annually.

Enterprise Risk Management function

The Enterprise Risk Management function provides support across the Group to ensure risk management processes are appropriately embedded and applied consistently, as well as working with management to identify risk, challenge assessments and strengthen the risk culture across the Group. The function provides enterprise risk management guidance and shares best practice across the Group and its operating companies, keeping them informed of any risk related regulatory developments. The function is responsible for ensuring that the enterprise risk management framework remains agile and responsive to meet the needs of the business and its stakeholders.

Key

Interested stakeholders

Customers · Employees · Suppliers · Governments and regulators · Shareholders and other financial stakeholders

Link to principal risk

See Business model section of this report

Strategic priorities

1 2 3

Risk trend

Increase

Stable

Decrease

Considered in viability assessment scenarios

V 1 2 3 4

Principal risk	Strategic priorities	Customers	Employees	Suppliers	Governments and regulators	Shareholders and other financial stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
Strategic									
1 **Brand and customer trust** Chief Strategy Officer	**1** 2 3	✓	✓	✓		✓	Decrease	Stable	2
2 **Competitive landscape** Chief Strategy Officer	**1** **2** **3**	✓	✓	✓	✓	✓	Increase	Increase	1 2
3 **Critical third parties in the supply chain** Chief Transformation Officer	**1** **2** **3**	✓	✓	✓	✓	✓	Increase	Increase	
4 **Economic, political and regulatory environment** Chief Strategy Officer	**1** **2** 3	✓	✓	✓	✓	✓	Stable	Increase	1
5 **Sustainable aviation** Chief People, Corporate Affairs & Sustainability Officer	**1** **2** 3	✓	✓	✓	✓	✓	Increase	Stable	4
Business and operational									
6 **Cyber attack and data security** Group CIO	1 **2** **3**	✓	✓	✓	✓	✓	Stable	Increase	3
7 **Event causing significant network disruption** Chief Strategy Officer/Operating Company CEOs	**1** 2 **3**	✓	✓		✓	✓	Stable	Increase	1 3
8 **IT systems and IT infrastructure** Group CIO/Chief Transformation Officer	**1** 2 **3**	✓	✓			✓	Increase	Increase	3
9 **People, culture and employee relations** Chief People, Corporate Affairs & Sustainability Officer/Operating Company CEOs	**1** 2 **3**	✓	✓	✓	✓	✓	Increase	Increase	2
10 **Safety or security incident** Operating Company CEOs	1 **2** 3	✓	✓	✓	✓	✓	Stable	Stable	
11 **Transformation and change** Chief Transformation Officer	**1** **2** **3**	✓	✓	✓	✓	✓	NEW	N/A	

Principal risk	Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
Financial risk including tax					
12 **Debt funding** Chief Financial Officer	1 2 3		=	↑	1
13 **Financial and treasury-related risk** Chief Financial Officer	1 2 3		=	↑	1
14 **Tax** Chief Financial Officer	1 2 3		=	↑	
Compliance and regulatory					
15 **Group governance structure** General Counsel	1 2 3		=	=	
16 **Non-compliance with key regulation and laws** General Counsel	1 2 3		=	=	

Principal risks influence

The relative level of influence each principal risk has on the other principal risks

Principal risk radar

The assessed likelihood of risk materialisation for each principal risk

Year in review

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks.

The Group's exposure to certain risks outside of its direct control has continued in 2021 as a result of the COVID-19 pandemic's unprecedented impact on the travel and aviation industry. These risks include:

- changes in political and economic environment
- government restrictions over travel and movement of their citizens, governance requirements and regulations
- external events causing operational disruption including civil unrest, adverse weather or pandemic
- volatility in the markets and availability of funding and distortion caused by differing government aviation-specific support schemes

Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature.

The principal risks have been assessed as the Group moves back into recovery of its operations and adapts its model accordingly. One new principal risk of 'Transformation and change' has been identified as part of this exercise. It reflects the significance of the Group's transformation agenda and pace required to deliver the plan.

Principal risk register

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the Board and Management Committee believe to be the most likely to have a potential material impact on the Group.

Strategic

1 Brand and customer trust

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		↓	=	V

Status The Group's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the Group's airlines' brands and their associated reputation for customer service and value. The Group's airlines' brands are, and will continue to be, vulnerable to adverse publicity regarding events impacting service and operations. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. Where customers have been stranded as a result of governments' imposition of new restrictions, all airlines have worked directly with their customers to ensure their safe return. IAG remains focused on strengthening its customer-centricity to ensure that its operating companies continue to adapt and focus their business models to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. The Group's airlines have implemented all required measures to ensure customer and employee safety in line with governments' regulations. The resilience and engagement of our people and leaders is critical to retaining brand and customer trust.

Risk description

Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.

If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.

Failure to meet customer expectations on sustainability and the Group's impact on stakeholders and society could impact the Group and its brands.

Strategic relevance

- The Group's brands are positioned in their respective markets to meet their customer propositions and deliver commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.
- IAG will continue to focus on its customer propositions to ensure competitiveness in its chosen priority customer demand spaces and to ensure that it adapts to meet changing customer expectations.
- The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.

Mitigations

- All IAG airlines are considered within the brand portfolio review.
- Brand initiatives for each operating company have been identified and are aligned to the plan.
- Product investment to enhance the customer experience supports the brand propositions and is provided for in the plan.
- All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
- IAG Customer Steering Group meets monthly and shares initiatives.
- Hygiene and travel protocols have been implemented across the Group's airlines to address regulatory requirements resulting from the COVID-19 pandemic.
- Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.
- Enhanced flexibility in airline booking policies.
- Increased focus on the end-to-end customer journey from flight search through to arrival and baggage reclaim.
- The Group's global loyalty strategy builds customer loyalty within IAG airlines.
- The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.
- Robust portfolio process to determine the right investments across the Group.
- The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.

Strategic

2 Competitive landscape

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		↑	↑	V

Status The scale of governmental support and aviation-specific state aid measures have varied by market and the potential consequential impact to the competitive landscape is under continuous assessment. Governmental restrictions continue to impact access to markets. The dynamic nature of the restrictions have required significant agility within our networks to manage the impact on our customers and business. In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In December 2021, IAG and Globalia announced the termination of the agreement under which Iberia had agreed to acquire Air Europa, but noted that the parties intended to evaluate alternative structures. Any future deal would be subject to regulatory approval.

The Group continues to lobby over the negative impacts of government policies, such as increases in Air Passenger Duty (APD).

Risk description

Competitor capacity growth in excess of demand growth could materially impact margins.

Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.

Governments' support schemes for the aviation sector create distortionary effects across the markets in which IAG's airlines operate.

Strategic relevance

- The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.
- Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

Mitigations

- The IAG Management Committee meets weekly.
- The Board discusses strategy throughout the year and dedicates two days per year to undertake a detailed review of the Group's strategic plans.
- Additional Management Committee and Board meetings have been convened as required.
- The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit opportunities and accelerate change.
- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.
- The Group maintains rigorous cost control and targeted investment to remain competitive. The Group Procurement function has led an ongoing review of all critical contracts.
- The Group has restructured its businesses with greater flexibility and resilience built into the operations.
- The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.
- The IAG Management Committee regularly reviews the commercial performance of joint business agreements.
- The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.
- The Group's Government Affairs function monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.

Strategic

3 Critical third parties in the supply chain

Chief Transformation Officer

Strategic priorities: 1 2 3

Interested stakeholders

Risk trend
2021 2020

Status Ongoing governments' restrictions through 2021 have required the Group's airlines to flex their operations and adjust capacity. The operations of the Group's suppliers, including aircraft manufacturers, has increased the risk of significant business interruption, delays or disruptions, including a lack of availability of labour to support supplier operations and/or problems in maintaining supply. This has led to increased costs to secure such services. Additional focus has been placed on key suppliers following the removal of governments' support schemes to ensure that the business and operations are not impacted.

The Group continues to lobby and raise awareness of the negative impacts of ATC airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly through the recovery period. The Group relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities. A third runway expansion proposal at London Heathrow and additional facilities at Dublin and Madrid Airports are among examples where the Group supports solutions that are efficient, cost effective and of value to our customers.

The Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow. A future aviation package review by the UK Government is expected in 2022.

Risk description

IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group sustainability programme.

IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.

IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.

IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.

IAG is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which the Group operates.

Strategic relevance

- Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers and impacting our brand and reputation.
- Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.
- London Heathrow has no spare runway capacity.
- An uncontrolled increase in the planned cost of expansion could result in increased landing charges.
- Airport charges represent a significant operating cost to the airlines and have an impact on operations.
- Inflationary cost pressures within the supply chain may increase the cost of travel.

Mitigations

- The Group mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions, to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
- The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
- The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.
- The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
- The Group procurement function has oversight of all critical contracts across the Group's businesses.
- Alternative suppliers are identified where feasible.

Strategic

4 Economic, political and regulatory environment

Chief Strategy Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		=	↑	V

Status The COVID-19 pandemic has resulted in governments' measures, which led to an unprecedented impact on air travel and has also resulted in economic uncertainty and volatility across markets. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status as the Group's airlines rebuild their operational capabilities and schedules. There can also be no clear certainty as to the level of demand for the Group's services as restrictions are lifted. The stress of the COVID-19 pandemic could have further far-reaching impacts including currency devaluations, inflation, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies. The Group airlines have utilised the slot alleviation waivers granted by regulatory bodies in 2021.

Wider macroeconomic trends are being monitored such as tone of dialogue between the US, Russia, China and the EU and UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to the Group is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered across the Group.

Developments in relevant international relationships and air services agreements throughout the year, including the EU and the UK, are being monitored. Any further macroeconomic trends or potential requirements arising from Brexit are monitored by government affairs specialists across the Group businesses.

See the Regulatory environment section

Risk description

Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.

Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.

Political decisions to respond to the COVID-19 pandemic impact economies across all markets, causing longer-term economic stress.

Strategic relevance

- IAG remains sensitive to political and economic conditions in the markets globally.

Mitigations

- The Board and the Management Committee review the financial outlook and business performance of the Group through the monthly trading results, financial planning process and the reforecasting process.
- Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.
- External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring.
- IAG Government Affairs function monitors governments' initiatives, represents the Group's interest and gives the Group and its operating companies early sight of likely changes to laws and regulations e.g. any review of slot alleviation policy in the UK. It also continues to discuss with governments and industry bodies, approaches for the implementation of consistent, customer-centric testing.

Strategic

5 Sustainable aviation

Chief People, Corporate Affairs and Sustainability Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		↑	=	V

Status IAG was the first airline group to commit to a target of net zero carbon emissions by 2050. In 2021, the Group committed to extend net zero carbon emissions requirements to the Group's supply chain, with the Global Business Services (GBS) procurement function supporting the Scope 3 commitment. GBS will have a key role to play in ensuring its delivery for the Group with supplier sustainability ratings a key consideration for future contract negotiations and renewals. IAG has also committed to 10% Sustainable Aviation Fuel (SAF) usage on average across its fleet by 2030.

In July 2021, the EU announced its "Fit for 55" package of proposals. This requires an at least 55% emission reduction target set for 2030 and aims to bring the EU climate and energy legislation in line with the 2030 goal. The Group is currently modelling potential impacts and costs based on the published proposals, which includes the removal of aviation jet fuel tax exemption from 2024.

Iberia has agreed deals in Spain for the production of SAF this year. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by the Group in the medium to longer term, where markets may not have such strict eco targets or government set policy.

The Group has completed the retirement of its aged fleet of Boeing 747s and Airbus A340s.

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. The Group continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. The Group has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes.

See the Sustainability risk and opportunities section

Risk description	Strategic relevance	Mitigations
Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel. New taxes, the potential removal of aviation jet fuel exemptions and increasing price of carbon offsets impact on demand for air travel. Customers may choose to reduce the amount they fly. The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity. Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.	• IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry. • Our stakeholders and potential investors seek confirmation over our sustainability agenda and may link their purchasing, investment or lending decisions to our commitments and progress against them.	• IAG climate change strategy to meet target of net zero carbon emissions by 2050. • British Airways offsets all UK domestic flight carbon emissions. • IAG investment in Sustainable Aviation Fuels (SAF), including British Airways' partnership with Velocys and Iberia's agreement with Repsol and Cepsa to produce SAF. • Aer Lingus internal SAF working group planning. • BA customers may choose to offset their flights for carbon emissions or pay for sustainable fuel for their flight or both. • Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient. • The appointment of EcoVadis to work with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks. • Partnering with ZeroAvia to explore hydrogen-powered aircraft technology. • Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes. • Horizon scanning of potential partners and technology.

Business and operational

6 Cyber attack and data security

Group CIO

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		=	↑	V

Status The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. The Group airlines are subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).

Investment in cyber security systems and controls continue as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to a Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the Cloud across the Group's airlines will further help to improve the security controls environment. As the Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.

Risk description

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.

If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.

Changes in working practices and environments for the Group's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.

Strategic relevance

- The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.
- The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews their own cyber projects at least quarterly.
- The IAG Chief Information Security Office provides assurance and expertise around strategy, policy, training and security operations for the Group.
- Detection tools and monitoring are in place. The Group-wide security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the Group's defences.
- Threat intelligence is used to analyse cyber risks to the Group.
- There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure, and regulations are adhered to.
- Data Protection Officers are in place in all operating companies, coordinated through a Group-wide Privacy Steering Group.
- Working practices are reviewed to ensure the integrity of the cyber and data security.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.
- Security architecture team embedded into Datacentre migrations programmes.
- Desktop exercises to test business response plans have been held across the Group's airlines during the year.

Business and operational

7 Event causing significant network disruption

Chief Strategy Officer
Operating company CEOs

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		=	↑	V

Status The outbreak of the COVID-19 pandemic in 2020 resulted in an unprecedented level of disruption to the aviation sector, as well as global economic impacts and this remained the situation in 2021. Other potential high-impact, low-likelihood events have been considered that could have the potential to disrupt IAG and/or the aviation sector. Many of these events remain outside of the Group's control such as adverse weather, another pandemic, civil unrest or a terrorist event seen in cities served by the Group's airlines.

Risk description

An event causing significant network disruption or the inability to promptly recover from short-term disruptions may result in lost revenue, customer disruption and additional costs to the Group.

The COVID-19 pandemic is likely to continue to have an adverse effect on the Group where governments choose to reimpose restrictions to manage public health concerns, as would any future pandemic outbreak or other material event impacting operations or customers ability to travel.

Strategic relevance

- The Group's airlines may be disrupted by a number of different events.
- A single prolonged event, or a series of events in close succession, impact on the Group's airlines' operational capability, financial status and brand strength.
- The Group needs to adhere to local governments' restrictions and regulations especially related to safety and public health and is therefore sensitive to any consequential impact on demand.

Mitigations

- Management has business continuity plans to mitigate this risk to the extent feasible, with focus on operational and financial resilience and customer and colleague safety and recovery.
- Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.

Business and operational

8 IT systems and IT infrastructure

Group CIO
Chief Transformation Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		↑	↑	V

Status The Group recognises the importance of technology and all of its digital and IT resources are managed together in IAG Tech, reporting to the Chief Information Officer (CIO), a member of the IAG Management Committee. All of the Group's businesses have a Chief Digital and Information Officer (CDIO) who represents their business within IAG Tech. This has strengthened IAG Tech's focus on understanding business requirements, helping to transform the Group's businesses and deliver a digital customer experience. The IAG Tech Management Committee governance structure is mirrored across into the Group's businesses to ensure that IT investment and operating company requirements are appropriately prioritised and delivered. There is an increased focus on service delivery and services management as the Group addresses its legacy environment. Plans and investment to upgrade or transform away from obsolete systems or architecture have been subject to ongoing review and plans accelerated where required to meet new regulations around travel documentation.

Risk description

The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.

The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed.

Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation, particularly if the Group needs to defer investment to preserve cash.

Technology disruptors may use tools to position themselves between our brands and our customers.

Strategic relevance

- IAG is dependent on IT systems for most key business processes. Increasingly, the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure e.g. airport baggage operators.
- Competitors and new entrants to the travel market may use digital tools and technology more effectively and disrupt the Group's business model.

Mitigations

- IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.
- Operating companies' IT boards are in place to review delivery timelines.
- IAG Tech leadership and professional development framework.
- Reversion plans are developed for migrations on critical IT infrastructure.
- System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
- Robust portfolio process to determine the right investments across the Group.
- IAG Tech CIO and MC have strategic relationships with all critical IT suppliers and oversight of all critical IT contracts across the Group's businesses.
- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.
- IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

Business and operational

9 People, culture and employee relations

Chief People, Corporate Affairs and Sustainability Officer
Operating company CEOs

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		↑	↑	V

Status The resilience and engagement of our people and leaders has been critical through the COVID-19 pandemic to ensure the Group is best positioned to resume operations and adapt as needed to the uncertain external environment. The duration and scale of the pandemic has required the Group to restructure and employee consultations across the Group's businesses to support restructuring proposals have been undertaken as required. Where possible, job retention and wage support schemes have been utilised to reduce people impacts.

As the Group rapidly transforms all its operations to adjust for the new environment, the engagement and support of the Group's employees is going to be a critical enabler. The Group businesses are focused on building and maintaining employee relationships and trust to deliver operational readiness and meet changing customer, employee and business demands.

In 2021, the Company implemented a new Remuneration Policy that is closely aligned to the Company's strategy and supports the aim of attracting and retaining exceptional talent across the Group. The Group is focused on staff wellbeing and people morale and motivation, particularly as our people return to their offices and the Group businesses adapt and implement hybrid working models. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. All operating companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description

Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.

Our people are not engaged, or they do not display the required leadership behaviours.

The Group businesses fail to attract, motivate, retain or develop our people to deliver service and brand excellence.

Critical skillsets are not in place to execute on the required transformation and drive the business forward.

If the Group's airlines cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.

Strategic relevance

- The Group has a large unionised workforce represented by a number of different trades unions. IAG relies on the successful agreement of collective bargaining arrangements across its operating companies to operate its airlines.
- The right skillsets and culture are needed to transform our businesses at the pace required.

Mitigations

- Ongoing information sharing, consultation and collective bargaining with unions across the Group takes place on a regular basis led by operating companies' human resources specialists, who have a strong skillset in industrial relations.
- Operating companies' people strategies are in place in our businesses.
- Succession planning within and across operating companies has been reviewed by the IAG Management Committee and Board and a consistent process is being implemented across the Group.
- Focus on recruiting and developing skills to run and transform our business.
- Operating companies' engagement and organisational health surveys have been conducted with subsequent action plans developed.
- Access to support individuals' wellbeing.
- IAG Code of Conduct is supported by an annual training requirement for all of our staff.

Business and operational

10 Safety or security incident

Operating company CEOs

Strategic priorities: 1, 2, 3

Interested stakeholders

Risk trend
2021 2020

Status The Group's airlines were focused on a safe return to operations in the year, with additional refresher training as flight crews, cabin crews and ground colleagues returned to service, building back their skills and knowledge.

The IAG Safety, Environment and Corporate Responsibility Committee (SECR) of the Board and the Board of each operating company continued to monitor the safety performance of IAG's airlines. Safety and security responsibility lies with each Group airline in accordance with its applicable standards. Further detail is provided in the SECR Committee report.

Risk description

A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact the Group's brands, operations and financial performance.

Strategic relevance

- The safety and security of our customers and employees are fundamental values for the Group.

Mitigations

- The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.
- The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.
- There is ongoing security engagement with airports, regulators and public authorities across the airlines' networks.
- Incident centres respond in a structured way in the event of a safety or security incident or intelligence.

Business and operational

11 Transformation and change

Chief Transformation Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		NEW	N/A	V

Status The Group has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives across the Group. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board.

Risk description

Failure to transform the business to effectively maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions.

The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.

The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.

Further standardisation, simplification and efficiencies of the Group platforms are not delivered.

Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of the Group.

The Group focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.

Strategic relevance

- The transformation agenda is critical to the Group's ability to compete in the new competitive marketplace, where distortionary effects of aviation support schemes may have allowed competitors to accelerate their change agendas and invest to improve capabilities and customer propositions.

Mitigations

- The Chief Transformation Officer has clear oversight of all programmes.
- Consistent core metrics and dashboard reporting is used to assess performance against plan.
- The dashboard and progress against delivery is assessed by a core group of the IAG Management Committee weekly.
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.
- There is operating company-led communications to our employees on change initiatives and changes that may affect them.
- Consideration is given to the Group's sustainability commitments and agenda for all programmes.
- Any potential changes that could impact the brand are reviewed to mitigate against brand damage.

Financial risk including tax

12 Debt funding

Chief Financial Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1, 2, 3		=	↑	V

Status Despite disruption in the financial markets since the spread of the COVID-19 pandemic, the Group has proactively focused on protecting liquidity by raising new non-aircraft debt, agreeing new aircraft leases and entering into new multi-year credit facilities. Aircraft were successfully financed on long-term arrangements during the year.

Risk description

Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.

New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.

Strategic relevance

- The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions, financial institutions' appetite for secured aircraft financing and the financial market's perceptions of the future resilience and cashflows of the Group.

Mitigations

- The IAG Board and Management Committee have reviewed the Group's financial position and financing strategy on a very frequent basis throughout the period of the COVID-19 pandemic.
- The Group has maintained clear focus on protecting liquidity.
- Additional funding arrangements entered into, including raising additional equity in 2020.

Financial risk including tax

13 Financial and treasury-related risk

Chief Financial Officer

Strategic priorities	Interested stakeholders	Risk trend 2021	Risk trend 2020	Viability scenario
1 2 3		=	↑	V

Status The financial markets were impacted by the uncertainty derived from the COVID-19 pandemic. The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography have all been re-evaluated this year to ensure the Group responds to the rapidly changing financial environment appropriately. Details are set out in the Group financial statements.

Risk description

Failure to manage the volatility in the price of oil and petroleum products.

Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airlines' local currencies of euro and sterling.

Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.

Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.

Strategic relevance

- The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.
- The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.
- The volatility in floating interest rates can have a material impact on the Group's operating results.
- The Group is exposed to non-performance of financial contracts that may result in financial losses.

Mitigations

- Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.
- All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.
- The Group's fuel hedging policy was revised in early 2021 (and approved by the IAG Audit and Compliance Committee) to better reflect the circumstances caused by the COVID-19 pandemic and future capacity expectations.
- The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.
- Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.
- All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.
- The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments.
- The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis.
- The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts. Any position outside of policy limits has to be approved by the IAG Audit and Compliance Committee.

Financial risk including tax

14 Tax

Chief Financial Officer

Strategic priorities

1 2 3

Interested stakeholders

Risk trend

2021 2020

Status Tax is managed in accordance with the Tax Strategy, found in the Corporate Policies section of the IAG website. Further information about taxes paid and collected by IAG is set out in note 10 of the Group financial statements.

Risk description

The Group is exposed to systemic tax risks arising from either changes to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation.

Businesses and consumers may be subject to higher levels of taxation as governments seek to increase environmental taxes, redesign the global tax framework and recover the national debts arising from COVID-19 pandemic support measures.

The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.

Strategic relevance

- Payment of tax is a legal obligation. Changes in the tax regulatory environment, including changes in tax rates, may result in additional tax costs for the Group and in additional complexity in complying with such changes. The Group's tax strategy aims to balance the needs of our key stakeholders, recognising that tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates.

Mitigations

- The Group adheres to the tax policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities.
- Tax risk is managed by the operating companies in conjunction with the IAG Tax function.
- Tax risk is overseen by the Board through the Audit and Compliance Committee.
- The Group seeks to understand its stakeholders' expectations on tax matters e.g. cooperative working with tax authorities and its interaction with non-governmental organisations.

Compliance and regulatory

15 Group governance structure

General Counsel

Strategic priorities: 1, 2, 3

Interested stakeholders

Risk trend: 2021 = | 2020 =

Status The aviation industry continues to operate under a range of nationality and other restrictions, some of which are relevant to market access under applicable bi-lateral and multi-lateral air service agreements, while some are relevant to eligibility for applicable operating licences. The Group will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

Risk description

The governance structures the Group has in place include nationality structures to protect Aer Lingus', British Airways' and Iberia's operating licences and/or route rights.

IAG could face a challenge to its ownership and control structure.

Strategic relevance

- Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences, an EU airline must be majority-owned and effectively controlled by EU nationals. British Airways is a UK carrier and not subject to the same requirement.

Mitigations

- IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

16 Non-compliance with key regulation and laws

General Counsel

Strategic priorities: 1, 2, 3

Interested stakeholders

Risk trend: 2021 = | 2020 =

Status The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year.

Risk description

The Group is exposed to the risk of individual employee's or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.

Strategic relevance

- Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.

Mitigations

- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance monitored by the IAG Audit and Compliance Committee.
- There are mandatory training programmes in place to educate employees as required for their roles in these matters.
- Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.
- IAG Code of Conduct framework and mandatory training is in place for all Group businesses.
- Data Protection Officers are in place in all operating companies.

Viability assessment

Risk assessment across the timeline of the plan

The Directors have assessed key threats and trends faced by the industry, emerging risks and opportunities arising from the COVID-19 pandemic as well as other industry and Group specific risks that could impact the Group's business plan:

- These are considered in light of their impact on our business model and relevance, operations, customers, financial status and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities, technology trends, environmental implications and infrastructure developments that could impact our operations, as well as more existential threats to aviation
- When developing the Group's three-year business plan, longer-term considerations have been assessed by the Management Committee and the Board in conjunction with the priorities faced by the business
- The Board has also conducted its annual strategy session in addition to progress reviews during the year. Following this process, short-, medium- and longer-term priorities, challenges and opportunities have been identified and actions agreed

Longer-term trends and risk considerations

- The Directors have assessed industry, Group specific and non sector-specific longer-term trends over a timeframe beyond the plan period, such as climate change regulation, infrastructure proposals at hubs, availability and timing of technologies in fleet that will benefit the environment, move to and exploitation of the Cloud and disruptive innovation. This may require the business to consider strategic responses, plans to adapt and require new skillsets to implement ahead of any potential impact to the Group plan
- Other considerations include:
  - Economic trends and shifts in the relative strengths of global economies including market dynamics and changes in customer behaviours or sentiment to travel
  - Supply chains and connectivity, movement of physical goods, inflationary and availability pressures on key suppliers
  - Costs of compliance to environmental and climate change regulations and/or lack of availability of infrastructure within countries to meet commitments or government mandates
  - Areas of risk or opportunity for the Group, such as ageing populations in Europe, war for talent, diversity and inclusion ambitions, hybrid ways of working and different career expectations from new joiners into workforces and the aviation industry
  - The ongoing challenges posed by the COVID-19 pandemic, including structural changes in how customers travel, costs incurred by the Group in safeguarding customers and colleagues and the potential macroeconomic consequences of rising unemployment and inflation
  - The potential longer-term economic impact of Brexit
  - The Group's resilience to future events impacting aviation or global markets
  - Stakeholder expectations over commitment to acting with integrity to protect our planet, particularly climate change and carbon impacts

Viability scenario development

- The Group has undertaken extensive analysis, forecasting and scenario modelling over the last year. It has refined its forecasting models and depth of analysis to ensure that stresses considered reflect specifics to markets and regions relevant to the Group's airlines as well as the analysis completed at the Group level
- During 2021, the Board regularly reviewed scenarios stressing the financial plans. These exercises leveraged the existing processes and models used for viability assessment within the Group
- When considering the viability of the Group, for the purposes of this report, the Directors have evaluated the risk landscape facing the Group and recommended plausible but severe downside scenarios that could impact the Group's refreshed three-year plan to determine the Group's resilience to such impacts. The results of these scenarios on the plan have been presented both pre and post an assessment of the likely effectiveness of the mitigations that management reasonably believes would be available over this period (and not already reflected in the plan)
- The scenarios have been defined by management and designed to consider principal risks that could materialise over the viability period and weaken the Group's liquidity position, and therefore its sustainability. Each scenario considered the impact on liquidity, solvency and the ability to raise financing in an uncertain and volatile environment
- When considering the mitigations, management has assessed mitigations that are available to the business beyond operating cost reductions including further financing, capital expenditure plans and potential disposals. Options that may not have been previously considered as mitigations were presented with recommendations for the Board to consider. In assessing and approving the scenarios, the Board considered, amongst other matters, the availability and sufficiency of potential mitigations, the expected speed of implementation in response to the uncertainty and the future flexibility required for the Group to adapt further as needed
- Sensitivities in the scenarios' assumptions have been highlighted by management and challenged by the Board. In addition, the Board reviewed the results of capacity and margin reverse stress tests, which demonstrated the level of sustained capacity reductions, with losses capped as experienced through the pandemic and losses followed by margin decline (before mitigations) that would result in the Group using all available liquidity (including cash and currently available undrawn credit facilities) and compared this to the outputs from the scenarios
- The Downside Lockdown scenario was considered to be the most severly impactful but plausible scenario that could threaten the Group, and in excess of any other plausible combination of scenarios. Mitigating actions as described in the Downside Cases were also considered across all of the scenarios modelled
- Management has assessed and the Board considered the longer-term sustainability and climate risks, applying scenario analysis techniques as set out by the TCFD process. Further details can be found in the Sustainability report

Scenarios modelled

No.	Title	Link to principal risks
1	**Downside cases and sensitivities further stressing the plan**	
	Downside cases stressing the plan to model prolonged imposition of restrictions and a more gradual recovery relative to the plan. This could be caused by factors such as new variants emerging and differing governments' appetite for pandemic measures, including vaccine and testing requirements for entry, the availability of treatments in countries and border closures. Two scenarios were modelled and assessed, referred to as the "Downside Case" and "Downside Lockdown Case". Both scenarios reflect a capacity restricted environment, with the second of these having a more significant impact on the status of travel, with heightened restrictions being re-imposed worldwide significantly lowering capacity. The Downside Lockdown case is representative of the environment experienced in Q1 2021, with modelling the impact of national lockdowns and severe restrictions impacting the Group airlines in all regions for a period of two months during 2022, with capacity recovering to the Downside case levels in mid-2023. Both scenarios model a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul, as experienced in 2021. The Group does not need to draw down on its general credit facilities (being the multi operating company Revolving Credit Facility (RCF) of $1.755m and the BA UKEF £1.0 billion credit facility, both negotiated and executed in 2021) under the Downside scenario. In the Downside Lockdown scenario, it is assumed that these facilities would be fully drawn down. As part of the modelling, consideration was given to some of the key factors that could influence the evolution of cash in the Downside and Downside Lockdown cases. Cost mitigations were considered across all operating cost lines, including the impact of cost variability being lower than that assumed. Fuel was modelled directly, based on fuel curves and hedging plans. Working capital and capital expenditure adjustments were applied within the scenarios. The scenarios assume that the Group is able to continue to secure financing for future aircraft deliveries, having successfully financed all aircraft purchases during 2020 and 2021, and, in addition, has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience. The period to June 2023 of this Downside Lockdown case scenario has also been applied as the Downside case set out in the going concern analysis (see note 2 of the Group financial statements).	**2, 4, 7, 12, 13**
2	**Business transformation delays and gaps in critical skillsets**	
	Potential for lost revenue impact arising from delays in delivering and realising the benefits of business transformation initiatives. Increased costs from critical skills not being in place to deliver the transformation as a result of continuing uncertainty surrounding aviation industry, staff engagement and pace of required change.	**1, 2, 9, 11**
3	**Ransomware attack**	
	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period of 1-2 weeks resulting from the attack before full connectivity is restored, impacting customers and operations of the affected airline. It also assumes lost revenue due to disruption of operations at the affected airline with knock-on impact to other IAG airlines due to need to isolate and switch off connectivity of Group shared credentials platforms. There are also further lost revenues due to reputational impact and increased EU 261 costs. Associated costs of recovering from the incident include the disruption through the investigation period including increased IT costs as well as brand impacts, and the potential for regulatory scrutiny and fines.	**6, 7, 8**
4	**Increasing awareness of sustainability agenda impacting the Group**	
	A revenue stress on shorthaul operations across the Group in years 2 and 3 to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). The scenario also includes an assumption where there is a slower than anticipated return of corporate travel business (both long and shorthaul) versus plan expectations. This scenario allows the Board to understand the potential impacts of the Sustainability agenda on the Group's future financial performance over the life of the plan to 2024. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the EU Fit for 55 proposals, the cost and availability of sustainable aviation fuel are also subject to assessment and modelling by the Group.	**5**

Viability statement

The Directors have assessed the viability of the Group over three years to December 2024 considering the ongoing impact of the COVID-19 pandemic on the external environment and aviation industry, the assumptions of the plan, the strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the Directors have determined that a three-year period is an appropriate time frame for assessment as it is aligned with the Group's strategic planning period (as reflected in the plan) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and continue to drive change in the external risk environment. The Board recognises the pace of change required within the Group to further adapt and respond to this environment in addition to the rapidly changing competitive landscape and wider global macroeconomic conditions.

The Group has modelled the impact of mitigating actions to offset further deterioration in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Further details on debt financing can be found in the Going Concern disclosures in note 2 of the Group financial statements.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2024. However, this is subject to a number of significant factors that are outside of the control of the Group. In reaching this assessment the Directors have made the following assumptions when considering both the plan and the Downside Lockdown scenario case (the most severe and plausible of the downside scenarios considered):

- the Group will continue to have access to funding options and that the capital markets retain a level of stability and appetite for funding within the aviation sector;
- the Group can implement any further structural changes required in agreement with any union consultation processes and regulatory approvals;
- future COVID-19 pandemic impacts do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;
- and any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

Due to the uncertainty created by the COVID-19 pandemic, the potential for future waves of the COVID-19 pandemic and the consequential impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at February 24, 2022. The Group has been successful in raising financing since the outbreak of COVID-19, however the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur.

Making the case for positive policies

The political and regulatory environment in 2021 continued to provide IAG with significant challenges as states around the world maintained, and in many cases tightened, restrictions on international travel as part of their ongoing responses to the COVID-19 pandemic. While always seeking to maintain the safety of its customers and colleagues, IAG worked to influence common sense approaches to rule-making and the safe lifting of restrictions as vaccination programmes expanded.

The effects of the pandemic had additional knock-on impacts in a variety of areas as policy makers and regulators reacted to the reduction in traffic, leading to temporary changes in policy. Specifically, there were restrictions that impacted IAG carriers via the limitation of frequencies and allocation of capacity between competitor airlines in several international markets that the Group worked to reduce or remove.

Alongside the pandemic, sustainability continued to be the most important area of regulatory policy development affecting the industry. Interest around the world in the management of carbon emissions grew in the run-up to COP26 in November with ongoing scrutiny of the contribution of air transport to emissions. This is a challenge to which IAG is leading the aviation industry's response.

COVID-19

Regulatory reaction to address the threat of COVID-19 required IAG and its operating companies to monitor and manage very many developments in the regulatory field throughout 2021.

In order to encourage the adoption of practical and reasonable rules, as well as to mitigate their impacts on the business, IAG and its operating companies took every opportunity to engage with the authorities in the countries in which its airlines are established and in other major markets directly and through trade associations. Understanding restrictions, implementing, and complying with associated regulations, as well as keeping customers informed of requirements, was unfortunately made ever more difficult by the very considerable variations between jurisdictions and further by constant changes to regulations, often implemented with little or no notice.

Swift development of digital applications by the Group, such as British Airways' in-house Right To Fly or Iberia's and Vueling's AirCheck system, as well as collaboration with independent apps such as VeriFLY, were essential in helping verify customers' travel documents and managing demand as passenger volumes began to return in the second half of the year.

As well as the unprecedented level of engagement with governments over this period, IAG established internal working groups, both cross department within operating companies and across Group companies, to manage the process of implementing rule changes, thus benefitting from the wide range of experience and expertise across the Group.

IAG's engagement included highlighting the benefits and value of aviation, especially that of transatlantic traffic, at the highest levels. The Group was well prepared to meet the US authorities' requirements for track and trace data when the country opened to vaccinated foreign visitors in November.

The US opening came as part of a gradual removal of restrictions in IAG's key home markets and around the world along with the welcome simplification of the UK's traffic light system and the removal of hotel quarantine requirements in the UK and Ireland.

The unpredictable nature of the pandemic was emphasised when further restrictions on travel to certain countries were imposed by governments in response to the spread of the Omicron variant. IAG continues to argue for such policy action to be proportionate so that future variants of concern should not, for example, result in blanket measures on all travellers, such as the need for onerous and costly testing regardless of origin.

Throughout the pandemic IAG has advocated the establishment of a global approach to imposing restrictions and to rule-making through ICAO to reduce confusion for customers and airlines alike. The Group continues to urge governments to come together to develop a joint approach to crisis management that applies a consistent set of requirements whether for future pandemics (including moving to a traveller-based approach to risk rather than bans by country, allowing fully vaccinated passengers to travel without restriction, and setting standard architectures for digital health certificates) or for other upheavals that could impact the operation of this global industry.

Sustainability – Brussels

IAG has continued to champion the cause of sustainable aviation and to share its plans for reducing carbon emissions as the industry recovers.

To explain and promote its sustainability position, the Group has engaged with representatives of the institutions of the European Union over the European Commission's Fit for 55 package. This commits the EU to reducing net greenhouse gas emissions by at least 55% by 2030 (compared with 1990) and to reaching climate neutrality by 2050.

IAG welcomes Fit for 55, and its objectives with which the Group is aligned, as a powerful package for change. However, IAG continues to argue that the design of some elements may reduce the EU's capacity to invest in sustainability and make it less competitive compared with other non-EU aviation markets.

IAG does not support the imposition of the jet fuel tax that Fit for 55 proposes. This is not a solution for decarbonisation but will reduce the sector's ability to invest in more effective measures. Instead, we are firmly of the view that policy should focus on increasing the use of Sustainable Aviation Fuels (SAF) and market-based measures such as the EU Emissions Trading System (ETS) and ICAO's Carbon Offsetting and Reduction Scheme (CORSIA).

IAG contends that increasing the use of SAF, which reduce lifecycle CO_2 emissions by up to 85 per cent, provides the primary near-term opportunity to drive down industry emissions. In April, IAG became the first European airline group to commit to powering 10 per cent of its flights with SAF by 2030. We encourage the EU to include a package of investment incentives to enable scaled-up production of SAF alongside the blending mandate requirement that Fit for 55 introduces.

British Airways launched its BA Better World sustainability strategy in September and also procured the use of sufficient SAF to power all flights between London and Glasgow during COP26.

IAG has long been an advocate for and contributor to the design of CORSIA. The Group believes the Fit for 55 package must work alongside global measures, not duplicate them, and that the EU ETS should apply to intra-EU flights and CORSIA to extra-EU flights. Applying both systems to flights between EU Member States risks undermining support for CORSIA outside Europe.

Other policy issues

Slot allocation

A key impact of the pandemic, given the dramatic reduction in demand, was the need for a waiver from regulators to the slot allocation rules that would otherwise risk breaking up long-established airline networks. IAG worked with its trade association, the International Air Transport Association (IATA) to advocate the adoption of a system agreed with airports and slot coordinators that would recognise the value to consumers to allow temporary alleviation from "the use it or lose it" rules so as to maintain networks of airlines who have built them up over the years. The UK and others sensibly adopted full waivers of the "use it or lose it" rules but the patchwork of approaches adopted, including the different position of the EU from that of the US and other key markets, was disappointing. IAG continues to support the use of the proven, effective global rules of the IATA Worldwide Airport Slots Guidelines.

Competition

Another feature of the impacts of the pandemic in 2021 was that in some markets, governments imposed peremptory or arbitrary restrictions on capacity to protect their home carriers on the pretext of safeguarding public health. IAG and its operating companies continue to work through the governments of its home countries and in the markets in question to promote the benefit of competition to consumers and the health of the aviation industry and to encourage a full return to normal operations in 2022.

Airport charges

Working with the trade association Airlines for Europe (A4E), IAG continued to promote the need for changes to airport charges legislation in Europe to make the industry fit for a more competitive future. The Group continues to monitor developments and engage with regulators around the world as airports seek to increase charges to pass on their losses over the last two years to their airline customers. A key focus during 2021 was on Heathrow's regulatory price review. The airport sought to double charges when other hubs (e.g. all airports in Spain) are keeping rates flat or seeing only small increases (e.g. Frankfurt). It was disappointing to see the Civil Aviation Authority (CAA) announce, in December, that it would allow Heathrow to increase charges by 50 per cent in 2022 (the interim price cap). British Airways and IAG are fully engaged in the CAA's review process that continues through the first half of 2022. We seek to demonstrate that charges should in fact more reasonably be reduced at Heathrow over the remainder of the regulatory period to 2026 in the interests of preserving the competitiveness of UK aviation and providing a better outcome for both IAG's airlines and for consumers.

Market access

During the pandemic, regulatory approval was secured for a range of flights for Aer Lingus, British Airways and Iberia to new destinations or for new purposes including cargo and passenger charter services. As restrictions began to be lifted attention turned to strategic actions to expand markets.

The start of Aer Lingus's operations from Manchester to the Caribbean demonstrated the Group's flexible business model, including IAG's central Government Relations team helping to secure regulatory permission from both UK and US authorities for the new UK-based operation. Further regulatory engagement with several countries in the Caribbean, Africa and Asia has also helped secure the significant expansion of code share networks, in particular with Kenya Airways and Qatar Airways.

IAG monitored, as usual, developments in relevant international relationships and air services agreements throughout the year, including the discussions in the Autumn between the EU and the UK on the Northern Ireland protocol (since the UK-EU Trade and Cooperation Agreement includes provisions on aviation). Any potential changes to the status of the protocol are not expected to have an impact on the air services arrangements between the EU and the UK.

In 2021 overall, the Group took every opportunity to emphasise the economic and social value of aviation in facilitating trade, tourism and in reuniting families separated by the pandemic, and also to demonstrate that this is being done in a responsible and environmentally sustainable manner.

Additional disclosures

B. Planet

Overview

This section provides additional details on material IAG environmental metrics with cross-references to other parts of the report.

B.1.4a. Climate change metrics - extra descriptions and commentary

GRI 301-1, 302-1, 305-3, 4, 5

Below are descriptions and commentary for climate change metrics in B.1.4. Metrics.

Metric	Unit	Description	Commentary
Emissions intensity (Scope 2)	gCO_2/pkm	Based on Scope 2 location-based emissions divided by business activity, as measured in revenue passenger kilometres including cargo. Complements the flight-only emissions intensity metric.	The 28% improvement in 2021 is due to higher passenger-km combined with lower electricity use and greener national grids.
GHG reduction initiatives	Tonnes CO_2e	Reductions in CO_2e as a result of specific efficiency initiatives which started in the reporting year. This excludes reductions from externally-driven changes applicable to all airlines e.g. airspace changes.	The 247% increase in 2021 is due to increased flying and delivery of emissions saving initiatives in Iberia and Vueling, including allocating aircraft to specific routes to improve fuel efficiency .
Electricity	million kWh	Consumption of electricity across IAG ground facilities, in millions of kilowatt hours. This includes usage in main offices, overseas offices, hub airports and maintenance facilities. A detailed description of how this value is calculated is provided next to the Scope 2 emissions metric in section B.1.4	Electricity use was 6% lower than 2020 and 29% lower than 2019 due to reduced occupancy in ground facilities and offices.
Energy	million MWh	The sum of the above kWh and energy use from fuel. Fuel energy use is based on volumes of jet fuel, diesel, petrol, natural gas and gas oil, multiplied by appropriate UK Government conversion factors.	Energy use was 1% higher than 2020 despite an 11% increase in flying activity. 0.5% of energy use is from renewable sources, due to jet fuel being 99% of MWh and limited volumes of SAF being available.
Revenue per tonne CO_2e	€/tonne CO_2e	Calculated by dividing total Group revenue by the sum of Scope 1 emissions and Scope 2 location-based emissions.	Pre-pandemic, this metric was increasing due to the use of more efficient aircraft and retirement of older aircraft. The 2021 value remains below 2019 levels due to low passenger numbers meaning lower average revenues per flight.
Jet fuel use	Tonnes	Jet fuel used within the aircraft fleet and for engine testing during the reporting year.	The 2021 volume is similar to 2020 due to ongoing COVID-related disruption limiting flying.
Fleet age	years	The average age of aircraft in the IAG fleet as of December 31, 2021.	The increase to 11.2 years in 2021 is due to limited new deliveries due to low flying activity.

Scope 3 emissions metrics

In 2021 IAG was the first airline group worldwide to target net zero Scope 3 emissions by 2050. This was complemented by a target for a 20 per cent reduction in net Scope 3 emissions by 2030, compared to a 2019 baseline. See Section A.6.

IAG has assessed all fifteen categories of Scope 3 emissions, as defined by the global GHG Protocol, and identified that only twelve categories are relevant. Emissions from these categories are disclosed below, with four categories representing 98% of IAG's Scope 3 impact.

IAG continues to refine Scope 3 calculations and the table below represents the most robust disclosure to date, with all 2019 and 2020 values reviewed and all based on the latest data and assumptions. Standardised conversion factors are used where data from suppliers is not available. Any significant restatements will be provided in future reports with explanations provided.

The total Scope 3 emissions in 2021 is 3,316,005 tonnes CO_2e.

Scope 3 category in tonnes CO_2e*	vly	v2019	**2021**	2020	2019
Category 3: Fuel and energy-related production	-1%	-64%	**2,266,561**	2,284,992	6,371,621
Category 2: Capital goods	-54%	-25%	**424,000**	912,000	568,000
Category 14: Franchises	+57%	-54%	**369,718**	235,167	810,334
Category 9: Downstream transportation and distribution	+11%	-30%	**174,708**	157,554	248,574
Category 11: Use of sold products	+101%	-69%	**56,430**	28,060	179,973
Category 7: Employee commuting	-4%	-69%	**5,514**	5,720	17,515
Category 5: Waste generated in operations	-22%	-40%	**2,234**	2,872	3,747
Other categories: 1, 4, 6, 8	+20%	+176%	**2,797**	2,332	1,014
Category 13: Downstream leased assets	n/a	n/a	**14,042**	0	0
TOTAL Scope 3 emissions	-9%	-60%	**3,316,005**	3,628,696	8,200,778

* Listed in order of highest to lowest climate impact in 2019. Categories which were lower than 1,000 tonnes in 2019 are grouped together.

Four categories of Scope 3 emissions are 98% of the impact.

Scope 3 category	**Description**	**Commentary**
Category 3: Fuel and energy-related production	The well-to-tank emissions from jet fuel use, Scope 1 fuel use, and Scope 2 electricity kWh. CO_2e values are calculated by multiplying the weight or energy content of various fuels by the latest standardised UK Government GHG conversion factors.	This value is directly correlated to fuel use. It remains low compared to 2019 due to low flying activity and reduced ground operations.
Category 2: Capital goods	Emissions associated with aircraft manufacture and disposal. Calculated by multiplying the number of aircraft delivered and retired within the reporting year, by an effective tCO_2e per plane, based on disclosed operational emissions from aircraft and engine manufacturers in 2018 and 2019.	This methodology was significantly revised in 2021 leading to restatements for 2019-20 data. 2021 remains below 2019 due to lower numbers of new aircraft deliveries. 2020 is unusually high due to the number of accelerated fleet retirements.
Category 14: Franchises	Emissions from the jet fuel burn of aircraft franchises.	The increase in 2021 is due to higher activity in franchises.
Category 9: Downstream transportation and distribution	Emissions from the fuel use of subcontracted air or ground freight.	The increase in 2021 is due to increased cargo activity.

Scope 3 category	Description	Commentary
Category 11: Use of sold products	Emissions related to products purchased by Avios members using Avios points. Purchases of IAG flights are reported under Scope 1 emissions. Categories reported here are flights on non-IAG carriers, hotel stays and car hire, as these categories are deemed to be most material.	This category is being reported for the first time this year as further analysis identified it as material. 2021 emissions remain lower than 2019 due to reduced economic activity, related to COVID-19 restrictions.
Category 13: Downstream leased assets	Jet fuel emissions from any aircraft leased to other carriers on a seasonal basis.	A non-zero value was reported this year as aircraft were leased to another airline.
Category 7: Employee commuting	Emissions from staff travelling to and from workplaces. In the absence of detailed staff travel data, this is calculated by multiplying the number of FTE employees in the reporting period, by the average commuting distance (km) and average weighted carbon intensity (CO_2e/km) of commuting based on the UK government National Travel Survey.	2020 and 2021 emissions were calculated using a discount factor, based on staff continuing to work from home. Commuting activity remains much lower than in 2019.
Category 5: Waste generated in operations.	Emissions associated with processing waste via recycling, recovery, incineration or landfill. Calculated by multiplying total extrapolated global waste volumes by appropriate CO_2e/tonne conversion factors from the UK government.	The 22% decrease in 2021 is driven by lower volumes of waste generated, due to reduced flying activity.
Category 1: purchased goods and services	Emissions from water supply and consumption in offices and facilities, laundries, and potable water carried onboard. These are calculated by multiplying m^3 values by UK government GHG conversion factors. Based on available data.	2021 is similar to 2020, due to lower occupancy in offices as a result of COVID-19 restrictions.
Category 6: Business travel.	Emissions from the jet fuel of IAG staff travelling on other carriers. Staff travel on IAG aircraft is captured in Scope 1 emissions. Emissions from hotel and car use are excluded as these are not material.	Levels of staff travel remain low relative to 2019, due to staff on furlough and reduced business activity.
Category 4: Upstream transportation and distribution	Emissions from subcontracted vehicles used in hub operations or cargo operations.	2021 values are based on 2020 data with 2019 data unavailable. Not reported in 2019.
Category 8: Upstream leased assets	Jet fuel emissions from any aircraft leased from other carriers on a seasonal basis.	Not relevant in 2021 as no leasing was carried out but may be relevant in future.

B.2a. Waste metrics - extra descriptions and commentary

On the next page are descriptions and commentary for IAG's key waste metrics and targets as described in Section B.2. These are IAG definitions aligned to GRI 306 standards. See Section B.2. for quantitative information about waste.

Group-wide waste targets were developed in 2021 by a cross-IAG waste targets working group over several months. The agreed targets are for 2025, compared to a 2019 baseline, and were deemed feasible yet stretching. IAG plans to report progress against these targets in 2022. Currently, the impacts of the COVID-19 pandemic make it difficult to establish meaningful trends.

"5 through 2025" focus areas	2019 Baseline generation (kg)	2019 Baseline recycling (%)	2025 generation target	2025 recycling target
Single-use-plastics	-	-	Zero-based*	-
Onboard waste	0.33	24%	-20% in kg/passenger	40%**
Office waste	96	35%	-50% in kg/staff	60%
Maintenance waste	0.63	50%	-25% in kg/person-hour	70%
Cargo waste	1.55	63%	-25% in kg/kg cargo handled	80%

* Eliminating as much as possible in all areas of operation, acknowledging that some plastics may still be required in 2025 where alternatives do not exist.

** Weighted average across the Group for hub airports. Other targets apply to all operating companies as a minimum level of ambition.

Waste type	Waste metric	Description of denominator
Single-use-plastic	Volume	Items made wholly or partly of plastic and are typically intended to be used just once or for a short period of time before they are thrown away. This aligns to the EU definition.
Onboard	Kg/passenger	**Numerator:** Onboard waste is both cabin and catering waste. Cabin waste is defined as items collected from the cabin following flights, including newspapers, blanket and headphone wrapping, and packaging which passengers have brought onto the aircraft. Includes rubbish bins from toilets and excludes lost luggage. Catering waste is defined as food and packaging left over from onboard catering, including drinks cans, and IAG-owned waste from food preparation at catering facilities. Includes all categories of catering waste covering international and domestic.
		Denominator: The number of Inbound passengers at hub airports, plus outbound passengers on short-haul flights whose waste was kept onboard the aircraft and offloaded at the hub when the plane returned.
Cargo	Kg/kg of cargo handled	**Numerator:** Total waste from handling and packaging cargo. This consists largely of recyclable materials such as plastic, wood and cardboard but is impacted heavily by ad hoc disposal of perishable or hazardous cargo.
		Denominator: Tonnes of cargo and mail handled in three main hubs: Dublin, Madrid, and London Heathrow.
Main-tenance	Kg/person-hour	**Numerator:** Materials from specific maintenance/engineering facilities including paper, metal, and hazardous waste. Excludes airport waste, aircraft disposal, construction waste and effluent.
		Denominator: Number of available person hours at maintenance facilities, compiled by maintenance teams.
Office	Kg/ employee	**Numerator:** Materials from printing, office stationary, and onsite catering. Includes offices, training facilities, and UK, Irish and Spanish call centres. Includes technology waste, defined as primarily data centre equipment and IAG-owned IT equipment.
		Denominator: Total FTE employees at the end of the reporting period.

In 2021 IAG sent 19,292 tonnes of waste to landfill and incineration, based on available data and extrapolations for overseas waste processing where information on waste destinations was not avaiable. 30% of waste was recycled, up from 21% in 2019.

Waste disposal method	Description
Landfilled	As per GRI 306 standards, this is defined as "final depositing of solid waste at, below, or above ground level at engineered disposal sites". **Includes:** waste sent directly to disposal. **Excludes:** waste sent to third parties.
Incineration	As per GRI 306 standards, this is defined as "controlled burning of waste at high temperatures". **Includes:** incineration with energy recovery.
Recovered	As per GRI 306 standards, this is defined as "Any operation wherein products, components of products, or materials that have become waste are used or prepared to be used to fulfil a purpose in place of new products, components, or materials that would otherwise have been used for that purpose" **Includes:** incineration including energy from waste, if the incinerator meets set standards. **Excludes:** reprocessing into materials that are to be used as fuels.
Recycled	As per GRI 306 standards, this is defined as "Reprocessing of products or components of products that have become waste, to make new materials". **Includes:** downcycling, upcycling, composting and anaerobic digestion, uniforms re-used, and plastics turned into new plastic products. **Excludes:** reprocessing into materials that are to be used as fuels.

B.3a. Noise metrics - extra descriptions and commentary

Description and commentary of noise metrics in B.3. IAG only reports on the most stringent ICAO and CAEP standards. The business has been over 97 percent compliant with ICAO Chapter 4 and CAEP Chapter 4 standards for several years.

Metric	Unit	Description	Commentary
Noise per LTO	QC/LTO	Average noise per flight considering arrival and departure noise for each aircraft type. Based on the number of flights of all aircraft which operated during the year, including leased aircraft. Quota Count (QC) values from the UK Government are used to create a relative categorisation based on certified noise levels. For example, for a single flight, a Boeing 747 would have a score of 6.0 while an Airbus A320 would have a score of 1.0.	The 8% drop in 2021 is driven by the effect of 2020 and 2021 retirements of noiser aircraft such as Boeing 747s, Airbus A340s and Airbus A319s.
NOx per LTO	Kg/LTO	Average emissions of the air pollutant nitrogen oxide (NOx) as aircraft take off and land. The calculation considers the engine certifications and aircraft types of all aircraft which operated during the year, including leased aircraft, referencing information from the ICAO emissions database.	The 8% improvement is driven by continued use of newer aircraft and reduced longhaul flying. This value may increase in 2022 before continuing to steadily decline year-on-year.
ICAO Chapter 14	% of fleet at standard	ICAO Chapter standards compare aircraft noise against standardised limits that are a combination of lateral, approach, and flyover noise levels. Higher standards are more stringent. Chapter 14 applies to new aircraft certified from January 1, 2017.	The small decrease in 2021 was due to the retirement of Chapter-14 compliant aircraft in Iberia.
CAEP Chapter 6	% of fleet at standard	ICAO CAEP standards are for NOx emissions from aircraft engines. Higher standards are more stringent. The CAEP 6 NOx standard applies to engines manufactured from January 1, 2008.	Compliance continues to improve due to the use of new aircraft in the fleet.
CAEP Chapter 8	% of fleet at standard	The CAEP 8 standard applies to engines manufactured from January 1, 2014.	Compliance continues to improve due to use of new aircraft in the fleet.

B.4. Additional environmental metrics and commentary

GRI 303-5

Amount of provisions and warranties for environmental risks

IAG does not take out any specific insurance to cover environment risks but does purchase forward carbon credits to cover future liabilities.

Water consumption

Water consumption is not a material issue for IAG. However, water use is monitored across the Group and IAG consumed 544,416 m^3 of water in 2021 in offices, ground facilities such as laundries, and water treatment plants. Consumption volumes are similar to 2020 due to low occupancy in ground facilities.

Metric	Unit	vly	v2019	**2021**	2020	2019
Water use	'000 m^3	+4%	-17%	**544**	525*	655

* restated due to widened scope of reporting to include water treatment plants and potable water onboard aircraft where data was available.

Biodiversity

Biodiversity is not currently seen as a material issue for IAG but the business is taking steps to manage and mitigate its impacts on biodiversity where relevant. A key method of mitigating biodiversity impacts is ensuring that SAF projects align with Roundtable on Sustainable Biomaterials (RSB) or International Sustainability and Carbon Certification (ISCC) principles. Other steps include:

- IAG is a signatory to the Buckingham Palace Declaration on preventing global wildlife trafficking;
- Governance around overseas offset projects to account for their impact on biodiversity. Reducing Emissions from Deforestation (REDD+) projects are included in the portfolio of voluntary offsets available to customers;
- British Airways owns 300 acres of parkland around the head office in London including grassland, lakes and ponds and has rangers actively managing these habitats; and
- Aer Lingus successfully repatriated an endangered loggerhead sea turtle from Ireland to Gran Canaria, to the Tarifa Wildlife Recovery Centre.

C. People and Prosperity

C.7. Additional metrics and Commentary

GRI 102-41, 403-9, 404-1

Description and commentary for additional workforce metrics mentioned in section C.6.

C.7.1 Social & employee related matters - Labour relations, Training

Social dialogue and trade unions

% covered by collective bargaining agreements

GRI 102-41

Country	vly	V2019	**2021**	2020	2019
UK	-1pts	+2pts	**91%**	92%	89%
Spain	0pts	+2pts	**96%**	96%	94%
Republic of Ireland	-2pts	-2pts	**85%**	87%	87%
India	-10pts	-3pts	**10%**	20%	13%
USA	+5pts	+4pts	**71%**	66%	67%
Other Countries	+28pts	+30pts	**71%**	43%	41%

Description

Collective bargaining can cover a wide array of issues pertaining to working conditions, such as remuneration, working time, perks and benefits, and occupational safety and health. This coverage rate refers to the proportion of employees who are covered by one or more collective agreements. Calculated using headcounts at the end of the reporting period.

Commentary

Refer to Risk Management and principal risk factors section.

The higher coverage rate is due to reporting improvements (incl. the increased scope of population covered) and changes in workforce composition following the completion of resizing initiatives.

Average hours of training

Average hours per employee per year

GRI 404-1

Share of total training hours per employee, by employee category	vly	v2019	**2021**	2020	2019
Cabin Crew	-4pts	-5pts	**40%**	44%	45%
Pilots	-3pts	-3pts	**16%**	19%	19%
Airport	-1pt	-5pts	**13%**	14%	18%
Corporate	+9pts	+13pts	**19%**	10%	6%
Maintenance	-1pts	0pts	**12%**	13%	12%

Average hours of training per employee	vly	v2019	**2021**	2020	2019
All staff	+47%	-24%	**38.9**	26.44	48.4

Description

Calculated by dividing total training per group category adjusted by full-time equivalent (FTE) and actual hours worked. All mandatory and non-mandatory training is in scope. Total training hours are broken down by employee category.

Commentary

The 2020 decrease in average hours of training per employee has begun to recover in 2021 as more employees return to flying. This has seen increases in safety, compliance and operationally essential training for all our returning employees and for our new entrants joining the business. There has also been an increase in training hours completed by Corporate employees as people begin to come back to the office and non-mandatory training resumed.

In 2021, 1,868,076 training hours were recorded versus 1,601,959 in 2020, representing an increase of 16%.

Description and commentary for additional workforce metrics mentioned in section C.6.

C.7.2. Social & employee-related matters - Health and safety

Lost Time Injury (LTI) frequency rate

LTI per 200,000 hours worked

Description

A lost time injury (LTI) is a non-fatal injury arising out of, or during, work, which will lead to a loss of productive work time.

The unit is LTI per 200,000 hours worked, using actual hours worked.

Commentary

During 2021, 791 LTIs were recorded versus 570 in 2020 and 1,864 in 2019. This is reflective of the reduced working hours which have continued in 2021, especially in operational roles where the risk of injuries is greater.

The LTI frequency rate for men 1.99, versus 2.3 in 2020 and 4.19 in 2019, whilst the rate for women was 2.82, versus 2.65 in 2020 and 4.57 in 2019. The reason for differences within LTI severity rates is driven by differneces in operational intensity within roles during the reporting period.

LTI Severity rate

Average days lost per LTI

GRI 403-9

Description

This measures the impact of occupational accidents as reflected in time off work by the affected workers.

Days lost per LTI is expressed as an average by dividing the total lost days due to injuries by the total number of LTIs in the reporting period.

Commentary

The LTI severity rate for men was 31.33 (versus 34.51 in 2020) whilst the rate for women was 40.12 (versus 44.18 in 2020). Even though there was an increase of 24% in the number of days lost due to injury. The pattern is therefore one of a higher number of days lost to injury, with the type of injuries being less severe.

Fatalities

Number of fatalities

GRI 403-9

Description

Work-related fatalities. To align with GRI guidance, fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business, such as via a company or contracted bus or vehicle. The exception is employees in Spain, where inclusion of these types of fatalities is a legal requirement.

Commentary

There were no fatalities in 2021.

C.7.3. Social & employee related matters - employment and working organisation

Average number of employment contracts and distribution by type, annual average of permanent, temporary and part-time contracts distributed by gender, age and job category

GRI 102-8

Annual average number of contracts			vly	2021	2020	2019
Overall employment contract and employment type	Permanent		-12%	**54,980**	62,728	68,104
	Temporary		-41%	**1,638**	2,753	5,195
	Full-time		-12%	**44,641**	50,581	54,918
	Part-time		-20%	**11,976**	14,900	18,381
Age bands by employment contract and employment type	Permanent	<30	-2pts	**13%**	15%	16%
		30–50	0pts	**53%**	53%	52%
		>50	+2pts	**34%**	32%	32%
	Temporary	<30	-4pts	**53%**	56%	59%
		30–50	+4pts	**45%**	41%	38%
		>50	-1pts	**2%**	3%	3%
	Full-time	<30	-5pts	**15%**	20%	22%
		30–50	+1pts	**53%**	52%	50%
		>50	+4pts	**32%**	28%	28%
	Part-time	<30	-1pts	**8%**	9%	11%
		30–50	+1pts	**55%**	54%	52%
		>50	0pts	**37%**	37%	37%
Gender by employment contract and employment type	Permanent	Men	0pts	**57%**	57%	56%*
		Women	0pts	**43%**	43%	44%*
	Temporary	Men	-2pts	**50%**	52%	54%*
		Women	+2pts	**50%**	48%	46%*
	Full-time	Men	+1pts	**63%**	62%	61%*
		Women	-1pts	**37%**	38%	39%*
	Part-time	Men	0pts	**37%**	37%	38%*
		Women	0pts	**63%**	63%	62%*
Employee categories by employment contract and employment type	Permanent	Cabin Crew	-1pts	**32%**	33%	35%*
		Pilots	+1pts	**14%**	13%	12%
		Airport	-4pts	**21%**	25%	25%*
		Corporate	+2pts	**20%**	18%	17%*
		Maintenance	+2pts	**13%**	11%	11%*
	Temporary	Cabin Crew	+8pts	**42%**	34%	32%*
		Pilots	0pts	**0%**	0%	1%
		Airport	-9pts	**35%**	44%	52%*
		Corporate	-2pts	**10%**	12%	9%*
		Maintenance	+3pts	**13%**	10%	6%*
	Full-time	Cabin Crew	-1pts	**29%**	30%	31%*
		Pilots	+1pts	**14%**	13%	12%*
		Airport	-3pts	**19%**	22%	23%*
		Corporate	+1pts	**22%**	21%	20%*
		Maintenance	+2pts	**16%**	14%	14%*
	Part-time	Cabin Crew	-2pts	**44%**	46%	47%*
		Pilots	+2pts	**11%**	9%	8%
		Airport	-4pts	**33%**	37%	39%*
		Corporate	+3pts	**10%**	7%	5%
		Maintenance	+1pts	**2%**	1%	1%

Description

Average numbers for each employment contract and type is based on the FPE (Full Person Equivalent). FPE looks at how much of the (whole) person's working time is engaged in a particular activity. For instance, an employee working half of the reporting period would be a 0.5 FPE, no matter the type of contract or working day hours.

Commentary

Refer to 'Composition' commentary in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.

* These values have been restated due to the reallocation of a number of employees into different categories, for example reclassifications between maintenance and airport roles.

Total number of dismissals and distribution by gender, age and job category

GRI 401-1

Workforce turnover

Non-voluntary turnover by employee category

Employee category	vly	**2021**	2020	2019
Cabin Crew	-8pts	**39%**	47%	21%
Pilots	-16pts	**2%**	18%	6%
Airport	-9pts	**26%**	35%	39%
Corporate	+2pts	**30%**	28%	27%
Maintenance	-8pts	**4%**	12%	7%

Non-voluntary turnover by gender and age band

Age groups	vly	**2021**	2020	2019
<30	+7pts	**30%**	23%	29%
30-50	+7pts	**48%**	41%	29%
50+	-14pts	**22%**	36%	42%
Gender				
Men	-2pts	**50%**	52%	47%
Women	+2pts	**51%**	48%	53%

Description

Refer to 'Workforce turnover' description in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.

Commentary

Refer to 'Workforce turnover' commentary in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.

C.7.4. Remuneration and salary gap

Average remuneration broken down by gender, age and seniority level – salary gap

GRI 405-2

Remuneration 2021 by seniority level (€)

	Overall			Men			Women			Salary gap		
Seniority level	vly	**2021**	2020	vly	**2021**	2020	vly	**2021**	2020	vly	**2021**	2020
Senior executives	-7%	**225,894**	242,719	-17%	**230,550**	277,794	-14%	**176,805**	205,735	-3pts	**23%**	26%
Other management	15%	**105,369**	91.233	33%	**128,606**	96,508	-29%	**60,935**	85,230	41pts	**53%**	12%
All other employees	-35%	**35,979**	55,707	-34%	**39,465**	59,987	-37%	**31,600**	50,176	4pts	**20%**	16%
Total workforce	-32%	**38,912**	56,884	-27%	**44,399**	61,130	-36%	**32,902**	51,319	10pts	**26%**	16%

Remuneration 2021 by age band (€)

	Overall			Men			Women			Salary gap		
Age band	vly	**2021**	2020	vly	**2021**	2020	vly	**2021**	2020	vly	**2021**	2020
<30	-18%	**28,292**	34,442	-22%	**31,988**	41,091	-19%	**25,423**	31,430	-3pts	**21%**	24%
30–50	-34%	**37,702**	57,347	-29%	**43,235**	61,089	-39%	**32,162**	52,504	12pts	**26%**	14%
>50	-30%	**47,631**	67,849	-23%	**52,265**	67,820	-38%	**42,070**	67,942	20pts	**20%**	0%
Total workforce	-32%	**38,912**	56,884	-27%	**44,399**	61,130	-36%	**32,902**	51,319	10pts	**26%**	26%

Description

Using a consistent basis to the 2019 and 2020 reports, remuneration data is presented at the median for gender, age and seniority population groupings. The reported components of remuneration continue to include basic salary, shift pay, allowances and employer pension contributions, taxable benefits and annual incentives, so that a clear view to overall, total remuneration is provided.

The presentation of remuneration values continues on an unchanged basis from 2020, in that:

- All values are shown on an annualised basis;
- All values are shown are on a full time equivalent basis;
- Values are only reported for time worked. Remuneration received for not working, such as COVID-19 subsidies, irrespective of whether government funded or paid as a top-up by the Group, is excluded from reported values; and
- The reported salary gap for each population continues to represent the difference between men's and women's median remuneration, expressed as a percentage of men's remuneration.

In order to reduce the number of group employees excluded from remuneration reporting in 2021, the remuneration reporting methodology has been amended to report contractual pay values for employees who do not have a representative relationship between the value of their company-paid remuneration and the number of hours worked for that remuneration. This change reduces the number of employees excluded from the report from circa 9,600 in 2020 to 2,200 in 2021. Including the majority of employees who were excluded last year, ensuring the report covers all employees with pay data.

The amendment continues to support the aim of providing a comparable view of pay for employees with differing contractual terms and working patterns.

Presenting a clear read-across to overall fixed and variable pay relative to time worked is very important in an industry with a high proportion of seasonal, part-time and fixed-term employees with highly variable working schedules.

In 2021, the Group has also adapted its processes and invested more resources in understanding and reporting the locally-specific, month to month pay changes brought about by COVID-response measures and the different ways in which government subsidies were offered across the Group. This investment in reporting capability has improved accuracy and reduced the level of employees excluded from the remuneration data set.

'Senior executives' includes Group management committee members, operating company management committee members, directors and other senior/executive positions. 'Other management' includes all other management roles, including pilots at the captain seniority level and cabin crew at the cabin service director level only. The 'All other employees' grouping includes all other roles across the group, including the majority of pilots and cabin crew.

Commentary

Remuneration in 2021

With COVID-19's continued impact on the aviation sector in 2021, remuneration measures designed to support furloughed staff, protect jobs and preserve the Group's capital remained the dominant themes.

With ongoing disruption to our networks and schedules in 2021, the average percentage of the year employees spent on furlough in 2021 remained relatively consistent with 2020 at around 30%. However, with the exception of cabin crew, who on average spent 50% of both 2020 and 2021 on furlough, the percentage of the year spent on furlough changed between 2020 and 2021 for most employee groupings. In 2020, pilots spent on average 16% of the year on furlough. However, this increased to 45% in 2021 as operating companies implemented different tactical approaches to the pandemic. The opposite trend was observed for Airport and Corporate employees, as levels of working increased in 2021 in preparation for the return to flying.

The response to the pandemic was also managed at a local level and continued to reflect both government policy and the outcomes of collective consultation discussions. Examples of this in UK included BA's continuation of the Business Response Scheme, which sought to offer part-time, unpaid leave and sabbatical options to roles where the level of work was greatly reduced, as well as the Community Retention Scheme, whereby pilots who continued working agreed to forfeit a portion of their earnings to increase the value of subsidies paid to pilots who were not working. In this way, employees directly supported cost savings, helped maintain the Group's competitive positioning and protected the jobs and income of colleagues.

There is a strong correlation between the levels of furlough and pay change between years, with greater reductions in remuneration occurring in areas where furlough rates were higher and the levels of working lower.

Whilst the rate of furlough was low for senior executive and some senior managers in 2020 and 2021, at less than 1%, cost savings in 2021 continued to be achieved by voluntary salary reductions of up to 25% of salary. There were no reductions in working hours associated with voluntary salary reductions, effectively reducing the hourly rate of pay for senior executives.

In general, in other employee groups during 2021, where both the overall rates of furlough and remuneration reduction were higher, there was a much higher correlation between reduced pay and working time, and the rate of pay for work performed was less impacted.

Overall year on year remuneration change themes

- At an overall level for salary, as voluntary salary reductions decreased, there is a positive momentum between 2020 and 2021 in the level of basic salary received by employees for time worked
- However, this does not translate to an increase in overall remuneration due to the changing balance of variable remuneration components between years
- In 2021, no annual incentives were reported for the 2020 performance period, following the decision to cancel the 2020 annual incentive plan
- In the main, contractual salary growth in 2021 was limited across the Group, both within, and outside of, collective agreements
- In Spanish operating companies in 2021 salary supplements to employees ceased at the end of November 2020. However, there was a significant decrease in the levels of voluntary salary reduction operating in 2021 versus 2020
- Elsewhere, higher levels of salary reduction operated in the first half of the year with lower levels of reduction and employees impacted in the second half of the year.

Salary gap analysis

At the Group level, there has been a year on year increase in the salary gap from 16% in 2020 to 26% in 2021. There are three significant drivers for this change:

- The significant reduction in the number of exclusions in 2021 compared to 2020 has changed the composition of reported population
- Interim tactical measures put in place to navigate the pandemic continuing to drive salary gaps across the Group
- Restructures and transformations conducted in 2020 and 2021.

Changes in the size of the 'All other employee' category gap are particularly influential on the Group gap due to the high proportion of employees in this category. This is also a category where interim tactical measures to navigate the pandemic have been influential in changing the gap. One example of this is the tactical switch to flying cargo whilst restrictions to passenger travel were in place during the pandemic. This change impacted the required balance of pilots and cabin crew, contributing to the widening of the gap for the All other employee category and also widening the gap for older employees.

The 3% reduction in the gap at the senior executive level reflects a relatively stable female senior executive population and year on year changes in the composition of male senior executives. The most significant change in the gap is within the 'Other managers' category and is driven by the change in number of captain-level pilots reported in 2021 compared to 2020. The gap within the 'All other employees' category is reflective of both more pilots being in the 2021 data set and changes in workforce composition due to restructures. Where restructures occurred in late 2020 and 2021, operating companies gave significant thought to maintaining diversity, resulting in enhancements to key family friendly policies and levels of benefit.

In reviewing the year on year change in the salary gap, it is important to recognise that the reduction in overall working during 2021 lessened the need for hiring and prevented the Group from realising opportunities to build out a more diverse workforce as part of its growth and natural turnover. This is particularly relevant for flight crew roles and the Group will continue its focus on diversity in these roles as its recovery continues. Additionally, as the Group returns to a more normalised network and flight schedule, the impact to the gap from interim pandemic response measures will also diminish.

Explanation of COVID-19 response measures and government subsidies

The reported data shows annualised, full time equivalent levels of overall remuneration received by employees for actual time worked. The below section describes how government subsidy and company top-up payments worked for employees subject to furlough.

It also illustrates the breadth of measures adopted across the three key geographical areas of Ireland, Spain and the United Kingdom to navigate the pandemic, many of which solutions were agreed in consultation with local employee groups.

United Kingdom – Job Retention Scheme (JRS) and company top-ups

Furloughing of UK employees began from April 2020 and ran until the end of September 2021.

The JRS provided subsidy to UK operating companies for up to 80% of an employee's salary, shift pay, contractual flying pay and lapsed hourly rate pay, up to a cap of £2,500 per month for furloughed employees. In instances where the capped amount was less than 80% of employee earnings for furloughed employees, UK operating companies topped up pay to 80% of actual earnings. Since April 2020, UK operating companies have sought to optimise the use of furlough to protect jobs during reduced operations and flying schedules.

UK JRS ceased at 30 September 2021, following which employees returned to contractual pay terms.

Ireland – Temporary Wage Subsidy Scheme (TWSS) and Employment Wage Subsidy Scheme (EWSS)

At the beginning of the pandemic in March 2020, Aer Lingus reduced working for all employees to 50% of pre-pandemic hours, with the exception of senior executives and some other managers who continued to work 100% of hours, but pay was reduced to 50% pay.

A month later, the Irish Government's introduced the TWSS subsidy, payable to employees and protecting earnings at up to 70% of an employee's pre-pandemic, Average Net Weekly Pay (AWNP), subject to specified earnings thresholds and lower earner uplifts.

On September 1, 2020, the Irish Government replaced TWSS with EWSS, where payments direct to employees ceased and employers claimed a flat rate rebate directly.

For the first quarter of 2021, with flying still much reduced, the majority of employees remained at 50% working. At the beginning of Q3, with preparation for the return to flying underway, salary and working hours increased to circa 60% to 70% of pre-pandemic levels for employee groups central to that preparation (back office, ground operations and engineers). By the end of Q4, most of those groups had returned to full time working and pay. Employee groups who were more impacted by the switch in focus from passenger flying to cargo, such as cabin crew, remained on 50% of working for the full year.

Spain - Expediente de Regulación Temporal de Empleo (ERTE)

In Iberia, ERTE was implemented from April 1, 2020, which provided government subsidy payments directly to Spanish employee. From the outset 12,150 employees received subsidy payments from the government.

ERTE was used flexibly to support the seasonal nature of the Spanish business, with significant proportions of furloughed employees returning voluntarily to short time working to cover the 2020 and 2021 peak operational summer periods.

Between April and November 2020, both Iberia and Vueling supplemented ERTE with company top-up payments. Company top-up payments ceased at December 2020, reducing levels of pay for employees who were not working.

In Vueling, arrangements for managers outside collective agreements differed, with reductions to salary in 2020 operating at 50% for all earnings above €50,000 per annum. In 2021 this threshold was increased to €90,000, reducing both the number of employees impacted and the level of salary deduction versus 2020. Similar manager and senior executive voluntary salary reductions also operated for Iberia.

Board and Management Committee Remuneration

Average remuneration of Board members and Directors, including salary/fees, variable incentives, cash allowances, pension contributions, the value of taxable benefits and any other components of remuneration broken down by gender (€)

	vly	**2021**	2020	2019	2018	2017
Board						
Men	+25.2%	**510,167**	407,326	638,010	721,159	873,328
Women	+4.4%	**114,600**	109,798	133,799	154,804	183,288
Mgt Committee						
Overall	+97.1%	**1,287,780**	653,403	1,012,671	1,105,034	1,396,841

Description and explanation for Board remuneration

The reported components of remuneration include:

Executive directors: Basic salary, taxable benefits (company car and private health), employer pension contributions, annual incentives paid in the reporting period and long-term incentives vesting in the reporting period, personal accident and life insurance.

Non-executive directors: All fees (board, chair, committee membership etc) and (taxable) personal travel benefits.

Using the methodology established in 2020, only directors who were in service for the full year reporting period are included in the year on year comparison.

The remuneration of ten non-executive directors and the IAG CEO is included in the 2021 data set, compared to eight non-executive directors and the IAG CFO in 2020. In both years there is an even gender split between male and female non-executive directors reported.

The key factors influencing the 25.2% remuneration increase for male board directors, are:

- The higher proportion of contractual salary/fees paid to board directors in 2021 versus 2020. In 2020 a 20 per cent COVID-19-related reduction operated against director's salary/fees. In 2021, this was reduced to 10 per cent;
- The IAG CEO being incuded in the 2021 data set;
- The IAG CFO being ceasing to be a director at December 31, 2020; and
- The increase in IAG CEO remuneration from 2020 to 2021, driven by:
  - The IAG CEO's eligibility in 2021 for a two-year fixed term transitionary allowance supporting the additional cost to the IAG CEO associated with living in the UK whilst personally maintaining a base in Madrid, given the Company's significant presence in Spain;
  - The vesting to the IAG CEO in 2021 of deferred share awards granted in 2018; and
  - The release from holding to the IAG CEO of the 2016 PSP award.

The grant and performance assessment of the share-based awards predate the 2021 performance year and the start of the pandemic and should not be considered as earned against pandemic performance period.

The IAG CEO received neither short- or long-term incentives for 2021. Being mindful of the experience of the Group's stakeholders in 2021, the IAG CEO made a request to the Board not to be considered for a 2021 annual incentive award. The Board, who were also mindful of stakeholder's experience, accepted the IAG CEO's offer. The 2018 PSP award failed to achieve the performance thresholds necessary for any portion of the award to vest, and no transfer of shares into the holding period occurred for the IAG CEO. The profile of increasing IAG CEO remuneration, is therefore largely based on the delivery of historical awards in 2021.

To a lesser extent, average remuneration for female directors also increased from 2020 to 2021 by 4.4%. This growth was supported by the decrease in COVID-19-related fee reductions from 20% for the majority of 2020 to 10% for 2021. The uplift to average female director remuneration would have been higher but for the marked decrease in the take-up of personal flight benefits by female directors between 2020 and 2021. More generally, female director remuneration is less volatile as there are no female executive directors,

The higher level of average remuneration paid to male directors compared to female directors is a direct consequence of male incumbents holding the higher remunerated CEO and Chairman roles. Where male and female non-executive directors perform the same responsibilities, the level of remuneration paid is equivalent as a result of the Group's standardised non-executive fee framework.

Description and explanation for Management Committee remuneration

To maintain a common approach and read-across capability with last year, only the remuneration of Management Committee (MC) members who were in role for the whole of 2021 are included in the 2021 data set. For 2021, this reports the total remuneration of nine MC members, eight men and one woman. For comparison, last year's data set was comprised of seven MC members, five men and two women. No gender break-out is shown for confidentiality reasons, given the female data set relates to one employee.

Additionally, as was the case last year, the remuneration of the IAG CEO is omitted from MC remuneration reporting on the basis it is already reported as part of board director remuneration.

Both the components of remuneration and the opportunity associated with those components for MC members remain unchanged from 2020 to 2021. The awards resulting from the change in long term incentive approach from Performance Share Plan (PSP) to a Restricted Share Plan (RSP) in 2021, will be reported in the year of vesting in 2024 at the point the realised value is known. This is consistent with our approach of reporting the value of long-term incentives in other CNMV disclosures.

Whilst any value from 2021 RSP awards is yet to be delivered to MC members, these awards perform an important role in aligning the interests of MC members with those of shareholders, as well as engaging and retaining our key senior leadership talent.

The increase in average MC member remuneration reported for 2021, reflects a number of factors, including:

- The respective release and vesting of historical 2016 and 2018 deferred share awards. The performance outturn for both of these awards was assessed before the start of pandemic period and as such should be considered trailing remuneration and not remuneration earned during the pandemic period;
- Changes in MC membership between 2020 and 2021;
- A higher proportion of contractual salary being paid to MC members in 2021 versus 2020. For MC members COVID-19-related salary reductions of up to 50% of salary were put in place in 2020. These were reductions decreased in 2021, resulting in higher proportion of contractual salary being paid; and
- Payment of approved 2021 annual incentive awards (no corresponding awards were made in 2020).

These figures are derived from the methodology as per the Remuneration Report filed with the Spanish National Securities Market Commission (CNMV).

Policies which allow employees to disconnect from work, promote work-life balance and co-parenting responsibilities

GRI 103-2, 401-2

During the COVID-19 pandemic, employees who normally work in office environments were advised, where possible, to work from home. This brought additional challenges in encouraging employees to disconnect from work.

As public health guidance changed and in line with operational requirements, employees across the Group have started returning to our offices and our operating companies have been taking approaches which coodinate and support promoting work-life balance whilst allowing employees to disconnect from work. These policies, at their core, focus on promoting a balanced, felxible and hybrid working model. Enabling employees to find the right balance between flexibility whilst bringing the benefits of being together as a team.

Our employees have also been offered lots of information and guidance on creating and managing a healthy work-life balance through digital employee portals.

In addition to providing our employees with a flexible, hybrid, working environment there are many other policies across the Group which are designed to promote a health work-life balance. These include flexible working policies such as working from home, and flexible start and finish times dependent on job role, all designed to support employees in managing their home and work life.

Regarding co-parenting responsibilities, there are policies on job-sharing, maternity, adoption, paternity and shared parental leave. There are active online platforms for working parents and carers to share ideas and to offer support to one another.

Working hours organisation

GRI 103-2

Time worked and holidays are different in each operating company as per the respective collective bargaining agreements.

Number of employees with disabilities

Employees with Disabilities

GRI 405-1

	vly	**2021**	2020	2019	2018
Overall share of headcount	+0.1%	**1.2%**	1.1%	1.1%	1.4%

Description

Employees with disabilities as a percentage of headcount at the end of the year. In Spain, the disabilities in scope are medically certified, while in other countries the disabilities in scope are self-declared.

Commentary

The 2021 percentage has increased slightly from 2020, this is due to the fact there has been a modest increase of employees with disabilities and with our headcount base being slightly lower than 2020.

The total number of employees with disabilities in 2021 is 631, compared to 593 in 2020.

Collecting disability information on employees is not a legal requirement in the UK or Ireland, unlike in Spain.

Aer Lingus data is not in scope.

Number of hours of absenteeism

	vly	2021	2020
In the air - absenteeism rate	-1.4pts	**4.7%**	6.1%
On the ground - absenteeism rate	-0.6pts	**5.3%**	5.9%

Description

The absenteeism rate is based on total employee absences divided by total scheduled hours or days in the reporting period, expressed as a percentage.

The 2021 methodology split absenteeism and time scheduled into two categories, measured in either hours or days. In general absences recorded in days are mostly associated to our "in the air" employees and a few operational roles and the rest of the population record their absences in hours. Days were harmonised with the hourly balance using a group average full day of 7.5 hours.

"On the ground" employee categories include all corporate, airport and maintenance categories and "in the air" includes all pilots and cabin crew.

For the purpose of this metric, only unplanned or unauthorised absences – which mean employees missing partial or whole days of work – are included. Examples in scope are short-term and long-term sickness, time off due to injuries, and no-shows, which are absences without leave or permission.

Commentary

In 2021, 3,951,047 hours of absence were recorded for all employees. This compares to aprox. 3,678,538 hours of absence in 2020 (2,319,959 hours for "on the ground" employees and 154,328 days for "in the air" employees). This representing a 7.4% increase in absences in 2021. Much of this can be associated with the return of our workforce from furlough programmes and higher instances of sickness reporting / recording and higher instances within Q4. This was particularly prevalent in our Airport roles (74.5 hours of average sickness) and Maintenance and Logistic roles (45 hours of average sickness).

Occupational Illnesses

GRI 403-10

	vly	2021	2020	2019	2018
Men	+2pts	**2**	0	0	nr
Women	+7pts	**7**	0	5	nr

Description

An occupational illness is a medical condition or disease that develops gradually over time as a result of work performed and/or exposure to risk factors in the workplace. The illness must be confirmed by a medical diagnosis.

Occupational illnesses in scope for the UK follow Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) standards and can be found at the Health and Safety Executive's (HSE) website.

Occupational illnesses in scope for Spain are published in the Royal Decree 1299/2006.

Commentary

9 occupational illnesses were reported in 2021.

Social dialogue organisation, including procedures to inform and consult with employees and to negotiate with them;

Results of collective agreements, especially in the field of health and safety

GRI 403-4

IAG operating companies comply with all relevant legislation and work hard to improve and maintain workforce engagement and representation. Operating companies use a combination of human resources and employee engagement programmes and technology, to share information about the business with employees, their representatives and Trade Unions. Most employees are represented through collective bargaining agreements and Group companies have well-established mechanisms for negotiation and dialogue with relevant trade unions and employee groups. This includes regular reviews of matters relating to the health and safety in the workplace.

British Airways has regular health and safety engagement with trade unions at a local, departmental and directorate level across all areas of the business with escalation to the Corporate Safety team. Iberia has a health and safety committee in each relevant work centre which meets every two months. Aer Lingus has a Safety Engagement Programme which provides guidance to colleagues, including on how to constructively confront unsafe work practice. Aer Lingus have also launched some new online initiatives and have recently launched an online wellness programme. Vueling holds quarterly meetings with a health and safety committee, composed of Vueling management and trade union appointed safety representatives.

COVID-19 continues to challenge our business and we continue to hold additional and regular meetings across our operating companies, as required. Our employees, employee representatives and trade union representatives have been regularly updated on risks, actions and changes to the ways we operate on board our aircraft to mitigate risks. Our airport and office environments have continued with health and safety assessments and followed necessary government advice in each country we operate. Many of our operating companies have put in plans to safely return to the office on a hybrid model, taking into account the necessary support and employee wellbeing requirements.

Universal accessibility of people with disabilities

GRI 103-2

The Group complies with all relevant legislation regarding accessibility for disabled employees and customers in our buildings and operations. Operating airlines also work with a variety of external organisations, such as the Business Disability Forum in the UK, to help inform and support efforts and strategy. They continue to listen and respond to customers' needs.

Our operating companies have universal access for employees and customers with disabilities at their core. All our operating airlines have made efforts to ensure that the customer journey is seamless for all customers, in particular those with disabilities, whilst traveling with us. Both British Airways and Iberia flew the respective Paralympic teams for the UK and Spain to Tokyo 2020. This involved a lot of coordination with the authorities at Heathrow and Aeropuerto de Madrid-Barajas to ensure a seamless travel experience for our Paralympians.

Our operating companies have also ensured universal accessibility of their booking processes through their website design. Iberia, for example, have partnered with the ONCE Foundation for Cooperation and the Social Inclusion of the Disabled to ensure that all the information provided on their website about the booking process, travel requirements and other parts of the customer journey are accessible. This has also included the implementation of accessibility guidelines for Web 2.0 set by W3C-WAI.

The employee and customer accessibility strategies work in conjunction by ensuring front-line employees, such as cabin crew, are trained in disability awareness. This training a particular focus on hidden disabilities.

Impact of the Company's activity on employment and local development

IAG sees work experience as a valuable way of supporting local employment, by engaging young people with IAG's business and preparing them for potential careers in aviation.

Several programmes were paused in 2020 and 2021 due to COVID-19 but a number of initiatives are still in place and new ones have been created.

British Airways has invested in its graduate and apprenticeship programmes:

- Bringing apprenticeship recruitment in house, allowing a renewed focus on delivering outstanding candidate experiences.
- In order to aid social mobilitiy, British Airways has also reviewed its entry requirements to the Apprenticehip programme to make it more accessible
- Over the past 18 month period, British Airways has welcomed 40 graduates and 38 apprenticships and are looking forward to welcome up to 200 graduates and apprentieships in 2022.
- The British Airway's Apprenticeship and Graduate programmes have won several awards including Most Popular Graduate Employer in Transport and Logistics, and ranked #18 in the Top 100 Apprentice Employer table

Iberia runs the following partnership agreements:

- Internship Scholarships for postgraduate students from Fundación Universidad Empresa:
- Aeronautical Maintenance Technician programme in agreement with several Vocational Training Schools
- Internship programme in MRO workshops for vocational training students
- Training and Internship programmes for those students completing vocational training

Aer Lingus runs the following initiatives:

- Direct engagement with second and third level colleges. Including the running of career days and recruitment fairs to inform students of career opportunities in aviation.
- 2021 saw a particular focus on initiatives that encourage more females to apply for programmes such as Engineer Apprenticeships and Technology Graduate Programmes.
- Aer Lingus also partners directly with Enactus to help students at key colleges and universities across Ireland on projects to develop their entrepreneurial skills to address complex issues within the wider community.

Some other key initiatives which have happened across the Group include:

- IAG Cargo graduated 12 apprentices in 2021 and launched 6 internal apprenticeships covering Human Resources, Data Science and Finance.
- IAG Loyalty have launched apprenticeship in their data team, to test and learn some early talent thinking. They are set to launch their broad Early Career strategy in 2022 which includes partnerships and programmes with Schools and Universities.

C.8. Consumer relationship management

GRI 103-2

Claims systems and complaints

IAG airline customers are able to provide feedback and details of complaints in multiple ways, including via IAG airline websites, by mail, or by phoning customer contact centres. The types of customer complaint received vary significantly but typically relate to delays and cancellations, baggage, journey experience, bookings and reservations. To handle customer complaints, IAG airlines have dedicated customer relations teams who are specially trained to deliver excellent customer service and resolve issues quickly and in a satisfactory manner. Through their complaint systems, IAG airlines actively track and monitor resolution of customer complaints using metrics including the time between a complaint being received and the first communication provided back to the customer, or the number of cases raised that have been successfully closed.

In 2021, across the IAG airlines, an average of 4.9 complaints were received per 1,000 flown passengers. This ratio was lower than in 2020 but higher than in 2019. The volume of complaints continues to be affected by uncertainty related to COVID-19 restrictions.

All IAG airlines also provide facilities for customers to exercise their rights to claim compensation under Regulation (EC) No 261/2004 of the European Parliament and of the Council of February 11, 2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights. Customers are additionally able to use the IAG airline contact channels to submit claims for financial compensation relating to baggage incidents and other out of pocket expenses, which are assessed and resolved by IAG's customer relations teams.

	vly	v2019	**2021**	2020	2019
Customer complaints (per 000 passengers)	-50%	+25%	**4.9**	6.5	3.2

C.9. Public subsidies and tax information

GRI 201-4

Public subsidies received

During the year to December 31, 2021, in addition to EU Emissions Trading Scheme (EU ETS) allowances granted at zero cost, Group public subsidies amounted to €707 million (2020: €474 million). The majority of the public subsidies received related to furlough and job retention schemes in the UK and Ireland, for British Airways and Aer Lingus respectively.

Operating companies in the Group receive some EU ETS emission allowances at zero cost and purchase the remainder in the EU ETS market. In addition to COVID-19 related public subsidies, the total includes €277 million (2020: €122 million) relating to the value of allowances at zero cost in 2021. EU ETS allowances were valued at the carbon market prices as at December 31, 2021 and December 31, 2020 respectively.

The Group has also received government assistance, which is not considered as public subsidies in accordance with International Financial Reporting Standards and is therefore not included in the amount above, for the following:

- Iberia and Vueling both benefited from the Temporary Redundancy Plan (ERTE) that the government of Spain implemented in March 2020. Under this scheme, employment is temporarily suspended and designated employees are paid directly by the government. Therefore, there is no remittance made to the Group.
- The Group benefitted from a number of financial facilities supported by national governments of the jurisdictions in which the operating companies principally operate. These include the UK's Coronavirus Corporate Finance Facility (CCFF), Spain's Instituto de Crédito Oficial (ICO) and Ireland's Strategic Investment Fund (ISIF).

Accounting profit/loss before tax per country

€ million

GRI 207-4

	vly	**2021**	2020	2019
UK	-46%	**-2,417**	-4,512	1,618
Spain	-72%	**-705**	-2,538	489
Republic of Ireland	-34%	**-368**	-556	240
Other countries	-92%	**-16**	-204	-72

Description

Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable.

Commentary

The losses in our main countries of operation in 2021 reflect the continuing impact of the global outbreak of COVID-19, which has had a material impact on the global airline and travel sectors.

Income tax paid per country

€ million

GRI 207-4

	vly	**2021**	2020	2019
UK	-60%	**31**	77	161
Spain	-2%	**-93**	-95	-71
Republic of Ireland	-93%	**-2**	-28	27
Other countries	0%	**1**	1	2

Description

Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.

Commentary

The total net tax receipt of €63 million is lower than the expected tax credit for the Group of €574 million. The difference arises primarily due to the delay between when losses are included in the accounting result, and the future period when those losses are taken into account in calculating tax payments. It is expected that it will not be until future taxable profits arise in the relevant jurisdictions that the losses will be utilised and cash tax payments will be impacted. The actual net receipt reflects the refund of corporate income taxes in respect of prior year tax paid in Ireland and Spain; and a payment in the UK relating to prior years.

"Other" comprises Belgium, Costa Rica, Dominican Republic, France, Germany, Guatemala, Honduras, Hong Kong, India, Italy, Japan, Maldives, Netherlands, Nicaragua, Poland, Puerto Rico, Senegal, Seychelles, Singapore, South Africa, Sweden, Switzerland and United States.

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Note: (F) means fully compliant, (P) means partially compliant. (1) means internal framework: see the specific methodology used in corresponding pages. (2) difference between men's and women's median pay, divided by men's median pay.

Note: (F) means fully compliant, (P) means partially compliant. (1) means internal framework: see the methodology used in the corresponding pages.

D. Description of EU Taxonomy and 2021 related activities

For the first time, IAG has reported on its sustainable activities in line with the EU Taxonomy Regulation (2020/852) and related delegated act which aims to identify environmentally sustainable activities linked to the taxonomy. This summary covers the "eligible" economic activities undertaken by the group in 2021. This first version of the report only considers activities relating to the Taxonomy objectives of climate change mitigation and climate change adaptation as these the only objectives that have been published so far.

At present there are no taxonomy related categories for aviation specifically as the Commission is in the process of developing appropriate technical screening criteria, so the majority of the expenditure incurred by the Group is not eligible. However the categories relating to buildings infrastructure, energy, information technology, ground transport and innovation research and development are applicable to the activities of the group and these therefore have been the primary focus of our taxonomy screening activity.

Methodology/Data Gathering

Data gathering has been conducted through the established governance structure as described in section A.2., with reviews of the Taxonomy regulation conducted through the monthly IAG Sustainability Network. The individual airlines have then screened all potentially eligible activities at a company level and then these have been combined at a group level to provide the relevant KPIs of Revenue, CAPEX and OPEX.

Using the EU Taxonomy and the online "Taxonomy Compass" the Group Sustainability team co-ordinated the identification of eligible activities that should be screened. In order to determine the numerator, each airline/operating company reviewed all activities undertaken against the following categories:

Construction and real estate activities
Renovation of existing buildings
Installation, maintenance and repair of energy efficiency equipment
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
Installation, maintenance and repair of renewable energy technologies
Acquisition and ownership of buildings
Energy
Manufacture of biogas and biofuels for use in transport and bioliquids
Information and communication
Data processing, hosting and related activities
Data-driven solutions for GHG emissions reductions
Technical scientific and professional activities
Research into innovative low carbon technologies
Transport
Transport by motorbikes, passenger cars and light commercial vehicles contribution to climate mitigation

Co-ordination at group level ensures the correct allocation of the spend and that inter-group expenditure is not double counted. Group finance and sustainability guidance was issued to ensure that the activities were apportioned appropriately between CAPEX and OPEX. Operating companies were advised which finance line items (assigned in line with internal accounting procedures) are applicable for determining the CAPEX denominator with further explanation of the CAPEX costs to be excluded.

With the exception of the KPI for revenues, the operating companies listed all possible eligible activities for 2021. The activities identified and quantified by the operating companies were compared with the Taxonomy Compass to ensure that they fit under the existing categories for the Taxonomy. Screening then took place to ensure that only taxonomy eligible spend was accounted for.

Taxonomy eligible activities

IAG incurred some taxonomy eligible spend in 2021. Areas of spend, which were minimal largely due to the pandemic, include:

- To maintain, rationalise and refurbish buildings; this expenditure was minimal as many people were working remotely throughout 2021 and buildings were largely unoccupied.
- The Group also has activity in the category of transport relating to electric vehicles and maintenance of the ground vehicle fleet.
- IAG Cargo acquired a new warehouse building in 2021 that led to some taxonomy eligible activity in 2021.
- IAG's Hangar 51 team leads an extensive innovation programme working with the Group's sustainability teams to identify investment opportunities for sustainable flight and other aspects of sustainability innovation.

The Group's recent investments in sustainable aviation fuel manufacture and hydrogen propulsion are presently not eligible activities under existing reporting rules as these are joint venture activities. The Group has continued its work on digital transformation preparing to move more activity to the cloud but again expenditure was minimal. It is anticipated that this activity will expand and result in significant energy and climate benefits over the coming years.

The final Taxonomy report and associated data is reviewed through the Group's sustainability governance process with final sign off through a Taxonomy sub-group of the Sustainability Steering Group with senior representation from the Chief People, Corporate Affairs and Sustainability Officer (CPCASO) and the Group Financial controller.

KPI - Revenues

The Group continues to work to develop more sustainable products and services. However, IAG did not generate any revenues from taxonomy eligible products and services during 2021. Within the Group, several airlines presently offer carbon offsets for customers through a partnership with not-for-profit charity Pure Leapfrog. IAG makes no profits from those activities and they are not eligible under present taxonomy rules. During 2022 the airlines' sustainable product offers will be enhanced and made more widely available to customers through the provision of sustainable aviation fuels (SAF) and carbon offset credits enabling customers to mitigate the carbon emissions associated with their flights. Initial market testing of this enhanced offer was carried out in 2021 with some provision of SAF to IAG's cargo customers. The Group also used SAF in flights between London and the Scottish airports linked to COP26 but these did not generate any specific taxonomy eligible revenues.

The denominator has been determined in line with Article 2, point (5), of Directive 2013/34/EU.

The KPI for revenue is that 0% of total revenue (€8.5bn) is currently eligible under the Taxonomy.

KPI – CAPEX

In determining the denominator for Capex, the calculation of relevant spend with additions was carried out in accordance with Annex I, section 1.1.2.1 of the Delegated Regulation (EU) 2021/2178. All spend with additions aligned to Group reporting, aligned to IFRS rules as adopted by the EU, has been collated – including fleet related additions.

The table below shows the specific activities that were carried out across the Group that align with the taxonomy as defined in the Climate Delegated Act 2021/2139.

Table of Taxonomy-aligned CAPEX

	Codes (2)	Absolute Capex (3)	Proportion of CAPEX (4)
Economic activities (1)	Unit	Currency €/,000	%
Transport by motorbikes, passenger cars and light commercial vehicles contribution to climate mitigation	H49.3	75	0%
Installation of instruments and devices for measuring, regulation and controlling energy performance of buildings	F43.2.9	26	0%
Acquisition and ownership of buildings	L68	4,055	0%
CAPEX of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		4,156	0%
A.Total		4,156	0%
B. CAPEX of Taxonomy-non-eligible activities		962,844	100%
Total (A+B)		967,000	100%
ELIGIBLE CAPEX			0%

The denominator for this calculation includes fleet related expenditure although the Group is unable to report any eligible expenditure related to aircraft. Given the largest proportion of our expenditure relates to aircraft, the percentage of taxonomy eligible capex reported is not material. During 2021 many building related projects were on hold with buildings operating at very low occupancy levels. The major expenditure fell under the category of buildings (acquisition and ownership of buildings) with the completion of the construction of the new Premia cargo building in 2021. The proportion of taxonomy eligible spend was 0%.

KPI – OPEX

The limited focus of the OPEX aspects of the taxonomy - buildings and plant maintenance and repair, short term leases, research and development - has resulted in few activities being taxonomy eligible. Small amounts of expenditure have been incurred in building maintenance. In addition there are some resource costs associated with the work associated with the energy transition the Group is committed to undertake. Expenditure on IT data transformation activities across the Group has begun and will expand significantly in 2022, when we intend to fully account for cloud migration activities under the taxonomy.

In determining the denominator for Opex, the overall calculation of relevant spend was carried out in accordance with Annex I, section 1.1.3.1 and 1.1.3.2 of the Delegated Regulation (EU) 2021/2178. The following table shows the qualifying activities at Group level. The expenditure related to short term leases was negligible as most of this was associated with aircraft rather than buildings. Research and development was limited to work via the Hangar 51 team's resourcing of near term innovation opportunities and some support for research programmes linked to universities and the EU's Horizon innovation programme.

Table of Taxonomy-eligible OPEX

	Codes (2)	Absolute Opex (3)	Proportion of Opex (4)
Economic activities (1)	Unit	Currency €/,000	%
Transport by motorbikes, passenger cars and light commercial vehicles contribution to climate mitigation	H49.3	327	0%
Maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	F43.2.1	5	0%
Maintenance of energy efficiency equipment	F42.2.2	20	0%
Close to market research, development and innovation	M72.1	71	0%
Data-driven solutions for GHG emissions reductions	J62	446	0%
OPEX of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		868	1%
A. Total		868	1%
B. OPEX of Taxonomy-non-eligible activities		159,174	99%
Total (A+B)		160,043	100%
ELIGIBLE OPEX			1%

The Group's overall OPEX KPI for 2021 was 1% reflecting a) the limited scope of the taxonomy which is largely related to buildings, b) 2021 building occupancy being extremely low, and c) the fact that currently Opex relating to aircraft/engines is not eligible.

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 24, 2022, 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, 2021, 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 24, 2022

Javier Ferrán Larraz
President

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

Alberto Terol Esteban

FORMULATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2021

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 24, 2022 the consolidated financial statements and the consolidated management report of the company for the year to December 31, 2021, in single electronic format according with the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 24, 2022:

Javier Ferrán Larraz President	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	Alberto Terol Esteban