

ANNUAL FINANCIAL STATEMENTS

2019

LIABILITY STATEMENT OF DIRECTORS

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 27, 2020, 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, 2019, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and 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 27, 2020

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Margaret Ewing

Francisco Javier Ferrán Larraz

Stephen William Lawrence Gunning

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban

**Audit Report on Financial Statements
issued by an Independent Auditor**

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2019**

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Report on the financial statements

Opinion

We have audited the financial statements of International Consolidated Airlines Group, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

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

Risk	Our response to the risk
Recoverability of investments in subsidiaries (€7,658 million, FY18: €7,631 million) Management's assessment of the recoverable amount of investments in subsidiaries requires significant judgment in forecasting cash flow projections of each investment, together with the discount rates, long-term economic growth rates, fuel prices and exchange rates. Changes to these assumptions can have a significant impact on the available headroom and any impairment that may be required. <i>Refer to notes 4 and 8 of the financial statements.</i>	Our procedures included the following: ▶ We assessed the historical accuracy of previous business plans to challenge the accuracy of forecasts. We compared actual performance to forecast operating profit before exceptional items to assess if the deviations could impact the 2020 to 2024 operating company business plans. ▶ We verified key assumptions used in management's business plans to external sources. Specifically, corroborating key assumptions such as fuel price and exchange rates to current market data. ▶ We assessed the appropriateness of other assumptions made by management. We evaluated the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the different investments operate and considered whether discount rates were within acceptable ranges. We involved a valuation specialist to assist in the evaluation of the discount rates used to discount future cash flows in each of the different investments. ▶ We verified the impairment calculations adjusted for net debt to determine the equity value. Furthermore, we assessed management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the investments would cause the carrying amounts to exceed the recoverable amounts. This included consideration of the impact of the UK's exit from the European Union and other external industry environment factors and how management has considered them in their forecasts. ▶ We assessed the appropriateness of the related disclosures.

Other information: management report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the parent Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report and if not, disclose this fact.

- b. A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on our knowledge of the Company obtained during the audit, and limited to the information gained through audit evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the specific information referred to in paragraph a) above has been provided in the management report, and that the remaining information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the directors and the audit and compliance committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The audit and compliance committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 audit regulations 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 financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the director's 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 Company'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 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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit and compliance committee of the Company 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 audit and compliance committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to 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 with the audit and compliance committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and 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

Additional report to the audit and compliance committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit and compliance committee on March 3, 2020.

Term of engagement

The general shareholders' meeting held on June 20, 2019 appointed us as auditors for financial year 2019.

Previously, we were appointed as auditors by the shareholders for one year and we have been carrying out the audit of the financial statements continuously since December 31, 2010.

ERNST & YOUNG, S.L.
(Registered in the Official Register of
Auditors under No. S0530)



Hildur Eir Jónsdóttir
(Registered in the Official Register of
Auditors under No. 18201)

March 3, 2020

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Financial statements for the year to December 31, 2019

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MANAGEMENT REPORT FOR THE YEAR TO DECEMBER 31, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Balance sheet at December 31, 2019
(Expressed in thousands of euros)

	Note	2019	2018
ASSETS			
NON-CURRENT ASSETS		7.864.567	7.828.628
Intangible assets	6	-	1.705
Property, plant and equipment	7	-	17.251
Investments in Group companies			
Equity instruments	8	7.658.193	7.631.193
Loan receivable from Group companies	9,16	184.234	161.797
Non-current financial assets			
Equity instruments	9	14.536	8.120
Other financial asset	9	-	1.807
Deferred tax asset	12	7.604	6.755
CURRENT ASSETS		1.004.129	668.447
Trade and other receivables			
Clients, Group companies	9,16	201.678	87.185
Current tax receivable	12	88.718	216.874
Other receivables	9	10.828	5.045
Investments in Group companies			
Loan receivable from Group companies	9,16	8.822	13.540
Current financial investments			
Derivatives	9	-	8.099
Cash and cash equivalents			
Cash	9,10	80.415	195.548
Cash equivalents	9,10	613.668	142.156
TOTAL ASSETS		8.868.696	8.497.075
EQUITY AND LIABILITIES			
EQUITY		6.209.366	6.730.306
SHAREHOLDERS' FUNDS			
Capital			
Registered share capital	11	996.016	996.016
Share premium	11	5.327.295	6.021.802
Reserves			
Legal and statutory reserves	11	205.799	205.799
Other reserves	11	(897.437)	(983.770)
Own shares and equity holdings	11	(59.568)	(67.292)
Profit for the year	3	763.583	662.180
Interim dividend	3	(287.728)	(287.580)
Other equity instruments	11	166.141	186.752
VALUATION ADJUSTMENTS			
Currency differences	11	(4.735)	(3.601)
LIABILITIES			
NON-CURRENT LIABILITIES		2.499.510	1.561.081
Non-current debt			
Bond and other marketable securities	9	1.448.995	937.437
Group companies, non-current	9,16	1.047.515	620.644
Deferred tax liability	12	3.000	3.000
CURRENT LIABILITIES		159.820	205.688
Current Provisions	12	4.347	4.576
Current debt			
Bond and other marketable securities	9	13.125	4.375
Group companies, current	9,16	6.271	86.599
Trade and other payables			
Suppliers, Group companies	9,16	40.316	27.632
Various creditors	9	15.768	7.917
Payroll accruals	9	9.723	7.498
Current tax payable	12	447	1.039
Other amounts due to tax authorities	12	69.823	66.052
TOTAL EQUITY AND LIABILITIES		8.868.696	8.497.075

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Income statement for the year to December 31, 2019
(Expressed in thousands of euros)

	Note	2019	2018
Continuing operations			
Revenue from operations		893.487	760.104
Rendering of services to Group companies	13,16	68.341	67.233
Dividend income	16	825.146	692.871
Employee costs	13	(52.459)	(50.160)
Wages, salaries and other costs		(44.483)	(41.240)
Social security costs		(7.976)	(8.920)
Other operating expenses		(29.846)	(23.992)
External services received		(28.315)	(22.799)
Other operating expenses		(1.531)	(1.193)
OPERATING PROFIT		811.182	685.952
Finance income		13.250	5.524
<i>Marketable securities and other financial instruments</i>			
Receivable from debt with Group companies and associates	13,16	13.110	5.350
Receivable from third parties	13	140	174
Finance costs		(59.929)	(34.078)
Payable on debt with Group companies and associates	13,16	(15.905)	(8.190)
Payable on debt with third parties	13	(44.024)	(25.888)
Change in fair value of financial instruments	13	(18.715)	3.696
Currency differences		344	75
NET FINANCE EXPENSE		(65.050)	(24.783)
PROFIT BEFORE TAX		746.132	661.169
Taxes	12	17.451	1.011
PROFIT FOR THE YEAR	3	763.583	662.180

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Statement of changes in equity for the year to December 31, 2019
(Expressed in thousands of euros)

A) Statement of other comprehensive income

	Note	2019	2018
PROFIT FOR THE YEAR	3	763.583	662.180
Income and expenses recognised directly in equity			
Currency differences		(1.134)	(3.264)
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY	11	(1.134)	(3.264)
TOTAL INCOME AND EXPENSES RECOGNISED		762.449	658.916

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Statement of changes in equity for the year to December 31, 2019
(Expressed in thousands of euros)

B) Statement of changes in equity

	Issued Share capital	Share premium	Reserves	Own shares and equity holdings	Profit for the year	Interim Dividend	Other equity instruments	Valuation adjustments ¹	TOTAL
BALANCE AT DECEMBER 31, 2017	1.028.994	6.021.802	(357.553)	(76.737)	596.469	(256.178)	172.867	(337)	7.129.327
Total recognised income and expense	-	-	-	-	662.180	-	-	(3.264)	658.916
Transactions with shareholders and owners	(32.978)	-	(760.709)	9.445	-	(287.580)	(16.839)	-	(1.088.661)
Capital reductions	(32.978)	-	(467.577)	500.000	-	-	-	-	(555)
Acquisition of treasury shares	-	-	-	(500.000)	-	-	-	-	(500.000)
Vesting of share-based payment schemes	-	-	1.577	9.445	-	-	(16.839)	-	(5.817)
Dividend	-	-	(294.709)	-	-	(287.580)	-	-	(582.289)
Other movements in equity	-	-	-	-	-	-	30.724	-	30.724
Cost of share-based payments (note 17)	-	-	-	-	-	-	30.724	-	30.724
Appropriation of prior year profit	-	-	340.291	-	(596.469)	256.178	-	-	-
BALANCE AT DECEMBER 31, 2018	996.016	6.021.802	(777.971)	(67.292)	662.180	(287.580)	186.752	(3.601)	6.730.306
Total recognised income and expense	-	-	-	-	763.583	-	-	(1.134)	762.449
Transactions with shareholders and owners	-	(694.507)	(288.267)	7.724	-	(287.728)	(53.485)	-	(1.316.263)
Vesting of share-based payment schemes	-	-	726	7.724	-	-	(14.583)	-	(6.133)
Equity portion of convertible bond redeemed	-	-	38.418	-	-	-	(38.902)	-	(484)
Dividend	-	(694.507)	(327.411)	-	-	(287.728)	-	-	(1.309.646)
Other movements in equity	-	-	-	-	-	-	32.874	-	32.874
Cost of share-based payments (note 17)	-	-	-	-	-	-	32.874	-	32.874
Appropriation of prior year profit	-	-	374.600	-	(662.180)	287.580	-	-	-
BALANCE AT DECEMBER 31, 2019	996.016	5.327.295	(691.638)	(59.568)	763.583	(287.728)	166.141	(4.735)	6.209.366

¹ Relates to currency translation adjustments only.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Cash flow statement for the year to December 31, 2019
(Expressed in thousands of euros)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax			
Profit from continuing operations		746.132	661.169
Adjustments to profit			
Finance income	13	(13.250)	(5.524)
Dividend income	16	(825.146)	(692.871)
Finance expenses	13	59.929	34.078
Change in fair value of financial instruments		18.715	(3.696)
Currency differences		(344)	(75)
Share-based payments	17	14.381	12.689
Changes in working capital			
Trade and other payables		35.464	15.166
Trade and other receivables		(62.246)	15.852
Other current liabilities		2.225	(6.641)
Other current assets		(5.783)	342
Other cash flows from operating activities			
Interest paid		(1.594)	(8.085)
Taxation received/(paid)		112.808	(29.562)
Dividend received from Group companies		825.146	692.871
CASH FLOW FROM OPERATING ACTIVITIES		906.437	685.713
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts paid			
Purchase of other equity instruments	9	(8.329)	(7.621)
Purchase of property, plant and equipment	7	-	(34.527)
Purchase of intangibles		-	(488)
Amount paid to Group companies		(43.054)	(219.484)
Amounts received			
Transfer of property, plant and equipment to Group companies	7	-	69.212
Investment in Group companies		-	75.374
Interest received		256	541
Amount received from Group companies		12.714	3.281
CASH FLOWS FROM INVESTING ACTIVITIES		(38.413)	(113.712)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts and payments on equity instruments			
Acquisition of treasury shares		-	(500.000)
Repayment of equity instruments		(507.465)	(4.375)
Receipts and payments on financial liabilities			
Issue			
Debt with Credit institutions		987.062	-
Debt with Group companies		348.231	508.000
Repayment			
Debt with Group companies		(24.012)	(3.634)
Dividend payments and receipts from other equity instruments			
Dividend paid	3	(1.308.240)	(576.550)
CASH FLOWS FROM FINANCING ACTIVITIES		(504.424)	(576.559)
IMPACT OF EXCHANGE DIFFERENCES		(7.221)	(305)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		356.379	(4.863)
Cash and cash equivalents at the beginning of the year	9,10	337.704	342.567
Cash and cash equivalents at the end of the year	9,10	694.083	337.704

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements

1. CORPORATE INFORMATION AND ACTIVITY

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

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

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

IAG is the parent Company of British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo Ltd (hereinafter 'IAG Cargo'), Veloz Holdco, S.L.U. (hereinafter 'Veloz'), IAG GBS, AERL Holding Limited (hereinafter 'AERL Holding'), LEVEL and IAG Connect all collectively defined as the 'Group'. The Group presents consolidated financial statements separately.

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

Applicable financial reporting framework

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

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

The Company has net assets of €6.209.366.000 (2018: €6.730.306.000) on the Balance sheet and recorded a €763.583.000 profit for the year (2018: €662.180.000 profit).

The Directors are of the opinion that the working capital available to the Company is sufficient for the foreseeable future. The Directors have prepared the financial statements on the going concern basis.

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

2.1 True and fair view

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

2.2 Comparative information

According to corporate law, the prior year information in the Balance sheet, Income statement, Statement of other comprehensive income, Statement of changes in equity and Cash flow statement is presented for comparison purposes, in addition to figures for 2019. The notes to the financial statements also include quantitative information for the prior year, unless an accounting standard specifies that it is not necessary. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation that are not significant.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

2.3 Critical accounting estimates and assumptions

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

Impairment of investments in Group companies

The Company assesses whether there are any indicators of impairment for non-financial assets at each reporting date. Equity investments in Group companies are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amounts of equity investments in Group companies have been determined based on the future cash flows of the related cash generating units (CGUs), which require the use of estimates and assumptions, including five year business plan assumptions, long-term growth rates and discount rates.

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

Share-based payments

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

3. APPROPRIATION OF PROFIT

The Company recorded a profit for the year of €763.583.000 (2018: €662.180.000).

Accordingly, the Company's Directors will submit the following proposed appropriation of the 2019 result for approval at the Shareholders' Meeting:

€'000	2019	2018
Proposed appropriation:		
Profit for the year	763.583	662.180
	763.583	662.180
Appropriation to:		
Legal reserves	-	-
Interim dividend	287.728	287.580
Final dividend (corresponding to a fixed dividend of 17,0 € cents per share; (total amount considering all the 1.992.032.634 shares outstanding on the date hereof)	337.483	327.195
Voluntary reserve (remaining amount of the profit for the year after the above referred distributions)	138.372	47.405
	763.583	662.180

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

3. APPROPRIATION OF PROFIT continued**3.1 Interim dividend**

On October 30, 2019 the Board of Directors approved an interim dividend of 14,5 € cents per share. The interim cash dividend was paid on December 2, 2019 for a total amount (net of withholding tax of €54.668.000) of €287.728.000. The withholding tax was paid from December 2019.

In accordance with article 277 of the Spanish Corporations Law, the following table shows the statement (unaudited) issued by the Directors to substantiate that the Company had sufficient liquidity to distribute the interim dividend (expressed in thousands of euros):

Accounting statement	Nine months to September 30, 2019
	Amount (€ thousand)
Net profit (after estimated tax) for the period from January 1 to September 30, 2019	368.227
Losses from prior years	-
Mandatory allocations to reserves	-
Distributable income for the period	368.227

Proposed interim dividend (maximum amount)	287.728
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Liquidity statement (funds available for distribution)	
Cash and cash equivalents	514.799
Available credits	20.000
Estimation of additional net funds available until the payment date of the proposed interim dividend	(105.000)
Total estimated funds available at the payment date of the proposed interim dividend	429.799

3.2 Final dividend

On February 27, 2020 IAG's Board of Directors proposed a distribution in cash of a final dividend of 17,0 € cents per share. The proposed final dividend is subject to approval at the annual general meeting and subject to approval, will be recognised as a liability on that date.

The proposed final dividend would be distributed from net profit for the year to December 31, 2019.

€'000	2019	2018
Cash dividends on ordinary shares declared		
Interim dividend for 2019 of 14,5 € cents per share (2018: 14,5 € cents per share)	287.728	287.580
Final dividend for 2018 of 16,5 € cents per share (2017: 14,5 € cents per share)	327.411	294.709
Special dividend of 35 € cents per share	694.507	-
Proposed dividends on ordinary shares		
Final dividend of 17,0 € cents per share	337.483	

3.3 Limitations on the distribution of the profit

The Company is obliged to transfer 10 per cent of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20 per cent of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders. The distributable reserves at December 31, 2019 are €5.213.350.000 (2018: €5.734.290.000).

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2019 financial statements are the following:

4.1 Leases

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

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

4.2 Intangible assets

Intangible assets are stated at acquisition price or the cost of development if internally generated, less accumulated amortisation and impairment losses.

The Company recognises costs incurred to acquire and develop computer software that is separable from an item of related hardware as intangible assets. These are amortised from the date the system is available for use and amortised on a straight-line basis generally over a period of five years with certain specific software developments amortised over a period of up to 10 years.

4.3 Property, plant and equipment

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

Computer equipment: 4 years
Fixtures and fittings: 15 years

4.3.1 Pre-delivery payments

Pre-delivery payments are made to secure the Company's place in the delivery timetable for aircraft to Group companies and are capitalised as work-in-progress as they are made and transferred to the Group companies' fleet within property, plant and equipment when the aircraft is delivered. They constitute part of the purchase price of the aircraft.

4.4 Investments in Group Companies

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

4.5 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

4.6 Financial assets and financial liabilities

4.6.1 Financial assets

a) Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.6 Financial assets and financial liabilities continued

4.6.1 Financial assets continued

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets including listed and unlisted investments, excluding interests in subsidiaries. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the income statement. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

c) Derivatives

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gain or loss arising from remeasurement is recognised in the Income statement unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow and is assessed as effective, when gains and losses are recognised in equity. Gains or losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

d) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

The carrying amount of financial assets is adjusted to the Income statement when there is objective evidence of actual impairment.

To determine an impairment loss, the Company assesses the loss of individual as well as groups of assets with similar risk characteristics.

Debt instruments

There is objective evidence that debt instruments (trade receivables and loans) are impaired when an event has occurred after the initial recognition of the instrument that has a negative impact on related estimated future cash flows.

The Company classifies as impaired assets (doubtful exposures) debt instruments for which there is objective evidence of impairment, which refers primarily to the existence of unpaid balances, non-compliance issues, refinancing and data which evidences the possible irrecoverability of total agreed upon future cash flows or collection delays.

The reversal of an impairment loss is recognised in the Income statement. Such reversal is limited to the carrying amount of the financial asset that would have been recognised on the reversal date had no impairment loss been recognised.

Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the carrying value may not be recovered due to a prolonged or significant decline in fair value.

The reversal of an impairment loss is recognised in the Income statement and is limited to the carrying value of the investment that would have been recognised on the reversal date had the original impairment not occurred. An impairment loss recognised in previous years from available-for-sale financial assets cannot be reversed.

4.6.2 Financial liabilities

Trade and other payables and borrowings

On initial recognition, the financial liabilities included in this category are recognised at fair value, which unless there is information to the contrary, is the transaction price, which will be equal to the fair value of the consideration received adjusted by directly attributable transaction costs. However, trade and other payables maturing within 12 months where there is no contractual interest rate can be measured at their nominal value when the effect of discounting is not material.

Subsequent to initial measurement, financial liabilities in this category are measured at amortised cost. However, other payables maturing within 12 months which, as indicated above, are initially recognised at their nominal value, continue to be recognised at that amount.

4.6.3 Derecognition of financial assets and liabilities

Financial assets are derecognised in the Company's balance sheet when the contractual rights on the financial assets' cash flows have expired or when they are transferred, as long as the risks and rewards of ownership are substantially transferred. The Company derecognises a financial liability when the obligation is extinguished.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.6 Financial assets and financial liabilities continued

4.6.3 Derecognition of financial assets and liabilities continued

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts is recognised in the Income statement.

4.6.4 Convertible debt

Convertible bonds are classified as compound instruments, consisting 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 convertible bonds, and is recognised within Bond and other securities payable. 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 Other equity instruments within the balance sheet and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

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 amount and the interest paid is added to the carrying amount of the liability.

4.7 Treasury shares

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

4.8 Cash and cash equivalents

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

4.9 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency of the branch using the spot exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated into euro at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement.

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

4.10 Corporate tax

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

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

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.11 Deferred tax

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 legislation in force.

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

4.12 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, regardless of when the resulting monetary or financial flow arises.

4.13 Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

4.14 Long-term liabilities with personnel

The Company offers a defined contribution pension plan to all IAG employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. Current service costs are recognised within the Income statement in the year in which they arise. At each financial year end, accrued contributions payable are recognised in the Balance sheet.

4.15 Share-based payment transactions

The Company operates a number of equity-settled, share-based payment plans, under which the Company awards equity instruments for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model (note 17). The resulting cost is adjusted to reflect expected and actual levels of vesting, and is charged to the Income statement over the vesting period.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, and accordingly the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

4.16 Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid and final dividends are recognised when authorised in general meetings by shareholders.

4.17 Related parties

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

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

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

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

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

4.19 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

5. LEASES

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

The annual cost of the leases is €693.000 (2018: €694.000). The amount of future minimum lease payment is €558.000 (2018: €562.000) for less than one year and €836.000 for between one and three years.

6. INTANGIBLE ASSETS

The details and movements of the item that comprises this section are:

€'000	System development
Net book value	
Balance at January 1, 2018	1.253
Additions	488
Exchange movements	(36)
Balance at December 31, 2018	1.705
Depreciation and impairment	(523)
Transfer to Group companies	(1.277)
Exchange movements	95
Balance at December 31, 2019	-

During 2019 the company recognised an impairment in relation to the system development intangible asset of €523.000. The remaining value of the asset was transferred to a Group company.

7. PROPERTY, PLANT AND EQUIPMENT

The details and movements of the items that comprise this section are:

€'000	Furniture and fittings	Equipment	Work-in-progress ¹	Total
Cost				
Balance at January 1, 2018	45	99	51.936	52.080
Additions	-	-	34.527	34.527
Transfer to Group companies	-	-	(69.212)	(69.212)
Balance at December 31, 2018	45	99	17.251	17.395
Transfer to Group companies	-	-	(17.251)	(17.251)
Balance at December 31, 2019	45	99	-	144
Depreciation				
Balance at January 1, 2018	(45)	(99)	-	(144)
Balance at December 31, 2018	(45)	(99)	-	(144)
Balance at December 31, 2019	(45)	(99)	-	(144)
Net book value at December 31, 2018	-	-	17.251	17.251
Net book value at December 31, 2019	-	-	-	-

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

7. PROPERTY, PLANT AND EQUIPMENT continued

¹Relates to pre-delivery payments and options made on aircraft. During 2019, the Company transferred options on no aircraft to Group companies (2018: 4 options) and made pre-delivery payments on no aircraft (2018: 2 aircraft).

Capital expenditure authorised and contracted for but not provided for in the accounts was nil (December 2018: €60 million). The capital expenditure was denominated in US dollars, and as such was subject to changes in exchange rates. The outstanding commitments in 2018 related to fleet purchases.

The transfer to Group companies is made at cost.

8. EQUITY INVESTMENTS IN GROUP COMPANIES

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

€'000	January 1	Additions	Distribution received	December 31
2019				
Equity instruments				
Cost	7.973.959	27.000	-	8.000.959
Distribution received	(342.766)	-	-	(342.766)
	7.631.193	27.000	-	7.658.193
2018				
Equity instruments				
Cost	7.752.853	221.106	-	7.973.959
Distribution received	(267.392)	-	(75.374)	(342.766)
	7.485.461	221.106	(75.374)	7.631.193

8.1 Description of the main movements

On June 10, 2019 and December 17, 2019 the Company invested €17.000.000 and €10.000.000 respectively in the equity of FLY LEVEL S.L. which is a 100 per cent owned subsidiary.

Prior year movements

On October 1, 2018 and December 28, 2018, the Company received €90.073.000 and €14.287.000 respectively from Iberia. €75.374.000 were recognised against the cost of investment and €28.986.000 were recognised as dividend income.

On December 20, 2018 the outstanding loan balance between the company and Veloz Holdco,S.L.U. was extinguished by investing €146.000.000 in the equity of Veloz Holdco,S.L.U which is a 100 per cent owned subsidiary.

On December 11, 2018 the Company invested €22.218.000 in the equity of IAG GBS Ltd, which is a 100 per cent owned subsidiary.

On December 31, 2018 the Company invested €4.888.000 in the equity of IAG Connect Ltd, which is a 100 per cent owned subsidiary.

On May 14, 2018 and November 22, 2018 the Company invested €38.000.000 and €10.000.000 in the equity of FLY LEVEL S.L. which is a 100 per cent owned subsidiary.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.2 Overview of investments

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

	Business activity	Percentage of ownership ¹	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Dividend received during the year	Net book value €'000
2019									
€'000									
Iberia	Passenger air transport	100%	743.420	672.921	376.762	1.793.103	481.508	181.965	2.388.548
Aer Lingus	Passenger air transport	Indirect ³	27.015	558.943	225.589	811.547	275.639	-	-
Vueling	Passenger air transport	Indirect ²	29.905	75.793	165.076	270.774	240.835	-	-
Veloz	Holding company	100%	33	230.516	36.906	267.455	37.492	30.000	166.139
Aerl Holding	Holding company	100%	760.000	256.780	277.088	1.293.868	61	-	836.000
LEVEL	Passenger air transport	100%	3	58.458	(39.262)	19.199	(29.735)	-	85.003
£'000									
British Airways	Passenger air transport	100%	290.000	4.408.000	1.109.000	5.807.000	1.338.000	534.218	4.155.397
IAG Cargo	Cargo air transport	100%	-	4.270	189	4.459	330	-	-
IAG GBS	Business services	100%	20.000	(15.872)	(517)	3.611	479	-	22.218
IAG Connect	eCommerce platform	100%	-	1.233	752	1.985	928	-	4.888
Polish zloty '000									
IAG GBS Poland	Business services	1% ⁴	-	3.403	1.015	4.418	1.533	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	n/a
									7.658.193
	Business activity	Percentage of ownership ¹	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Dividend received during the year	Net book value €'000
2018									
€'000									
Iberia	Passenger air transport	100%	743.420	619.548	414.466	1.777.434	435.777	28.986	2.388.548
Aer Lingus	Passenger air transport	Indirect ³	27.015	557.586	259.197	843.798	304.598	-	-
Vueling	Passenger air transport	Indirect ²	29.905	55.930	148.335	234.170	220.078	-	-
Veloz	Holding company	100%	33	185.495	75.020	260.548	-	-	166.139
Aerl Holding	Holding company	100%	760.000	38.070	218.710	1.016.780	(2)	74.000	836.000
LEVEL	Passenger air transport	100%	3	39.938	(8.376)	31.565	(27.469)	-	58.003
£'000									
British Airways	Passenger air transport	100%	289.689	3.322.480	2.055.230	5.667.399	2.346.450	575.000	4.155.397
IAG Cargo	Cargo air transport	100%	-	1.769	2.501	4.270	3.359	-	-
IAG GBS	Business services	100%	20.000	(17.516)	1.276	3.760	1.266	-	22.218
IAG Connect	eCommerce platform	100%	-	3.483	(2.250)	1.233	(2.778)	-	4.888
Polish zloty '000									
IAG GBS Poland	Business services	1% ⁴	5	2.216	1.188	3.409	1.182	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	-
									7.631.193

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.2 Overview of investments continued

¹ IAG holds a direct investment of 90,02 per cent in British Airways and a direct investment of 86,45 per cent in Iberia. The remaining indirect investment by IAG is represented by the cross-holdings between British Airways and Iberia.

The Company holds 49,9 per cent of 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 per cent of the economic rights in these companies. The remaining shares, representing 50,1 per cent of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

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

² IAG holds an indirect investment of 99,50 per cent in Vueling through its subsidiaries Iberia (45,85 per cent) and Veloz (53,65 per cent).

³ IAG holds an indirect investment of 100 per cent in Aer Lingus through its subsidiary AERL Holding.

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

IAG holds a direct investment of 100 per cent in IAG Connect Limited.

IAG holds a direct investment of 100 per cent in FLY LEVEL S.L.

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

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

Veloz's registered office is at Parque de Negocios Mas Blau II Pla de l'Estany 5, 08820 El Prat de Llobregat, Barcelona, Spain. The main business of Veloz consists of the acquisition and holding of shares or equity interests in Vueling, as well as the management and disposition of such equity interests.

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

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

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

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

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

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

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.3 Impairment review

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

Basis for calculating recoverable amount

The recoverable amounts of investments are based on the future cash flows of the related cash generating units ('CGUs').

Cash flow projections are based on the Business plan approved by the relevant operating companies covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve five year Business plans, and the Board approved the Group three year Business plan in the fourth quarter of the year. The Business plan cash flows used in the value-in-use calculations reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

For each of the CGUs, the key assumptions used in the calculations of recoverable amounts are as follows:

Per cent	2019			
	British Airways	Iberia	Veloz	Aerl Holding
Operating margin	15	10-15	10-14	13-15
Average ASK growth per annum	2-4	3	1-5	2-11
Long-term growth rate	2,2	1,8	1,5	1,8
Pre-tax discount rate	8,0	9,1	9,4	8,0

Per cent	2018			
	British Airways	Iberia	Veloz	Aerl Holding
Lease adjusted operating margin	15	9-15	11-15	15
Average ASK growth per annum	3-4	5-6	9-10	7-8
Long-term growth rate	2,3	2,0	1,9	1,8
Pre-tax discount rate	8,3	9,0	8,4	8,3

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on past performance and Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). 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 its CGU's. 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 broadly based on the Group's interest-bearing borrowings. 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.

Summary of results

No impairment of the Company's investments was considered necessary in 2019 or 2018. Additional sensitivities have been considered for each CGU. No reasonable possible change in the key assumptions for any of the CGUs would cause the carrying amounts of the investments to exceed the recoverable amounts.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

9. FINANCIAL INSTRUMENTS

9.1 Financial assets

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

At December 31, 2019 €'000	Loans and receivables	Assets at fair value through profit or loss	Available- for-sale	Total
Non-current assets				
Loan receivable from Group company (note 16.1)	184.234	-	-	184.234
Investment in other equity instruments (note 9.1.2)	-	-	14.536	14.536
	184.234	-	14.536	198.770
Current assets				
Trade and other receivables (note 9.1.1)	212.506	-	-	212.506
Loan receivable from Group company (note 16.1)	8.822	-	-	8.822
Cash and cash equivalents (note 10)	694.083	-	-	694.083
	915.411	-	-	915.411

At December 31, 2018 €'000	Loans and receivables	Assets at fair value through profit or loss	Available-for- sale	Total
Non-current assets				
Loan receivable from Group company (note 16.1)	161.797	-	-	161.797
Investment in other equity instruments (note 9.1.2)	-	-	8.120	8.120
Other financial asset	1.807	-	-	1.807
	163.604	-	8.120	171.724
Current assets				
Trade and other receivables (note 9.1.1)	92.230	-	-	92.230
Loan receivable from Group company (note 16.1)	13.540	-	-	13.540
Derivative financial assets	-	8.099	-	8.099
Cash and cash equivalents (note 10)	337.704	-	-	337.704
	443.474	8.099	-	451.573

9.1.1 Trade and other receivables

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

€'000	2019	2018
Current		
Receivables from Group companies (note 16.1)	201.678	87.185
Other receivables	10.828	5.045
	212.506	92.230

9.1.2 Non-current investments in other equity instruments.

The breakdown of non-current investments in other equity instruments at December 31 is as follows:

€'000	2019	2018
Cost		
Unlisted investments	14.536	8.120
	14.536	8.120

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**Notes to the financial statements** continued**9. FINANCIAL INSTRUMENTS continued****9.2 Financial liabilities**

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

€'000	Loans and payables 2019	Loans and payables 2018
Non-current liabilities		
Bond and other marketable securities	1.448.995	937.437
Group companies (note 16.1)	1.047.515	620.644
	2.496.510	1.558.081
Current liabilities		
Trade and other payables (note 9.2.1)	25.491	15.415
Group companies (note 16.1)	46.587	114.231
Bond and other marketable securities	13.125	4.375
	85.203	134.021

Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0,25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0,625 per cent raising net proceeds of €494 million and due in 2022. The conversion price for both tranches was set at a premium of 62,5 per cent over the Group's share price on the date of issuance. The Group holds an option to redeem the outstanding convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. In July 2019 the Group early redeemed all of the €500 million 0.25 per cent convertible bonds due in 2020 with no conversion to ordinary shares.

In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due 4 July 2023 and €500 million due 4 July 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.

9.2.1 Trade and other payables

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

€'000	2019	2018
Current		
Various creditors	15.768	7.917
Payroll accruals	9.723	7.498
	25.491	15.415

9.2.2 Average payment days to suppliers

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

Days	2019	2018
Average days for payment to suppliers	58	60
Ratio of transactions paid	59	58
Ratio of transactions outstanding for payment	47	80
	2019	2018
Total payments made	26.117	43.470
Total payments outstanding	2.206	4.242

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

10. CASH AND CASH EQUIVALENTS

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

€'000	2019	2018
Cash at bank	80.415	195.548
Cash equivalents	613.668	142.156
	694.083	337.704

At December 31, 2019 and 2018, the Company had no outstanding bank overdrafts.

There are no restrictions on the use of these amounts.

11. EQUITY – CAPITAL AND RESERVES**11.1 Share capital**

At December 31, 2019, the share capital of the Company amounts to 996.016.000 euros, divided into 1.992.033.000 ordinary shares of the same class and series and with a nominal value of 0,50 euro each, fully subscribed and paid.

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

Per cent	2019	2018
Significant shareholders:		
Qatar Airways (Q.C.S.C.)	21,426	21,426
Capital Research and Management Company	10,013	10,722
Europacific Growth Fund	5,261	5,388
Lansdowne Partners International Limited	3,957	1,712
Invesco Limited	2,050	0,984
Lansdowne Developed Markets Master Fund Limited	1,999	-
Citadel Multi-Strategy Equities Master Fund Limited	1,006	-
BlackRock Inc	-	3,128
Other shareholders	54,288	56,640
	100	100

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

	Number of shares '000s	Share capital €'000	Share premium €'000
At December 31, 2018	1.992.033	996.016	6.021.802
Special 2019 dividend of 0,35 € per share	-	-	(694.507)
At December 31, 2019: Ordinary shares of 0,50 € each	1.992.033	996.016	5.327.295

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

11. EQUITY – CAPITAL AND RESERVES continued

11.2 Reserves and prior year results

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

€'000	January 1	Appropriation of prior year profit	Vesting of share based payments	Conversion of bond	Dividend	Cancellation of treasury shares	Redeemed capital reserve	December 31
2019								
Legal reserve	205.799	-	-	-	-	-	-	205.799
Other reserve	(983.770)	374.600	726	38.418	(327.411)	-	-	(897.437)
	(777.971)	374.600	726	38.418	(327.411)	-	-	(691.638)
2018								
Legal reserve	179.196	26.603	-	-	-	-	-	205.799
Other reserve	(536.749)	313.688	1.577	-	(294.709)	(500.555)	32.978	(983.770)
	(357.553)	340.291	1.577	-	(294.709)	(500.555)	32.978	(777.971)

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

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

11.3 Equity – valuation reserve

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

€'000	January 1	Valuation adjustment	December 31
2019			
Currency translation differences	(3.601)	(1.134)	(4.735)
	(3.601)	(1.134)	(4.735)
2018			
Currency translation differences	(337)	(3.264)	(3.601)
	(337)	(3.264)	(3.601)

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

11.4 Treasury shares

The Company has authority to acquire its own shares, subject to specific conditions. The treasury shares balance consists of shares held directly by the Company. A total of 1.019.000 shares (2018: 1.219.000) were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2019 the Group held 7.702.000 shares (2018: 8.722.000) which represented 0.39 per cent of the issued share capital of the Company. During the year to December 31, 2018 the Company purchased directly 65.956.660 shares, which were held as treasury shares, as part of its €500.000.000 share buyback programme launched in May 2018. These shares were bought at a weighted average price of €7.58 per share. On completion of the programme these treasury shares were cancelled.

€'000	January 1	Purchase of treasury shares	Cancellation of treasury shares	Share-based payment scheme vesting	December 31
2019					
Treasury shares	(67.292)	-	-	7.724	(59.568)
	(67.292)	-	-	7.724	(59.568)
2018					
Treasury shares	(76.737)	(500.000)	500.000	9.445	(67.292)
	(76.737)	(500.000)	500.000	9.445	(67.292)

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

11. EQUITY – CAPITAL AND RESERVES continued

11.5 Other equity instruments

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

€'000	January 1	Equity instruments movement for the year	December 31
2019			
Cost of share-based payments (note 17)	217.097	32.874	249.971
Vesting of share-based payment	(131.283)	(14.583)	(145.866)
Equity portion of convertible bond issue (note 9.2)	100.938	(38.902)	62.036
	186.752	(20.611)	166.141
2018			
Cost of share-based payments (note 17)	186.373	30.724	217.097
Vesting of share-based payment	(114.444)	(16.839)	(131.283)
Equity portion of convertible bond issue (note 9.2)	100.938	-	100.938
	172.867	13.885	186.752

12. TAXES

12.1 Current taxes

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

€'000	2019	2018
Other balances with public administrations:		
Spanish current tax receivable	88.718	216.874
Receivables, Spanish group companies (tax)	45.285	11.015
UK current tax liability	(447)	(1.039)
Liabilities, UK group companies (tax)	(4.061)	(2.185)
Provisions for taxes	(4.347)	(4.576)
Social security payable	(16.538)	(12.308)
Value added tax receivable	4.592	1.185
Withholding tax payable on interim dividend	(53.285)	(54.640)
	59.917	154.326

The reconciliation of accounting profit to taxable profit is as follows:

€'000	2019	2018
Profit for the year from continuing operations	763.583	662.180
Current tax	(17.406)	(6.963)
Deferred tax	(844)	(759)
Adjustments in respect of prior years	799	6.711
Profit before tax	746.132	661.169
Permanent differences	(819.974)	(692.939)
Timing differences	4.444	6.805
Taxable loss	(69.398)	(24.965)

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

12. TAXES continued

12.1 Current taxes continued

The reconciliation between the accounting profit and tax credit is as follows:

€'000	2019			2018		
	Total	Spain	UK	Total	Spain	UK
Profit/(loss) before tax	746.132	751.012	(4.880)	661.169	655.882	5.287
Tax at the standard rates in Spain and the UK	(186.826)	(187.753)	927	(164.976)	(163.971)	(1.005)
Permanent differences increasing the tax charge	206.808	206.287	521	173.217	173.217	-
Permanent differences decreasing the tax charge	(1.732)	(8)	(1.724)	(519)	-	(519)
Provisions for taxes	-	-	-	(3.976)	-	(3.976)
Adjustment in respect of prior years	(799)	(220)	(579)	(2.735)	(2.058)	(677)
Tax credit/(charge)	17.451	18.306	(855)	1.011	7.188	(6.177)

The permanent differences decreasing the tax charge all relate to non-taxable dividends from subsidiaries, penalties paid and permanent differences increasing the tax charge all relate to share based payments.

Regarding income and expenses recognised directly in reserves, permanent differences decreasing the tax charge all relate to movement in reserves (legal and statutory reserves, other reserves) and other equity instruments. Permanent differences increasing the tax charge all relate to share based payments in reserves.

From January 1, 2015 onwards the Spanish companies IAG, Vueling, Veloz, Avios Spanish branch, IAG GBS Spanish branch and IAG Cargo Spanish branch filed consolidated tax returns as part of the Spanish tax unit (0061/15, pursuant to title VII, Chapter VI of the Spanish Corporate Income Tax Law set forth in the Law 27/2014 of November 27, 2014). FLY LEVEL SL joined the tax unit on November 7, 2017. Yellow Handling SL joined the tax unit on October 17, 2019. IAG is responsible for filing consolidated tax returns with these other companies that belong to this tax unit.

12.1.1 Taxable loss

The taxable loss for the year to December 31, arises between the UK and Spain as follows:

€'000	2019			2018		
	Total	Spain	UK	Total	Spain	UK
Profit before tax	746.132	751.012	(4.880)	661.169	655.882	5.287
Permanent differences	(819.974)	(825.114)	5.140	(692.939)	(692.872)	(67)
Timing differences	4.444	-	4.444	6.805	-	6.805
Taxable loss	(69.398)	(74.102)	4.704	(24.965)	(36.990)	12.025

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

12. TAXES continued**12.2 Current provisions**

€'000	2019	2018
Provisions for taxes	4.347	4.576
	4.347	4.576

Under prevailing tax regulations, tax returns in Spain may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. In December 2015 the Spanish Tax Authority opened audits into all corporate income tax, VAT and withholding taxes for which the company is liable, covering the preceding four years. The tax provision in the balance sheet of €600.000 (2018: €600.000) arose as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

Under prevailing tax regulations, tax returns in the UK may not be considered final until they have either been inspected by tax authorities or until the six-year inspection period for discovery assessment has expired. In December 2016 the UK Tax Authority opened an audit into corporate income tax. The Company's directors have decided to book a tax provision in the balance sheet amounting to €3.747.000 (2018: €3.976.000) that arises as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

12.3 Deferred tax asset

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

€'000	January 1	Variations reflected in			December 31
		Income statement	Equity	Exchange difference	
2019					
Temporary differences on share-based payments	6.755	844	(279)	284	7.604
	6.755	844	(279)	284	7.604
2018					
Temporary differences on share-based payments	6.404	759	(122)	(286)	6.755
	6.404	759	(122)	(286)	6.755

The deferred tax asset has been booked at the UK tax rate of 19 per cent (2018: 19 per cent).

12.4 Deferred tax liability

The deferred tax liability balance, related to temporary differences on unremitted earnings was €3.000.000 (2018: €3.000.000) which was booked at the Spanish tax rate of 25 per cent (2018: 25 per cent).

12.5 Unrecognised tax attributes

The Company has €8 million of tax losses that arose in Spain in 2014 before the tax unity was formed and €24 million of deductible temporary differences that arose in Spain in 2015 and 2016. These are not recognised.

12.6 Tax related contingent liabilities

The Company has certain contingent liabilities, across all taxes, which at December 31, 2019 amounted to €90 million. No material losses are likely to arise from such contingent liabilities. As such the Company does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liability 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 assessment is for €69 million, resulting in a contingent liability of €90 million, including accrued interest. The Company subsequently 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 *Audencia Nacional* (National High Court) on December 20, 2019. The Company does not expect a hearing at the National High Court until 2021 at the earliest.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

12. TAXES continued

12.6 Tax related contingent liabilities continued

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 recognised this matter as a contingent liability.

13. INCOME AND EXPENSES

13.1 Revenue

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

€'000	2019	2018
Revenue by area of geographical sale:		
UK	68.341	67.233
	68.341	67.233

13.2 Finance income and costs

The breakdown of finance income and cost is as follows:

€'000	2019	2018
Finance income		
Receivable from third parties	140	174
Receivable on debt with Group companies and associates	13.110	5.350
	13.250	5.524
Finance costs		
Payable on debt with Group companies and associates	(15.905)	(8.190)
Payable interest on convertible bond and other securities payables	(41.362)	(23.573)
Payable to third parties	(2.662)	(2.315)
	(59.929)	(34.078)
Changes in fair value of financial instruments		
Changes in fair value of financial instruments	(18.715)	3.696
	(18.715)	3.696

During the year the Company recognised a €18.715.000 loss related to foreign exchange derivatives taken to mitigate exposure arising from intra group dividends received in currencies other than euro, and the termination of derivatives related to IAG's investment in other equity instruments.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Notes to the financial statements continued

13. INCOME AND EXPENSES continued

13.3 Employee costs

The breakdown of personnel expenses is as follows:

€'000	2019	2018
Wages, salaries and other costs		
Salaries and wages	30.102	28.551
Cost of share-based payments (note 17)	14.381	12.689
Social security costs		
Social security	4.665	5.707
Other social costs	3.311	3.213
	52.459	50.160

The Company offers a defined contribution pension plan to all IAG employees. The contributions paid into the defined contribution scheme during the year to December 31, 2019 totalled €3.311.000 (2018: €3.213.000), and have been recognised in Other social costs.

14. FOREIGN CURRENCY

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

Pound sterling '000	2019	2018
Assets		
Intangible assets	-	1.534
Investment in other equity instruments	36.314	31.294
Deferred tax asset	6.437	6.080
Amounts owed by Group companies	175.803	77.791
Other receivables	4.881	25.709
Cash and cash equivalents	26.312	8.519
	249.747	150.927
Liabilities		
Current tax liability	3.623	2.902
Provisions for taxes	3.366	3.579
Other taxes and social security	13.997	11.892
Accruals	19.167	12.638
Amounts due to Group companies	282.644	34.758
	322.797	65.769
Net (liabilities)/assets	(73.050)	85.158

At December 31, 2018 the Company also held cash balances in Norwegian krone for an amount of €21.687.000.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Notes to the financial statements continued

14. FOREIGN CURRENCY continued

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

Pound sterling '000	2019	2018
Revenue	60.115	59.163
Finance income	160	186
Employee costs	(41.756)	(38.861)
Other costs	(21.195)	(15.590)
Finance costs	(1.552)	(255)
(Loss)/profit for the year before tax	(4.228)	4.643

15. FINANCIAL RISK MANAGEMENT

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

Credit risk

Credit risk arises if a supplier or other counterparty to a financial instrument fails to meet its contractual obligations. The Company is primarily exposed to financial counterparty credit risk by means of money market investments, derivatives trading, and deposits placed with banks and to a lesser extent accounts receivable. Exposure in this area is mitigated by the fact that all cash investments and derivatives trading are subject to the IAG Group Treasury counterparty credit exposure policy which establishes limits and monitors the group wide exposure to the counterparties.

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

Market risk

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

Liquidity risk

The Company has money market deposits with financial counterparties for the purpose of managing liquidity risk exposure. Given the short-term availability of such deposits, a maturity analysis of the Company's financial assets is not considered relevant.

The Company had undrawn borrowing facilities of €20.000.000 with a maturity of one year. Borrowings under this facility are at prevailing EURIBOR rates with an agreed 90 basis points margin. There were no draw downs during the year.

Capital risk

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

16. RELATED PARTY TRANSACTIONS

The Company has the following related parties at December 31, 2019:

	Nature of relationship
British Airways Plc	Other Group companies
Iberia Líneas Aéreas de España S.A. Operadora	Other Group companies
Veloz Holdco, S.L.U.	Other Group companies
IAG Cargo Ltd	Other Group companies
Vueling Airlines, S.A.	Other Group companies
IAG GBS Ltd	Other Group companies
IAG GBS Poland sp. z o.o.	Other Group companies
Aerl Holding Limited	Other Group companies
Aer Lingus Group DAC	Other Group companies
Avios Group (AGL) Limited	Other Group companies
IAG Connect	Other Group companies
FLY LEVEL S.L.	Other Group companies
FLYLEVEL UK Limited	Other Group companies
Capital Research and Management Company	Significant shareholder
Europacific Growth Fund	Significant shareholder
Invesco Limited	Significant shareholder
Lansdowne Developed Markets Master Fund Limited	Significant shareholder
Lansdowne Partners International Limited	Significant shareholder
Qatar Airways (Q.C.S.C.)	Significant shareholder
Citadel Multi-Strategy Equities Master Fund Limited	Significant shareholder
Key management personnel	Directors and Management Committee

16.1 Related entities

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

€'000	2019	2018
Revenue from operations		
Rendering of services to Group companies	68.341	67.233
Dividend income received from Group companies	825.146	692.871
Purchases of services		
Purchases from Group companies	9.572	8.441
Finance income		
Receivable from debt with Group companies	13.110	5.350
Finance costs		
Payable on debt with Group companies	15.905	8.190
Transfer of assets to Group companies	18.528	69.212
December balances		
	2019	2018
Receivables from related parties		
Amounts owed by Group companies	201.678	87.185
Loan receivable from Group companies	193.056	175.337
Payables to related parties		
Amounts owed to Group companies	40.316	27.632
Loan payable to Group companies	1.053.786	707.243

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

16. RELATED PARTY TRANSACTIONS continued

16.1 Related entities continued

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

€'000	Amount outstanding December 31		Due date	Interest rate	Finance Income	
	2019	2018			2019	2018
Veloz	-	-	n/a	6 months EURIBOR +0,90 per cent	-	842
IAG GBS	3.030	2.402	2020	6 months LIBOR +0,90 per cent	43	44
AERL Holdings	60.425	38.888	2021	6 months EURIBOR +0,90 per cent	4.798	(108)
LEVEL	54.751	56.587	2020-2023	5 year euro mid swap rate +6,00 per cent	3.591	2.300
LEVEL	74.850	77.460	2020-2023	5 year euro mid swap rate +6,00 per cent	4.678	2.272
	193.056	175.337			13.110	5.350

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

€'000	Amount outstanding December 31		Due date	Interest rate	Finance Costs	
	2019	2018			2019	2018
Veloz	-	74.010	2019	1 year euro mid swap rate (floored at zero) +0,50 per cent	360	10
Veloz	109.413	-	2024	1,20 per cent	43	-
Avios	219.615	-	2021	2 year GILT + 1,491 per cent	1.814	-
Iberia	200.457	200.212	2022	6 months euro mid swap rate + 1,75 per cent	2.928	2.602
Iberia	100.762	101.105	2023	5 year euro mid swap rate +1,95 per cent	2.210	1.105
Aer Lingus	100.429	100.281	2023	5 year euro mid swap rate +2,00 per cent	2.336	1.486
Aer Lingus	100.046	100.187	2023	5 year euro mid swap rate +2,00 per cent	2.399	1.347
Aer Lingus	100.012	-	2024	5 year euro mid swap rate +1,03 per cent	829	-
British Airways	51.866	55.408	2020-2023	5 year euro mid swap rate +2,00 per cent	1.306	859
British Airways	71.186	76.040	2020-2023	5 year euro mid swap rate +2,00 per cent	1.680	781
	1.053.786	707.243			15.905	8.190

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

Non-current loans owed by Group companies bear market rates of interest in accordance with the intragroup loan agreements.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

16. RELATED PARTY TRANSACTIONS continued

16.1 Related entities continued

Loans receivable from Group companies:

In 2015, IAG GBS borrowed €3.291.000 from IAG, bearing interest at 0,90 per cent over the 6 month LIBOR rate. Accrued interest receivable for the year was €43.000 (2018: €44.000). The loan was for general treasury management purposes. As at December 31, 2019 the borrowed balance was €3,030,000 (2018: €2.402.000). The outstanding balance will be paid in January 2020.

In 2015, AERL Holding borrowed €804.568.000 from IAG, bearing interest at 0,90 per cent over the 6 months EURIBOR rate. The purpose of this loan was for consideration and expenses relating to the acquisition of Aer Lingus. During 2017 AERL Holding repaid €836.000.000 of the loan by issuing ordinary shares to IAG. During 2018, IAG made payments on behalf of AERL Holding of €155.778.000, received a distribution on behalf of AERL Holding of €225.000.000 and received a dividend declared by AERL Holding of €74.000.000. During the year, AERL Holding borrowed €301.745.000 from IAG and IAG received a distribution on behalf of AERL Holding of €285.000.000. Interest receivable for the year was €4.798.000 (2018: €108.000 payable). As at December 31, 2019 the amount outstanding was €60.425.000 (2018: €38.888.000). The loan is repayable in 2021.

In 2013, Veloz borrowed €149.705.000 from the Company for the purpose of the increase in the Group's shareholding in Vueling. The holding was 99,50 per cent at December 31, 2019. In December 2018 €146.000.000 of the loan was capitalised and the Company borrowed €74.000.000, bearing interest at 0.50 per cent over the 1 year euro mid swap rate (floored at zero). Accrued interest receivable for the year was €360.000 (2018: €10.000). In December 2019, the loan was repaid and the Company borrowed the amount of €109.000.000. Accrued interest for the new loan was €43.000. As at December 31, 2019 the outstanding balance was €109.413.000 which is repayable in 2024.

In May 2018 LEVEL borrowed €57.000.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €3.591.000 (2018: €2.300.000). The amount repaid during the year was €5.427.000 (2018: €2.713.000). As at December 31, 2019 the borrowed balance was €54.751.000 (2018: €56.587.000) which is repayable from 2020 to 2023.

In July 2018 LEVEL borrowed €77.000.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €4.678.000 (2018: €2.272.000). The amount repaid during the year was €7.288.000 (2018: €1.812.000). As at December 31, 2019 the borrowed balance was €74.850.000 (2018: €77.460.000) which is repayable from 2020 to 2023.

Loans payable to Group companies:

In 2017, the Company borrowed €200.000.000 from Iberia for general corporate purposes. Accrued interest payable for the year was €2.928.000 (2018: €2.602.000). The amount repaid during the year was €2.683.000 (2018: €5.057.000). As at December 31, 2019 the borrowed balance was €200.457.000 (2018: €200.112.000) which is repayable in 2022.

In 2018, the Company borrowed €100.000.000 from Iberia for general corporate purposes. Accrued interest payable for the year was €2.210.000 (2018: €1.105.000). The amount repaid during the year was €2.553.000. As at December 31, 2019 the borrowed balance was €100.762.000 (2018: €101.105.000) which is repayable in 2023.

In May 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €2.336.000 (2018: €1.486.000). The amount repaid during the year was €2.188.000 (2018: €1.205.000). As at December 31, 2019 the borrowed balance was €100.429.000 (2018: €100.281.000) which is repayable in 2023.

In June 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €2.399.000 (2018: €1.347.000). The amount repaid during the year was €2.540.000 (2018: €1.160.000). As at December 31, 2019 the borrowed balance was €100.046.000 (2018: €100.187.000) which is repayable in 2023.

In March 2019, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €829.000. The amount repaid during the year was €817.000. As at December 31, 2019 the borrowed balance was €100.012.000 which is repayable in 2024.

In May 2018, the Company borrowed €57.000.000 from British Airways for general corporate purposes. Accrued interest payable for the year was €1.306.000 (2018: €859.000). The amount repaid during the year was €4.848.000 (2018: €2.451.000). As at December 31, 2019 the borrowed balance was €51.866.000 (2018: €55.408.000) which is repayable from 2020 to 2023.

In July 2018, the Company borrowed €77.000.000 from British Airways for general corporate purposes. Accrued interest payable for the year was €1.680.000 (2018: €781.000). The amount repaid during the year was €6.534.000 (2018: €1.741.000). As at December 31, 2019 the borrowed balance was €71,186,000 (2018: €76.040.000) which is repayable from 2020 to 2023.

In June 2019, the Company borrowed €218.540.000 from Avios for general corporate purposes. Accrued interest payable for the year was €1.814.000. The amount repaid during the year was €739.000. As at December 31, 2019 the borrowed balance was €219.615.000 which is repayable in 2021.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**Notes to the financial statements** continued**16. RELATED PARTY TRANSACTIONS** continued**16.2 Board of Directors and Management Committee remuneration**

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

€'000	2019	2018
Board of Directors		
Salaries (fixed and variable)	7.481	6.613
Benefits in kind	663	667
Life insurance policies	27	23
	8.171	7.303
Management Committee		
Salaries (fixed and variable)	12.212	13.047
Benefits in kind	1.372	1.568
Life insurance policies	36	35
Pension contributions	11	18
	13.631	14.668

The pension obligation outstanding, which represents the transfer value of the accrued pension was €985.000 (2018: €4.406.000) for the Management Committee.

At December 31, 2019 and 2018, no advances or loans had been given to members of the Board of Directors.

The Directors have also confirmed that they hold no positions and carry out no duties in companies with identical, similar or complementary activities to those of the Company, nor do they perform activities on their own behalf or on behalf of third parties that are identical, similar or complementary to those of the Company.

17. SHARE-BASED PAYMENTS

The Company operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at 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.

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. From 2015, the awards have been made as nil-cost options, and also have a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made since 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

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.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

17. SHARE-BASED PAYMENTS continued

Share-based payment schemes summary

	Outstanding at January 1, 2019	Granted number	Lapsed number	Vested number	Outstanding at December 31, 2019	Exercisable December 31, 2019
	000s	000s	000s	000s	000s	000s
Incentive Award Deferral Plan	1.893	785	8	688	1.982	-
Performance Share Plan	6.544	2.440	1.338	-	7.646	-
	8.437	3.225	1.346	688	9.628	-

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

	2019	2018
Weighted average fair value (£)	1,93	4,01
Expected share price volatility (per cent)	35	35
Expected comparator group volatility (per cent)	20	20
Expected comparator correlation (per cent)	55	60
Expected life of options (years)	4,8	4,6
Share price at date of grant (£)	5,67	6,91

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

The Company recognised a share-based payments charge of €14.381.000 for the year to December 31, 2019 (2018: €12.689.000). A credit of €32.874.000 (2018: €30.724.000) representing the total Group charge was recognised in Reserves including the deferred tax asset debit of €279.000 (2018: debit of €122.000) and corporation tax recoverable on share vesting of €nil (2018: €209.000). Group companies are recharged for the grants made to employees of those Group companies.

18. OTHER DISCLOSURES

18.1 Employee numbers

Professional category	Number of employees at year end			Average number of employees
	Men	Women	Total	
2019				
Management Committee	8	2	10	10
All other employees	77	56	133	132
	85	58	143	142
2018				
Management Committee	8	2	10	10
All other employees	85	56	141	142
	93	58	151	152

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

At December 31, 2019, the Board consisted of 12 people, including 8 men and 4 women (2018: 12 people, including 8 men and 4 women).

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**Notes to the financial statements** continued**18. OTHER DISCLOSURES** continued**18.2 Audit fees**

The fees for audit and non-audit services provided by the auditor of the Company's and Group's financial statements, Ernst & Young S.L., is as follows:

€'000	2019	2018
Fees for the audit of the financial statements	704	544
Other audit related services	144	138
All other services	-	27
	848	709

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

18.3 Information on environmental issues

The undersigned, as Directors of the Company, hereby state that the accounting records relating to these financial statements do not contain any item of an environmental nature that should be included pursuant to point 5 of the Valuation Standard 4^a Financial Statements, or Section 3 of the Spanish National Chart of Accounts (Royal Decree 1514/2010, of 16 November).

19. POST BALANCE SHEET EVENTS

There have been no post balance sheet events subsequent to the year end that require disclosure in the accounts.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Management report for the year to December 31, 2019

MANAGEMENT REPORT

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

Business review

IAG is a Spanish registered company with the majority its Board meetings held in Spain. IAG operates a head office through its UK branch in London, with an average staff of 142 (2018: 152) managing key support functions for the Group. The Company's focus is on the Group strategy, synergies, digital and connectivity, and support of finance, legal and communications functions as well as the administration of the Company.

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

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

Our vision is to be the world's leading airline group, maximising sustainable value creation for our shareholders, customers and other stakeholders.

The Group's current strategic priorities include:

- Strengthening a portfolio of world-class brands and operations
- Growing global leadership positions
- Enhancing the common integrated platform

How we create value:

- Unrivalled customer proposition
- Value accretive and sustainable growth
- Efficiency and innovation

IAG is committed to creating a supportive and inclusive environment for all employees, as well as to ensuring equal development opportunities. The Board monitors and reports on diversity at all levels across the Group. In particular, diversity has been a key consideration in planning the long-term composition of the Board itself. The Board diversity policy is described on the Company's website, where the gender diversity figures are also disclosed.

Finance review

Income statement

Revenue which is derived from charging the airline companies for the services that IAG provides to them, totalled €68 million for the year to December 31, 2019 (2018: €67 million). Such services cover financial control over treasury policy, treasury support including hedging, financing and refinancing, major capital investments, co-ordination and delivery support of the synergies, strategy and general management of the Group. At constant currency revenue in 2019 remained broadly in line with prior year.

The Company received dividend income from British Airways, Iberia and Veloz totalling €825 million during the year (2018: €693 million from British Airways, Iberia and AERL Holding).

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

Employee costs for the year are €52 million (2018: €50 million). The increase in employee costs reflects annual pay revisions and includes costs in relation to share-based payment charge and related social security of €16 million which are broadly in line with last year.

Services received largely relate to supporting the activities of the key departments, whilst other expenses reflect the cost of operating the IAG offices and IT costs, as well as the costs supporting the Group's market listings with CNMV and UKLA. In 2019, the Group incurred additional professional fees related to regulatory fees and group wide strategy programmes led by IAG teams.

The increase in finance income and finance costs relate to interest on loans with Group companies reflecting the new loans received and issued during the year. Finance cost payable on debt with third parties includes interest expense on the convertible bonds of €41 million (2018: €24 million) including €17 million related to the early redemption of the bond due in 2020. The change in fair value of financial instruments reflects €19 million loss on derivatives entered into by the Company not qualifying for hedge accounting (2018: €4 million gain).

Profit before tax for the year was €746 million (2018: €661 million).

The taxation credit of €17 million (2018: €1 million) reflects:

- the losses surrendered by the Company to IAG's Spanish tax group for payment at the tax rate of 25 per cent,
- UK tax on the profits of the Company's UK branch at the tax rate of 19 per cent,
- an adjustment in relation to prior years, and
- the recognition of the deferred tax asset from the share-based payment charge at the tax rate of 19 per cent.

The profit after tax for the year from continuing operations is €764 million (2018: €662 million).

Balance sheet

IAG's primary assets are its subsidiaries. IAG's investments in British Airways and Iberia were created at the time of the merger on January 21, 2011 and amounted to €6.208 million. During 2019, The Company made investments of €27 million in LEVEL. At the year end, IAG held an investment of €4.155 million in British Airways, €2.389 million in Iberia, €836 million in AERL Holding, €166 million in Veloz, €85 million in LEVEL, €22 million in IAG GBS and €5 million in IAG Connect totalling €7.658 million. It also holds the investment in IAG Cargo.

Prior year movements in investments

During 2018, distributions were received from Iberia totalling €75 million which were recognised against the cost of the investment. The loan balance due to the Company from Veloz for €146 million was capitalised and the Company made investments of €48 million in LEVEL, €22 million in IAG GBS and in IAG Connect €5 million.

Treasury shares

At December 31, 2019 the Company held 7.7 million shares (2018: 8.7 million).

A total number of 1.0 million shares vested during the year in relation to share-based payment schemes. The total number of the Company's treasury shares as at December 31, 2019 accounts for 0,39 per cent (2018: 0,44 per cent) of the total issued capital at that date.

During 2018, the Company purchased a total of 66 million ordinary shares as part of its €500 million share buyback programme which was launched in May 2018. The programme was part of the Company's corporate finance strategy to return cash to its shareholders while reinvesting in the business and managing leverage. On completion of the programme these treasury shares were cancelled. No shares were purchased during 2019.

Dividends

On October 30, 2019 IAG's Board of Directors approved the distribution in cash of an interim dividend of 14,5 € cents per share.

On February 27, 2020 IAG's Board of Directors proposed a distribution in cash of a final dividend of 17,0 € cents per share. The proposed dividend is subject to approval at the annual general meeting and is not recognised as a liability at December 31, 2019. The proposed final dividend would be distributed from net profit for the year to December 31, 2019.

Post balance sheet events

There have been no post balance sheet events subsequent to the year end that require disclosure in the accounts.

Research and development

The Company does not undertake any research or development activity.

Financial risk management

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

Principal risks and uncertainties

The Directors of the Company believe that the risks and uncertainties described below are the ones that may have the most significant impact on the day to day operations of IAG as a parent company. These risks are considered by the IAG management team as part of its wider consideration of Group risks under the IAG Enterprise Risk Management framework. The list is not intended to be exhaustive.

Financial risk - counterparty credit risk

The failure of financial counterparties may result in financial losses. The Company is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. This risk is mitigated by the IAG Group Treasury counterparty credit policy which establishes limits and monitors the group wide exposure to banks.

Group Governance Structure

The governance structure of the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's routes and operating licences. IAG could face a challenge to its ownership and control structure. The UK's exit from the EU on January 31, 2020 may have certain implications for the regulatory environment in which the Group operates, including the structure of the Group. IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

IT systems and IT infrastructure

The failure of a critical system may cause significant disruption. We are dependent on IT systems for most key business processes. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. IAG Tech works with the business to deliver digital and IT change initiatives to enhance security and stability.

Non-compliance with key regulation and laws

The Company is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses. The Company has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. There are mandatory training programmes in place to educate employees in these matters, including an IAG Code of Conduct framework and training.

Reputation

As a listed entity in Spain and the United Kingdom, and as owner of British Airways, Iberia, IAG Cargo, Vueling, Aer Lingus, Avios and LEVEL, the Company is exposed to reputational risk and consequent impact to the Group's brands. This risk is mitigated through a Disclosure Committee that meets monthly to consider the adequacy and accuracy of external communications. The Company's communications department also works closely with the operating companies to ensure consistency in external communications.

Tax

The Company is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media or other representative bodies. The Group adheres to the Tax Policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities. Tax risk is managed by the IAG tax department and overseen by the Board through the Audit and Compliance Committee.

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

The Non-Financial Information Statement in response to the requirements of Law 11/2018, of December 28, (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), is part of this Management Report and is available on the Company's website (www.iairgroup.com).

ANNUAL CORPORATE GOVERNANCE REPORT

The 2019 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 2/2018, of June 12, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2019 Financial Statements, is 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.

FORMULATION OF THE INDIVIDUAL FINANCIAL STATEMENTS AND OF THE INDIVIDUAL MANAGEMENT REPORT FOR THE YEAR 2019

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 27, 2020 the individual financial statements and the individual management report of the company for the year to December 31, 2019, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 27, 2020:

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Margaret Ewing

Francisco Javier Ferrán Larraz

Stephen William Lawrence Gunning

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban

**Audit Report on Consolidated Financial Statements
issued by an Independent Auditor**

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019**

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of the International Consolidated Airlines Group, S.A.:

Audit report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the equity and the financial position of the Group as at December 31, 2019 and of its financial performance and its cash flows, all of them consolidated, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of other comprehensive income, the statement of changes in equity, the cash flow statement, all of them consolidated, and the notes thereto for the year then ended.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations 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 related to independence, that are applicable to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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 audit opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Passenger and Other revenue recognition, (€22,468 million and €1,921 million, 2018 restated: €21,401 million and €1,684 million) The accounting for passenger revenue is susceptible to management override through the recording of manual journal entries either in the underlying ledgers or as a consolidation journal, the override of IT systems to accelerate revenue recognition, or the manipulation of inputs used to calculate ticket breakage. We consider this to be a risk across all the segments within the Group. The accounting for the Group's loyalty programmes, including those recorded in other revenue, is subject to management estimates and assumptions in respect of the allocation of contract revenue between the points issued and brand and marketing services provided, and in respect of the proportion of points that will not be redeemed (breakage). These assumptions are based on a combination of external valuations in respect of brand and marketing services, statistical models in respect of the future redemption of points and management information in respect of the cost of future redemption products. Any changes in these assumptions can have a significant impact on the revenue recognised in the year. <i>Refer to Note 2 of the consolidated financial statements.</i>	Our procedures included the following: Passenger revenue: ▶ We tested a sample of IT controls over underlying revenue related systems to confirm their effectiveness in preventing an unauthorised system override. ▶ We tested a sample of key financial controls over the sales to cash and deferred revenue to revenue processes. ▶ We validated the appropriate recognition and measurement of passenger ticket revenue by testing a sample of coupons and confirmed the tickets were recognised on the flight date and the valuation of the ticket between coupons was appropriately calculated. ▶ We used data analysis to correlate the activity in passenger revenue accounts through accounts receivable and to cash. Manual adjustments: ▶ We validated the inputs into the expired ticket revenue calculations by re-running key reports and checking the completeness and accuracy of the underlying data. ▶ We checked that the methodology applied was consistent with the prior year and verified the appropriateness of changes to the methodology. ▶ We verified that reasonable historic rates have been applied, by assessing the accuracy of the estimate by comparing it to the actual amount of revenue recognised relating to tickets that were unused. Loyalty programmes: ▶ To check the completeness of deferred revenue, we reconciled the points issued and redeemed in the year and the closing balance sheet position from the financial records to the respective loyalty programme membership databases. ▶ With the assistance of our inhouse modelling specialists, we assessed the updated models, including the mathematical accuracy, and concluded on the appropriateness of the assumptions applied within the updated models. ▶ We assessed the appropriateness of the breakage assumptions used for each loyalty programme including comparison to the trends shown in the updated third-party statistical models used by management. ▶ For a sample of invoices to issuance partners, we agreed the amounts billed to the cash received, or to the intercompany statement for points issued to IAG Group airlines. ▶ We tested the allocation of cash received from issuance partners between the points issued and the brand and marketing services provided to check that the revenue deferred for points issued is complete.

Risk

Our response to the risk

Valuation of British Airways and Iberia's employee liabilities (€31,094 million, 2018: €25,820 million)

The valuation of these balances requires significant levels of judgement and technical expertise to select appropriate valuation assumptions.

Changes in a number of the key assumptions (discount rate, price inflation, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of the pension obligations.

British's Airways APS and NAPS defined benefit pension scheme liabilities amount to €30,051 million (2018: €24,738 million) within the net pension surplus of €510 million (2018: €1,115 million). Iberia's commitments with employees amount to €1,043 million (2018: €1,082 million), which includes obligations relating to pension schemes, early retirements and redundancy plans.

On November 11, 2019 the High Court of England and Wales approved the settlement of the APS discretionary increase. Management has recognised an impact amounting to €672 million as a past service cost. This has been disclosed as an exceptional item.

Refer to Notes 2, 24 and 30 of the consolidated financial statements.

We involved internal pension actuaries to assist in the evaluation of the assumptions used in the valuation of the Group's long-term employee commitments. The procedures performed included the following:

- ▶ We understood the key assumptions used and the process followed to develop those. This included a meeting with external actuaries.
- ▶ We compared the key inputs and methodologies used to independent sources, current market information and expectations.
- ▶ We compared the assumptions applied to those used in the prior year and understood the basis for any changes.
- ▶ We independently checked a sample of the scheme membership data provided to the actuaries to the pension plan membership records.
- ▶ We evaluated the independence and qualification of management's external actuaries involved in the valuation process.
- ▶ We reviewed the settlement agreement with the Trustees of the APS pension scheme in relation to disputed discretionary benefit increases and recalculated the settlement amount recognised.
- ▶ We verified the accounting treatment for the settlement including appropriateness of disclosure as an exceptional item and assessed the adequacy of the related disclosures.

The assessment of the carrying value of goodwill and acquired indefinite life intangible assets (€2,460 million, 2018: €2,403 million)

The annual impairment test of goodwill and indefinite life intangibles within the different Group's Cash Generating Units (CGUs) requires significant judgement in forecasting cash flow projections of each CGU, together with the discount rates, long-term economic growth rates, fuel prices and exchange rates.

Changes to these assumptions can have a significant impact on the available headroom and any impairment that may be required, as can assumptions applied in identifying in CGUs.

Refer to Notes 2 and 15 of the consolidated financial statements.

Our procedures included the following:

- ▶ We assessed the historical accuracy of previous business plans to challenge the accuracy of forecasts. We compared actual performance to forecast operating profit before exceptional items to assess if the deviations could impact the 2020 to 2024 operating company business plans.
- ▶ We verified key assumptions used in management's business plans to external sources. Specifically, corroborating key assumptions such as fuel price and exchange rates to current market data.
- ▶ We assessed the appropriateness of other assumptions made by management. We evaluated the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the different CGUs operate and considered whether discount rates were within acceptable ranges. We involved a valuation specialist to assist in the evaluation of the discount rates used to discount future cash flows in each of the different CGUs.
- ▶ We reperformed the impairment calculations. Furthermore, we assessed management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the Group's CGUs would cause the carrying amounts to exceed the recoverable amounts. This included consideration of the impact of the UK's exit from the European Union and other external industry environment factors and how management has considered them in their forecasts.
- ▶ We assessed the appropriateness of the related disclosures.

Risk

Our response to the risk

Accounting for aircraft maintenance, restoration and handback costs (maintenance provisions: €1,675 million, 2018: €1,359 million)

The Group operates aircraft which are owned or held under lease arrangements. Liabilities for maintenance costs are incurred during the life of the asset or the term of the lease. Costs are provided for leased assets based on obligations as to the condition of the aircraft when returned to the lessor.

The accounting for maintenance obligations under lease agreements, including the end of lease hand back requirements, is subject to management assumptions.

Provisions require complex judgements and estimates including considerations of aircraft utilisation, expected maintenance intervals, future maintenance costs and aircraft conditions and there is a risk that they are inappropriate, and provisions are understated as a result.

Refer to Notes 2 and 24 of the consolidated financial statements.

Our procedures included the following:

- ▶ We understood the estimation processes and tested management's calculations of maintenance expenses including assessing the appropriateness of the assumptions for the timing of the maintenance work.
- ▶ We challenged the appropriateness of management's inputs and assumptions in the calculation of the maintenance provision by assessing the timing of the maintenance work and comparing the valuation of maintenance expenses to historic invoices, third-party price lists and/or agreed maintenance contracts.
- ▶ We obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the restoration and return liabilities for obligations at the hand back at the end of the lease.

Appropriateness of assumptions made and accuracy of IFRS 16 accounting

IFRS 16 'Leases' has been adopted by the Group since January 1, 2019. On the initial accounting for, and in the re-assessment of, leases there are accounting judgements, estimates and assumptions that impact the amounts recognised as right of use assets, lease liabilities and restoration/handback provisions.

Assumptions include the estimated lease term and extension options, the discount rate used to determine the liability, application of clauses for cancellation or modifications, and the estimate of handback obligations.

There is a risk of inappropriate assumptions being applied, which could have a significant impact on the valuation of amounts recognised on the balance sheet.

Refer to Notes 2, 13 and 33 of the consolidated financial statements.

Our procedures included the following:

- ▶ We updated our understanding of leases held by the Group, including acquisitions of fleet or other non-fleet agreements and changes in lease terms.
- ▶ We verified the calculation of the initial recognition of the right of use asset and lease liability by testing a sample of leases, agreeing the lease terms (including any pre-delivery payments, initial direct costs, fixed payments, variable payments, residual value guarantees and termination costs) back to the lease contract and re-performing the calculation of the opening adjustment.
- ▶ We tested a sample of leases entered during the year and assessed the accounting impact of new leases by agreeing key terms back to lease contract. We also assessed discount rates applied (IBR or interest rate implicit in the lease).
- ▶ We considered the reasonableness of the interest expense generated by the lease liability and depreciation of the right of use asset.
- ▶ Where sale and leaseback transactions were entered during the year we checked that they had been accounted for correctly and verified the appropriate recognition of any gains or losses.
- ▶ We assessed the appropriateness of all material disclosures, including assessing the completeness of transition disclosure requirements.

Other information: consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.
- b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on our knowledge of the Group obtained during the audit, and limited to the information gained through audit evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the non-financial information referred to in paragraph a) above is provided in the separate report on "Non-financial Information" which is referred to in the consolidated management report, and that the information from the Annual Corporate Governance Report referred to in said paragraph is included in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company's directors and the Audit and Compliance Committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory 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 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 has no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

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 audit regulations 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 audit regulations 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 management.
- ▶ Conclude on the appropriateness of the 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 fair presentation.
- ▶ 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 company 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 Audit and Compliance Committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to 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 with the Audit and Compliance Committee of the parent company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and 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

Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on March 3, 2020.

Term of engagement

The annual general shareholders' meeting held on June 20, 2019 appointed us as auditors for the financial year 2019.

Previously, we were appointed as auditors by the shareholders for one year and we have been carrying out the audit of the consolidated financial statements continuously since December 31, 2011.

We have nothing to report in respect of our requirement to review, under the United Kingdom Listing Rules, the directors' statement in relation to going concern and longer-term viability and the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

ERNST & YOUNG, S.L.
(Registered in the Official Register of
Auditors under No. S0530)



Hildur Eir Jónsdóttir
(Registered in the Official Register of
Auditors under No. 18201)

March 3, 2020

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND
SUBSIDIARIES**

**Consolidated financial statements
for the year ended
December 31, 2019**

CONSOLIDATED INCOME STATEMENT

€ million	Note	Year to December 31					
		Before exceptional items 2019	Exceptional items	Total 2019	Before exceptional items 2018 (Restated)	Exceptional items	Total 2018 (Restated)
Passenger revenue		22,468		22,468	21,401		21,401
Cargo revenue		1,117		1,117	1,173		1,173
Other revenue		1,921		1,921	1,684		1,684
Total revenue	3	25,506		25,506	24,258		24,258
Employee costs	4, 7	4,962	672	5,634	4,812	(460)	4,352
Fuel, oil costs and emissions charges		6,021		6,021	5,283		5,283
Handling, catering and other operating costs		2,972		2,972	2,740		2,740
Landing fees and en-route charges		2,221		2,221	2,184		2,184
Engineering and other aircraft costs		2,092		2,092	1,828		1,828
Property, IT and other costs		811		811	918	12	930
Selling costs		1,038		1,038	1,046		1,046
Depreciation, amortisation and impairment	5	2,111		2,111	1,254		1,254
Aircraft operating lease costs		-		-	890		890
Currency differences		(7)		(7)	73		73
Total expenditure on operations		22,221	672	22,893	21,028	(448)	20,580
Operating profit		3,285	(672)	2,613	3,230	448	3,678
Finance costs	8	(611)		(611)	(231)		(231)
Finance income	8	50		50	41		41
Net financing credit relating to pensions	8	26		26	27		27
Net currency retranslation credits/(charges)		201		201	(19)		(19)
Other non-operating charges	8	(4)		(4)	(9)		(9)
Total net non-operating costs		(338)		(338)	(191)		(191)
Profit before tax		2,947	(672)	2,275	3,039	448	3,487
Tax	9	(560)	-	(560)	(558)	(32)	(590)
Profit after tax for the year		2,387	(672)	1,715	2,481	416	2,897
Attributable to:							
Equity holders of the parent		2,387		1,715	2,469		2,885
Non-controlling interest		-		-	12		12
		2,387		1,715	2,481		2,897
Basic earnings per share (€ cents)	10	120.3		86.4	122.1		142.7
Diluted earnings per share (€ cents)	10	116.8		84.3	117.7		137.4

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31	
		2019	2018
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity		610	(517)
Reclassified and reported in net profit		141	(480)
Fair value movements on cost of hedging		36	13
Cost of hedging reclassified and reported in net profit	29	(10)	-
Currency translation differences	29	296	(80)
<i>Items that will not be reclassified to net profit</i>			
Fair value movements on other equity investments	29	(8)	(5)
Fair value movements on cash flow hedges		(70)	26
Fair value movements on cost of hedging		32	-
Remeasurements of post-employment benefit obligations	29	(788)	(696)
Total other comprehensive income/(loss) for the year, net of tax		239	(1,739)
Profit after tax for the year		1,715	2,897
Total comprehensive income for the year		1,954	1,158
Total comprehensive income is attributable to:			
Equity holders of the parent		1,954	1,146
Non-controlling interest	29	-	12
		1,954	1,158

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

CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2019	December 31, 2018
Non-current assets			
Property, plant and equipment	12	19,168	12,437
Intangible assets	15	3,442	3,198
Investments accounted for using the equity method	16	31	31
Other equity investments	17	82	80
Employee benefit assets	30	524	1,129
Derivative financial instruments	26	268	221
Deferred tax assets	9	546	536
Other non-current assets	18	273	309
		24,334	17,941
Current assets			
Inventories		565	509
Trade receivables	18	2,255	1,597
Other current assets	18	1,314	1,175
Current tax receivable	9	186	383
Derivative financial instruments	26	324	155
Other current interest-bearing deposits	19	2,621	2,437
Cash and cash equivalents	19	4,062	3,837
		11,327	10,093
Total assets		35,661	28,034
Shareholders' equity			
Issued share capital	27	996	996
Share premium	27	5,327	6,022
Treasury shares		(60)	(68)
Other reserves	29	560	(236)
Total shareholders' equity		6,823	6,714
Non-controlling interest	29	6	6
Total equity		6,829	6,720
Non-current liabilities			
Interest-bearing long-term borrowings	23	12,411	6,633
Employee benefit obligations	30	328	289
Deferred tax liability	9	572	453
Provisions	24	2,416	2,268
Derivative financial instruments	26	286	423
Other long-term liabilities	22	71	198
		16,084	10,264
Current liabilities			
Current portion of long-term borrowings	23	1,843	876
Trade and other payables	20	4,344	3,959
Deferred revenue on ticket sales	21	5,486	4,835
Derivative financial instruments	26	252	656
Current tax payable	9	192	165
Provisions	24	631	559
		12,748	11,050
Total liabilities		28,832	21,314
Total equity and liabilities		35,661	28,034

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31	
		2019	2018
Cash flows from operating activities			
Operating profit after exceptional items		2,613	3,678
Depreciation, amortisation and impairment	5	2,111	1,254
Movement in working capital		(70)	(64)
<i>Increase in trade receivables, prepayments, inventories and other current assets</i>		(935)	(650)
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>		865	586
Payments related to restructuring	24	(180)	(220)
Employer contributions to pension schemes		(870)	(898)
Pension scheme service costs	30	5	55
Provision and other non-cash movements		951	(114)
Interest paid		(481)	(149)
Interest received		42	37
Tax paid		(119)	(343)
Net cash flows from operating activities		4,002	3,236
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(3,465)	(2,802)
Sale of property, plant and equipment and intangible assets		911	574
(Increase)/decrease in other current interest-bearing deposits		(103)	924
Other investing movements		(1)	61
Net cash flows from investing activities		(2,658)	(1,243)
Cash flows from financing activities			
Proceeds from long-term borrowings		2,286	1,078
Repayment of borrowings		(730)	(275)
Repayment of lease liabilities (2018: repayment of finance leases)		(1,507)	(824)
Acquisition of treasury shares		-	(500)
Distributions made to holders of perpetual securities		-	(312)
Dividend paid		(1,308)	(577)
Net cash flows from financing activities		(1,259)	(1,410)
Net increase in cash and cash equivalents		85	583
Net foreign exchange differences		140	(38)
Cash and cash equivalents at 1 January		3,837	3,292
Cash and cash equivalents at year end	19	4,062	3,837
Interest-bearing deposits maturing after more than three months	19	2,621	2,437
Cash, cash equivalents and other interest-bearing deposits	19	6,683	6,274

For details on restricted cash balances refer to note 19 'Cash, cash equivalents and other current interest-bearing deposits'.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2019

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings (note 29)	Total shareholders' equity	Non- controlling interest (note 29)	Total equity
January 1, 2019 as reported	996	6,022	(68)	(3,560)	3,324	6,714	6	6,720
Adoption of IFRS 16	-	-	-	4	(554)	(550)	-	(550)
January 1, 2019	996	6,022	(68)	(3,556)	2,770	6,164	6	6,170
Profit for the year	-	-	-	-	1,715	1,715	-	1,715
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	55	-	55	-	55
Fuel and oil costs	-	-	-	106	-	106	-	106
Currency differences	-	-	-	(26)	-	(26)	-	(26)
Finance costs	-	-	-	6	-	6	-	6
Net change in fair value of cash flow hedges	-	-	-	540	-	540	-	540
Net change in fair value of equity investments	-	-	-	(8)	-	(8)	-	(8)
Net change in fair value of cost of hedging	-	-	-	68	-	68	-	68
Cost of hedging reclassified and reported in net profit	-	-	-	(10)	-	(10)	-	(10)
Currency translation differences	-	-	-	296	-	296	-	296
Remeasurements of post-employment benefit obligations	-	-	-	-	(788)	(788)	-	(788)
Total comprehensive income for the year	-	-	-	1,027	927	1,954	-	1,954
Hedges reclassified and reported in property, plant and equipment	-	-	-	(11)	-	(11)	-	(11)
Cost of share-based payments	-	-	-	-	33	33	-	33
Vesting of share-based payment schemes	-	-	8	-	(14)	(6)	-	(6)
Dividend	-	(695)	-	-	(615)	(1,310)	-	(1,310)
Redemption of convertible bond	-	-	-	(39)	38	(1)	-	(1)
December 31, 2019	996	5,327	(60)	(2,579)	3,139	6,823	6	6,829

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2018

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings (note 29)	Total shareholders' equity	Non- controlling interest (note 29)	Total equity
January 1, 2018	1,029	6,022	(77)	(2,626)	2,278	6,626	307	6,933
Profit for the year	-	-	-	-	2,885	2,885	12	2,897
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	77	-	77	-	77
Fuel and oil costs	-	-	-	(565)	-	(565)	-	(565)
Currency differences	-	-	-	4	-	4	-	4
Finance costs	-	-	-	4	-	4	-	4
Net change in fair value of cash flow hedges	-	-	-	(491)	-	(491)	-	(491)
Net change in fair value of equity investments	-	-	-	(5)	-	(5)	-	(5)
Net change in fair value of cost of hedging	-	-	-	13	-	13	-	13
Currency translation differences	-	-	-	(80)	-	(80)	-	(80)
Remeasurements of post- employment benefit obligations	-	-	-	-	(696)	(696)	-	(696)
Total comprehensive income for the year	-	-	-	(1,043)	2,189	1,146	12	1,158
Hedges reclassified and reported in property, plant and equipment	-	-	-	(1)	-	(1)	-	(1)
Cost of share-based payments	-	-	-	-	31	31	-	31
Vesting of share-based payment schemes	-	-	9	-	(15)	(6)	-	(6)
Acquisition of treasury shares	-	-	(500)	-	-	(500)	-	(500)
Dividend	-	-	-	-	(582)	(582)	-	(582)
Cancellation of share capital	(33)	-	500	33	(500)	-	-	-
Dividend of a subsidiary	-	-	-	-	-	-	(1)	(1)
Transfer between reserves	-	-	-	77	(77)	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(312)	(312)
December 31, 2018	996	6,022	(68)	(3,560)	3,324	6,714	6	6,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year to December 31, 2019

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 amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2019 were authorised for issue, and approved by the Board of Directors on February 27, 2020.

The Directors have considered the business activities, the Group's principal risks and uncertainties, and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Changes in accounting policies

The Group has applied IFRS 16 'Leases' and IFRIC 23 'Uncertainty over tax treatments' for the first time for the year to December 31, 2019. There has been no impact arising from the application of IFRIC 23. Further details on the impact of IFRS 16 on the Group accounting policies, financial position and performance are provided in note 33.

There are no other standards, amendments or interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

In September 2019, the IFRS Interpretations Committee ('IFRIC') clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect €148 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The revenue component of segmental reporting has accordingly been restated. Further details are given in note 33.

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 intra-group account balances, including intra-group profits, are eliminated in preparing the consolidated financial statements.

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 5 per cent residual value for shorthaul aircraft and between 25 and 29 years (depending on aircraft) and 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 rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major 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 and equipment. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant and equipment.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is discussed in note 33.

Policy applicable from January 1, 2019

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 asset for a period of time in exchange for consideration.

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; any initial direct costs; and restoration costs to return the asset to its original condition.

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. If that rate 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 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 reassessed 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 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 is 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.

Under the transitional requirements of IFRS 16 applying the modified retrospective method, the assets and liabilities on all finance leases prior to January 1, 2019 were transferred into ROU assets and associated lease liabilities. From January 1, 2019 onwards, those new financing arrangements with the following features that do not meet the recognition criteria as a sale under IFRS 15 are therefore not eligible for recognition under IFRS 16: the lessor has legal ownership retention as security against repayment and interest obligations; the Group initially acquired the aircraft or took a major share in the acquisition process from the manufacturer; in view of the contractual conditions, it is virtually certain that the aircraft will be purchased at the end of the lease term. Where new financing arrangements do not meet these recognition criteria due to the fact they are 'in substance purchases' and not leases, the related liability is recognised as an asset financed liability and the assets as an owned asset within Property, plant and equipment.

Policy applicable before January 1, 2019

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of Property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the Income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the Income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further material financial obligations. In certain cases, the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

In determining the appropriate lease classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the Group by the end of the lease term; the Group has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset; and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

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 the EU are amortised on a straight-line basis over a period not exceeding 20 years.

Capitalised landing rights based within 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 10 years.

g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

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

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 Other interest-bearing deposits

Other 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.

c Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) 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.

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 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.

e Cash flow hedges

Changes in the fair value of derivative financial instruments designated as a hedge of a highly probable expected future cash flow and assessed as effective are recorded in equity. Gains and losses on derivative instruments not designated as a cash flow hedge are reported in the Income statement. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euros, Japanese yen and Chinese yuan are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

f Convertible debt

Convertible bonds are classified as compound instruments, consisting 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 Interest-bearing 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 Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs 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.

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.

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.

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 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 actuarial 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.

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.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue recognition

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 the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

The Group considers whether it is an agent or a principal in relation to 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 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.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer.

Customer loyalty programmes

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

The Group has identified several performance obligations associated with the sale of Avios points. Revenue associated with brand and marketing services and revenue associated with Avios points has been determined based on the relative stand-alone selling price of each of the performance obligations. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios points is deferred on the balance sheet as a current liability, and recognised when the points are redeemed. When the points are redeemed for products provided by suppliers outside the Group, revenue is recognised in the Income statement net of related costs, as the Group is considered to be an agent in these redemption transactions.

The Group estimates the stand-alone selling price of the brand and marketing performance obligations 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 have access. The stand-alone selling price of Avios points 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 award credits which are not expected to be redeemed, based on the results of statistical modelling.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement include 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; and the impact of the sale, disposal or impairment of an investment in a business.

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

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, 2019 the Group recognised €524 million in respect of employee benefit assets (2018: €1,129 million) and €328 million in respect of employee benefit obligations (2018: €289 million). Further information on employee benefit obligations is disclosed in note 30.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial 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 estimates are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 30. 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 increase assumptions is disclosed in note 30.

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

In 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. On January 13, 2020, it was confirmed that the period of consultation will commence on March 11, 2020 for a period of six weeks.

Following the aforementioned announcement in September 2019, market-implied break-even 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.

On October 26, 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Banking Group plc and others as defendants (collectively referred to as the 'Lloyds Bank case') regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment in the Lloyd's Bank case confirmed that all pension schemes were required to equalise, with immediate application, for the effects of unequal Guaranteed Minimum Pension ('GMP') benefits accrued over the period since May 17, 1990 ('GMP equalisation'). As at December 31, 2018, given the limited timescale from the High Court judgment, the Group undertook a simplified approach to estimating the impact of the GMP. The APS and NAPS estimated DBO as at December 31, 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

At December 31, 2019 the Group recognised €5,486 million (2018: €4,835 million) in respect of deferred revenue on ticket sales of which €1,917 million (2018: €1,769 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation is provided. At the time of transportation, revenue is also recognised in respect of tickets that are not expected to be used ('unused tickets'). Revenue associated with unused tickets is estimated based on the terms and conditions of the tickets and historical trends.

Revenue associated with the issuance of points under customer loyalty programmes is based on the relative stand-alone selling prices of the related performance obligations (brand, marketing and points), 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 awards for which the points can be redeemed and is reduced to take account of the proportion of the award credits that are not expected to be redeemed by customers. The Group estimates the number of points not expected to be redeemed (using statistical modelling and historical trends) and the mix and fair value of the award credits. A five percentage point change in the assumption of points outstanding and not expected to be redeemed will result in an adjustment to deferred revenue of €100 million, with an offsetting adjustment to revenue and operating profit recognised in the year.

The following three accounting estimates involve a higher degree of judgement or complexity, or are areas where assumptions are significant to the financial statements however these accounting estimates are not major sources of estimation uncertainty that have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next year.

c Income taxes

At December 31, 2019 the Group recognised €546 million in respect of deferred tax assets (2018: €536 million). Further information on current and deferred tax liabilities is disclosed in note 9.

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 judgment of the most likely outcome; or, when there is a wide range of possible outcomes, uses 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 consider the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

At December 31, 2019 the Group recognised €2,460 million (2018: €2,403 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 15.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested 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. These calculations require the use of estimates and assumptions as disclosed in note 15.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

e Residual values and useful lives of assets

At December 31, 2019 the Group recognised €19,168 million (2018: €12,437 million) in respect of property, plant and equipment, including the ROU assets recognised in the year. Further information on these assets is included in note 12.

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets based on network plans and recoverable values. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information.

Judgement

a Engineering and other aircraft costs

At December 31, 2019, the Group recognised €1,675 million in respect of maintenance, restoration and handback provisions (2018: €1,359 million). Information on movements on the provision is disclosed in note 24.

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. The Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition.

b 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 historic experience regarding the extension of leases. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances and affects the Groups ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 13.

New standards, amendments and interpretations not yet effective

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. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- Amendments to references to conceptual framework in IFRS standards, effective for periods beginning on or after January 1, 2020;
- Definition of a business (amendments to IFRS 3), effective for periods beginning on or after January 1, 2020;
- Definition of material (amendments to IAS 1 and IAS 8), effective for periods beginning on or after January 1, 2020; and
- IFRS 17 Insurance contracts, effective for periods beginning on or after January 1, 2021.

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, effective January 1, 2020, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The EU adopted these amendments in January 2020. The Group is currently assessing the impact of these amendments.

3 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. Avios 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.

For the year to December 31, 2019

€ million	2019					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies ¹	
Revenue						
Passenger revenue	13,307	4,020	2,437	2,060	644	22,468
Cargo revenue	805	255	-	54	3	1,117
Other revenue	752	912	18	2	237	1,921
External revenue	14,864	5,187	2,455	2,116	884	25,506
Inter-segment revenue	242	458	-	9	575	1,284
Segment revenue	15,106	5,645	2,455	2,125	1,459	26,790
Depreciation, amortisation and impairment	(1,258)	(390)	(250)	(130)	(83)	(2,111)
Operating profit before exceptional items	2,182	497	240	276	90	3,285
Exceptional items (note 4)	(672)	-	-	-	-	(672)
Operating profit after exceptional items	1,510	497	240	276	90	2,613
Net non-operating costs						(338)
Profit before tax						2,275
Total assets	22,312	8,733	3,756	2,131	(1,271)	35,661
Total liabilities	(15,445)	(6,940)	(3,354)	(1,320)	(1,773)	(28,832)

1 Includes eliminations on total assets of €14,982 million and total liabilities of €4,603 million.

For the year to December 31, 2018

€ million	2018 (restated)					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies ¹	
Revenue						
Passenger revenue	12,909	3,754	2,317	1,941	480	21,401
Cargo revenue	867	251	-	54	1	1,173
Other revenue	682	749	20	9	224	1,684
External revenue	14,458	4,754	2,337	2,004	705	24,258
Inter-segment revenue	215	417	1	5	538	1,176
Segment revenue	14,673	5,171	2,338	2,009	1,243	25,434
Depreciation, amortisation and impairment	(890)	(207)	(25)	(83)	(49)	(1,254)
Operating profit before exceptional items	2,207	437	200	305	81	3,230
Exceptional items (note 4)	448	-	-	-	-	448
Operating profit after exceptional items	2,655	437	200	305	81	3,678
Net non-operating costs						(191)
Profit before tax						3,487
Total assets	18,531	6,829	1,882	1,915	(1,123)	28,034
Total liabilities	(12,235)	(5,051)	(1,495)	(1,072)	(1,461)	(21,314)

¹ Includes eliminations on total assets of €13,681 million and total liabilities of €3,667 million.

b Geographical analysis

Revenue by area of original sale

€ million	Year to December 31	
	2019	2018 (restated)
UK	8,362	7,945
Spain	4,399	4,027
USA	4,379	4,074
Rest of world	8,366	8,212
	25,506	24,258

Assets by area

December 31, 2019

€ million	Property, plant and equipment	Intangible assets
UK	12,214	1,401
Spain	5,324	1,402
USA	188	19
Rest of world	1,442	620
	19,168	3,442

December 31, 2018

€ million	Property, plant and equipment	Intangible assets
UK	9,017	1,285
Spain	2,512	1,291
USA	29	4
Rest of world	879	618
	12,437	3,198

4 Exceptional items

€ million	Year to December 31	
	2019	2018
Employee benefit obligations ¹	672	(584)
Restructuring costs ²	-	136
Recognised in expenditure on operations	672	(448)
Total exceptional charge/(credit) before tax	672	(448)
Tax on exceptional items	-	32
Total exceptional charge/(credit) after tax	672	(416)

1 Employee benefit obligations

The exceptional expense of €672 million relates to the past service cost of the Airways Pension Scheme ('APS') settlement agreement described in note 30. This amount arises from the increase in the IAS 19 defined benefit liability of APS following the settlement agreement between the Trustee Directors of APS and British Airways which was approved by the High Court in November 2019. The settlement agreement established higher pensions in payment growth assumptions in future years, resulting in a non-cash increase to the IAS 19 defined benefit liability.

In the year to December 31, 2018:

British Airways closed its New Airways Pension Scheme ('NAPS') to future accrual and British Airways Retirement Plan ('BARP') to future contributions from March 31, 2018. The schemes have been replaced by a flexible defined contribution scheme, the British Airways Pension Plan ('BAPP'). The changes resulted in a one-off reduction of the NAPS IAS 19 defined benefit liability of €872 million and associated transitional arrangement cash costs of €192 million through employee costs. These items are presented net, together with BARP closure costs, as an exceptional credit within the year to December 31, 2018 Income statement of €678 million, with a related tax charge of €58 million.

On October 26, 2018, the High Court of Justice of England and Wales issued a judgment in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to GMP benefits. The judgment affects some of the occupational pension schemes of British Airways as set out in note 30. The estimated increase in IAS 19 liabilities as a result of the High Court judgment was recorded as an exceptional charge of €94 million in the year to December 31, 2018 Income statement.

2 Restructuring costs

During 2018 British Airways continued to implement the restructuring programme that started in July 2016, to develop a more efficient and cost-effective structure. The overall costs of the programme principally comprised employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2018 in respect of this programme amounted to €136 million, with a related tax credit of €26 million.

5 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2019	2018
Owned assets	776	711
Right of use assets (2018: Finance leased aircraft)	1,153	371
Other leasehold interests	40	40
Amortisation of intangible assets	142	132
	2,111	1,254

Operating leases costs:

€ million	2019	2018
Minimum lease rentals – aircraft	-	890
– property and equipment	-	236
Sub-lease rentals received	-	(12)
	-	1,114

Cost of inventories:

€ million	2019	2018
Cost of inventories recognised as an expense, mainly fuel	3,242	3,165

6 Auditors' remuneration

The fees 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, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, were as follows:

€'000	2019	2018
Fees payable for the audit of the Group and individual accounts	3,916	4,328
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	632	634
Other services pursuant to legislation	496	436
Other services relating to taxation	3	-
Other assurance services	727	506
Services relating to working capital review	1,218	-
Services relating to corporate finance transactions	175	191
All other services	3	305
	7,170	6,400

7 Employee costs and numbers

€ million	2019	2018
Wages and salaries	3,334	3,240
Social security costs	561	516
Costs/(credits) related to pension scheme benefits	932	(317)
Other post-retirement benefit costs	-	5
Cost of share-based payments	34	31
Other employee costs ¹	773	877
Total employee costs	5,634	4,352

1 Other employee costs include allowances and accommodation for crew.

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

	2019 December 31, 2019			2018 December 31, 2018		
	Average number of employees	Number of employees	Percentage of women	Average number of employees	Number of employees	Percentage of women
Senior executives	201	198	30%	196	208	27%
Ground employees:						
Managerial	2,319	1,777	41%	1,857	1,872	40%
Non-managerial	32,968	32,614	34%	33,231	32,159	35%
Technical crew:						
Managerial	8,136	7,885	38%	8,569	8,501	38%
Non-managerial	22,410	22,168	59%	20,881	20,791	61%
	66,034	64,642		64,734	63,531	

The number of employees is based on manpower equivalent. The average headcount for 2019 was 73,299 (2018: 71,472).

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

a Finance costs

€ million	2019	2018
Interest expense on:		
Bank borrowings	(12)	(17)
Asset financed liabilities	(9)	-
Lease liabilities (2018: Finance lease obligations)	(489)	(144)
Provisions unwinding of discount	(37)	(27)
Other borrowings	(77)	(56)
Capitalised interest on progress payments	17	13
Other finance costs	(4)	-
	(611)	(231)

b Finance income

€ million	2019	2018
Interest on other interest-bearing deposits	47	33
Other finance income	3	8
	50	41

c Net financing credit relating to pensions

€ million	2019	2018
Net financing credit relating to pensions	26	27

d Other non-operating charges

€ million	2019	2018
Loss on sale of property, plant and equipment and investments	(22)	(29)
Credit related to equity investments (note 17)	3	5
Share of profits in investments accounted for using the equity method (note 16)	6	5
Realised gain on derivatives not qualifying for hedge accounting	8	20
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	1	(10)
	(4)	(9)

9 Tax

a Tax charges

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity:

€ million	2019				2018			
	Income statement	Other comprehensive income	Statement of changes in equity	Total	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax								
Movement in respect of prior years	26	(8)	-	18	4	-	-	4
Movement in respect of current year	(494)	146	-	(348)	(475)	162	-	(313)
Total current tax	(468)	138	-	(330)	(471)	162	-	(309)
Deferred tax								
Movement in respect of prior years	(14)	-	-	(14)	22	-	-	22
Movement in respect of current year	(79)	(160)	(1)	(240)	(144)	206	-	62
Rate change / rate differences	1	3	-	4	3	(13)	-	(10)
Total deferred tax	(92)	(157)	(1)	(250)	(119)	193	-	74
Total tax	(560)	(19)	(1)	(580)	(590)	355	-	(235)

The current tax credit in Other comprehensive income relates to employee retirement benefit plans of €154 million (2018: €136 million) and cash flow hedges of €16 million tax charge (2018: €26 million tax credit).

Tax in the Statement of changes in equity relates to share-based payment schemes of €1 million (2018: nil).

Within tax in Other comprehensive income is a tax charge of €184 million (2018: tax credit of €222 million) that may be reclassified to the Income statement and a tax credit of €165 million (2018: tax credit of €133 million) that will not.

b Current tax (liability)/asset

€ million	2019	2018
Balance at January 1	218	180
Income statement	(468)	(471)
Other comprehensive income	138	162
Cash	119	343
Exchange movements and other	(13)	4
Balance at December 31	(6)	218
Current tax asset	186	383
Current tax liability	(192)	(165)
Balance at December 31	(6)	218

c Deferred tax asset/(liability)

€ million	Fixed assets	Leases	Deferred tax deductions on IFRS 16 transition	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/losses	Share-based payment schemes	Tax loss carried forwards and tax credits	Other temporary differences	Total
Balance at January 1, 2019	(999)	-	-	348	42	234	16	411	31	83
Adjustments arising on adoption of IFRS 16	287	(148)	31	-	-	-	-	-	-	170
Income statement	4	(26)	(7)	(52)	(7)	-	5	(10)	1	(92)
Other comprehensive income	-	-	-	13	3	(173)	-	-	-	(157)
Statement of changes in equity	-	-	-	-	-	-	(1)	-	-	(1)
Exchange movements and other	(24)	(21)	-	3	3	9	(1)	-	2	(29)
Balance at December 31, 2019	(732)	(195)	24	312	41	70	19	401	34	(26)
Balance at January 1, 2018	(1,029)	-	-	374	140	39	15	430	28	(3)
Income statement	19	-	-	(25)	(96)	-	2	(18)	(1)	(119)
Other comprehensive income	-	-	-	-	(2)	195	-	-	-	193
Exchange movements and other	11	-	-	(1)	-	-	(1)	(1)	4	12
Balance at December 31, 2018	(999)	-	-	348	42	234	16	411	31	83

€ million	2019	2018
Deferred tax asset	546	536
Deferred tax liability	(572)	(453)
Balance at December 31	(26)	83

The deferred tax asset mainly arises in Spain. A reversal of €60 million on the deferred tax asset is expected within one year and the remainder beyond one year.

d Reconciliation of the total tax charge in the income statement

The tax charge is calculated at the domestic rates applicable to profits/(losses) in the country in which the profit/(loss) arise. The tax charge on the profit for the year to December 31, 2019 is higher (2018: lower) than the notional tax charge. The differences are explained below:

€ million	2019	2018
Accounting profit before tax	2,275	3,487
Weighted average tax charge of the Group ¹	(440)	(671)
Current year tax assets not recognised	(11)	(9)
Disposal and write down of investments	-	1
Effect of tax rate changes	1	3
Employee benefit plans accounted for net of withholding tax - recurring	7	1
Employee benefit plans accounted for net of withholding tax - non-recurring	(128)	53
Euro preferred securities accounted for as non-controlling interests	-	2
Investment incentives	11	10
Movement in respect of prior years	12	26
Non-deductible expenses - recurring items	(14)	(7)
Other items	2	1
Tax charge in the income statement	(560)	(590)

¹ The expected tax charge is calculated by aggregating the expected tax 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% (2018: 25%), the UK 19% (2018: 19%) and Ireland 12.5% (2018: 12.5%).

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	2019	2018
Payroll related taxes	555	509
UK Air Passenger Duty	967	885
	1,522	1,394

f Factors that may affect future tax charges

Unrecognised temporary differences - losses

€ million	2019	2018
Spanish corporate income tax losses and other temporary differences	47	47
UK capital losses	335	316
Irish capital losses	25	25
Corporate income tax losses outside of the Group's main countries of operation	249	210

None of the unrecognised temporary differences have an expiry date.

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €2,959 million (2018: €2,826 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.

Tax rate changes

Reductions in the UK corporation tax rate to 19% (effective from April 1, 2017) and to 18% (effective April 1, 2020) were substantively enacted on October 26, 2015 and an additional reduction to 17% (effective April 1, 2020) was substantively enacted on September 6, 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on UK temporary differences as at December 31, 2019 is calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

g Tax related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at December 31, 2019 amounted to €165 million (December 31, 2018: €60 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 assessment is for €69 million, resulting in a contingent liability of €90 million, including accrued interest. The Company subsequently 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. The Company does not expect a hearing at the National High Court until 2021 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 recognised this matter as a contingent liability.

10 Earnings per share

€ million	2019	2018
Earnings attributable to equity holders of the parent for basic earnings	1,715	2,885
Interest expense on convertible bonds	26	18
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	1,741	2,903

	2019 Number '000	2018 Number '000
Weighted average number of ordinary shares in issue ¹	1,984,073	2,021,622
Assumed conversion on convertible bonds	59,398	72,944
Dilutive employee share schemes outstanding	22,305	18,515
Weighted average number for diluted earnings per share	2,065,776	2,113,081

€ cents	2019	2018
Basic earnings per share	86.4	142.7
Diluted earnings per share	84.3	137.4

1 In 2018 included 27 million as the weighted average impact for 66 million treasury shares purchased in the share buyback programme (note 27).

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

11 Dividends

€ million	2019	2018
Cash dividend declared		
Interim dividend for 2019 of 14.5 € cents per share (2018: 14.5 € cents per share)	288	288
Final dividend for 2018 of 16.5 € cents per share (2017: 14.5 € cents per share)	327	295
Special dividend for 2018 of 35.0 € cents per share	695	–
Proposed cash dividend		
Final dividend for 2019 of 17.0 € cents per share	337	

The proposed dividend will be distributed from net profit for the year to December 31, 2019.

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and, subject to approval, are recognised as a liability on that date.

12 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2018	19,698	2,143	1,484	23,325
Additions	2,255	79	140	2,474
Disposals	(1,130)	-	(125)	(1,255)
Exchange movements	(310)	(34)	(17)	(361)
Balance at December 31, 2018	20,513	2,188	1,482	24,183
Adoption of IFRS 16	4,783	735	23	5,541
Balance at January 1, 2019	25,296	2,923	1,505	29,724
Additions	3,946	67	147	4,160
Modification of leases	128	94	-	222
Disposals	(1,319)	(85)	(71)	(1,475)
Reclassifications	44	-	(44)	-
Exchange movements	1,287	163	68	1,518
December 31, 2019	29,382	3,162	1,605	34,149
Depreciation and impairment				
Balance at January 1, 2018	9,465	1,040	974	11,479
Charge for the year	984	55	83	1,122
Disposals	(562)	-	(95)	(657)
Exchange movements	(164)	(18)	(16)	(198)
Balance at December 31, 2018	9,723	1,077	946	11,746
Adoption of IFRS 16	1,053	1	2	1,056
Balance at January 1, 2019	10,776	1,078	948	12,802
Charge for the year	1,710	169	90	1,969
Disposals	(447)	(63)	(57)	(567)
Reclassifications	8	-	(8)	-
Exchange movements	660	65	52	777
December 31, 2019	12,707	1,249	1,025	14,981
Net book values				
December 31, 2019	16,675	1,913	580	19,168
January 1, 2019	14,520	1,845	557	16,922
December 31, 2018	10,790	1,111	536	12,437

Analysis at December 31, 2019				
Owned	5,321	1,028	460	6,809
Right of use assets (note 13)	9,746	774	68	10,588
Progress payments	1,525	110	52	1,687
Assets not in current use	83	1	-	84
Property, plant and equipment	16,675	1,913	580	19,168
Analysis at December 31, 2018				
Owned	3,935	987	401	5,323
Finance leased	5,695	4	68	5,767
Progress payments	1,069	118	65	1,252
Assets not in current use	91	2	2	95
Property, plant and equipment	10,790	1,111	536	12,437

The net book value of property comprises:

€ million	2019	2018
Freehold	560	448
Right of use assets (note 13)	774	-
Long leasehold improvements > 50 years	321	330
Short leasehold improvements < 50 years	258	333
Property	1,913	1,111

At December 31, 2019, bank and other loans of the Group are secured on fleet assets with a net book value of €325 million (2018: €467 million).

13 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, 2019 ¹	12,491	734	119	13,344
Additions	1,039	13	16	1,068
Modifications of leases	128	94	-	222
Disposals	(23)	-	-	(23)
Reclassifications ²	(290)	(4)	(16)	(310)
Exchange movements	509	45	4	558
December 31, 2019	13,854	882	123	14,859
Depreciation				
Balance at January 1, 2019 ¹	3,056	-	36	3,092
Charge for the year	1,032	104	17	1,153
Disposals	(21)	-	-	(21)
Reclassifications ²	(123)	-	-	(123)
Exchange movements	164	4	2	170
December 31, 2019	4,108	108	55	4,271
Net book value				
December 31, 2019	9,746	774	68	10,588
January 1, 2019	9,435	734	83	10,252

1 The net book value of ROU assets recognised at January 1, 2019 includes €5,767 million in respect of assets previously leased through finance leases before the adoption of IFRS 16 (split between €7,793 million at cost and €2,026 million of accumulated depreciation). In 2018 the Group recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 'leases'. The assets were presented in property, plant and equipment and the lease liabilities in the Group's long-term borrowings.

2 Amounts with a net book value of €187 million were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases.

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

€ million	2019
Finance lease liabilities December 31, 2018	5,928
Adoption of IFRS 16 January 1, 2019	5,195
Additions	1,017
Modifications of leases	182
Repayments	(1,941)
Interest expense	489
Exchange movements	176
Lease liability December 31, 2019	11,046
Current	1,694
Non-current	9,352

b Amounts recognised in the Consolidated income statement

€ million	2019
<i>Amounts not included in the measurement of lease liabilities</i>	
Variable lease payments	28
Expenses relating to short-term leases	74
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	1
<i>Amounts expensed as a result of the recognition of ROU assets and lease liabilities</i>	
Interest expense on lease liabilities	489
Gain arising from sale and leaseback transactions	(1)
Depreciation charge	1,153

c Amounts recognised in the Consolidated cash flow statement

The Group had total cash outflows for leases of €2,057 million in 2019.

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2019, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed of €787 million.

d Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 25e.

e Operating lease commitments

From January 1, 2019, the Group has recognised ROU assets and lease liabilities for the leases it has entered into (except for short-term and low-value leases) and accordingly no longer presents operating lease commitments. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there were commitments under operating leases as follows as at December 31:

€ million	2018		
	Fleet	Property, plant and equipment	Total
Within one year	975	148	1,123
Between one and five years	3,049	362	3,411
Over five years	2,235	1,895	4,130
Total	6,259	2,405	8,664

f Obligations under financing leases

On implementation of IFRS 16, those leases previously recognised as finance leases were reclassified to ROU assets and lease liabilities and are included in section (a) above. Accordingly, the Group no longer presents obligations under finance leases. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there are future minimum lease payments as follows:

€ million	2018
Future minimum payments due	
Within one year	876
Between one and five years	3,186
Over five years	2,642
	6,704
Less: finance charges	(776)
Present value of minimum lease payments	5,928
The present value of minimum lease payments is as follows:	
Within one year	723
Between one and five years	2,734
Over five years	2,471
	5,928

g 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, 2019, for which no amount has been recognised, for potential extension options of €871 million due to it not being reasonably certain that these leases will be extended.

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €12,830 million (December 31, 2018: €10,831 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 €12,673 million for the acquisition of 34 Airbus A320s (from 2020 to 2022), 45 Airbus A321s (from 2020 to 2024), one Airbus A330 (in 2020), 33 Airbus A350s (from 2020 to 2024), four Boeing 777-300s (in 2020), 18 Boeing 777-9s (from 2022 to 2025) and 12 Boeing 787-10s (from 2020 to 2023).

15 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, 2018	596	451	253	1,519	948	128	3,895
Additions	-	-	-	55	195	105	355
Disposals	-	-	-	-	(14)	(20)	(34)
Exchange movements	(1)	-	-	(15)	(13)	(2)	(31)
Balance at December 31, 2018	595	451	253	1,559	1,116	211	4,185
Additions	-	-	-	5	232	120	357
Disposals	-	-	-	-	(28)	(55)	(83)
Exchange movements	3	-	-	52	56	6	117
December 31, 2019	598	451	253	1,616	1,376	282	4,576
Amortisation and impairment							
Balance at January 1, 2018	249	-	-	101	475	52	877
Charge for the year	-	-	-	6	123	3	132
Disposals	-	-	-	-	(13)	-	(13)
Exchange movements	-	-	-	(1)	(8)	-	(9)
Balance at December 31, 2018	249	-	-	106	577	55	987
Charge for the year	-	-	-	6	131	5	142
Disposals	-	-	-	-	(28)	-	(28)
Exchange movements	-	-	-	3	30	-	33
December 31, 2019	249	-	-	115	710	60	1,134
Net book values							
December 31, 2019	349	451	253	1,501	666	222	3,442
December 31, 2018	346	451	253	1,453	539	156	3,198

1 The net book value includes non-EU based landing rights of €94 million (2018: €100 million) that have a definite life. The remaining life of these landing rights is 15 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
2019					
Iberia					
January 1 and December 31, 2019	-	423	306	-	729
British Airways					
January 1, 2019	46	767	-	-	813
Exchange movements	3	49	-	-	52
December 31, 2019	49	816	-	-	865
Vueling					
January 1, 2019	28	89	35	-	152
Additions	-	5	-	-	5
January 1 and December 31, 2019	28	94	35	-	157
Aer Lingus					
January 1 and December 31, 2019	272	62	110	-	444
Avios					
January 1 and December 31, 2019	-	-	-	253	253
Other CGUs					
January 1 and December 31, 2019	-	12	-	-	12
December 31, 2019	349	1,407	451	253	2,460

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2018					
Iberia					
January 1 and December 31, 2018	-	423	306	-	729
British Airways					
January 1, 2018	47	738	-	-	785
Additions	-	55	-	-	55
Transfer to other Group companies	-	(12)	-	-	(12)
Exchange movements	(1)	(14)	-	-	(15)
December 31, 2018	46	767	-	-	813
Vueling					
January 1 and December 31, 2018	28	89	35	-	152
Aer Lingus					
January 1 and December 31, 2018	272	62	110	-	444
Avios					
January 1 and December 31, 2018	-	-	-	253	253
Other CGUs					
January 1, 2018	-	-	-	-	-
Transfer from British Airways	-	12	-	-	12
December 31, 2018	-	12	-	-	12
December 31, 2018	346	1,353	451	253	2,403

Basis for calculating recoverable amount

The recoverable amounts of CGUs have been measured based on their value-in-use.

Value-in-use is calculated using a discounted cash flow model. Cash flow projections are based on the Business plans approved by the relevant operating companies covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve five year Business plans, and the Board approved the Group three year Business plan in the fourth quarter of the year. The Business plan cash flows used in the value-in-use calculations 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

For each of the internal CGUs the key assumptions used in the value-in-use calculations are as follows:

Per cent	2019				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Operating margin ¹	15	10-15	10-14	13-15	20-23
Average ASK growth per annum	2-4	3	1-5	2-11	n/a ²
Long-term growth rate	2.2	1.8	1.5	1.8	1.8
Pre-tax discount rate	8.0	9.1	9.4	8.0	8.5

Per cent	2018				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin ³	15	9-15	11-15	15	21 ²
Average ASK growth per annum	3-4	5-6	9-10	7-8	n/a ²
Long-term growth rate	2.3	2.0	1.9	1.8	1.9
Pre-tax discount rate	8.3	9.0	8.4	8.3	9.3

1 The Group adopted IFRS 16 from January 1, 2019 at which time a ROU asset was recognised and depreciated over the expected lease term through operating expenses. Accordingly, for 2019 onwards the Group has determined its key assumption to be operating margin.

2 Operating margin (2018: lease adjusted operating margin) for the Avios loyalty reward business is not adjusted for aircraft leases. ASK growth rate assumption is not applicable for Avios, which conducts business with partners both within and outside IAG.

3 Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, 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 forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airline's 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 broadly based on the Group's interest-bearing borrowings. 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.

Summary of results

In 2019, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values. Sensitivities have been considered for each CGU. Reducing long-term growth rates to zero, increasing pre-tax discount rates by 4 percentage points, and increasing the fuel price by 40 per cent, does not result in any impairment.

16 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2019 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.

On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred securities which were previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2019 is €6 million (2018: €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	2019	2018
Total assets	122	113
Total liabilities	(92)	(77)
Revenue	112	75
Profit for the year	6	5

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

€ million	2019	2018
At beginning of year	31	30
Share of retained profits	6	5
Dividends received	(5)	(2)
Exchange movements	(1)	(2)
	31	31

At December 31, 2019 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, 2019 and December 31, 2018 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.

17 Other equity investments

Other equity investments include the following:

€ million	2019	2018
Listed securities		
Comair Limited	10	17
Unlisted securities	72	63
	82	80

The credit relating to other equity investments was €3 million (2018: €5 million).

18 Trade and other receivables

€ million	2019	2018
Amounts falling due within one year		
Trade receivables	2,368	1,695
Provision for expected credit loss	(113)	(98)
Net trade receivables	2,255	1,597
Prepayments and accrued income	1,040	823
Other non-trade debtors	274	352
	3,569	2,772
Amounts falling due after one year		
Prepayments and accrued income	258	298
Other non-trade debtors	15	11
	273	309

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

€ million	2019	2018
At beginning of year	98	63
Provided during the year	22	36
Released	(1)	(2)
Receivables written off during the year	(8)	1
Exchange movements	2	-
	113	98

Trade receivables are generally non-interest-bearing and on 30 days terms (2018: 30 days).

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

December 31, 2019

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	1,411	198	208	551
Expected credit loss rate	0.03%	0.16%	0.01%	20.10%
Provision for expected credit loss	1	-	-	112

December 31, 2018

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	988	163	135	409
Expected credit loss rate	0.04%	0.29%	1.60%	23.26%
Provision for expected credit loss	1	-	2	95

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

€ million	2019	2018
Cash at bank and in hand	2,320	2,453
Short-term deposits maturing within three months	1,742	1,384
Cash and cash equivalents	4,062	3,837
Other current interest-bearing deposits maturing after three months	2,621	2,437
Cash, cash equivalents and other interest-bearing deposits	6,683	6,274

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, 2019 the Group had no outstanding bank overdrafts (2018: nil).

Current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2019 Aer Lingus held €41 million of restricted cash (2018: €42 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, 2019	IFRS 16 opening adjustment	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at December 31, 2019
Bank, other loans and asset financed liabilities	1,581	-	1,556	(12)	-	83	3,208
Lease liabilities	5,928	5,195	(1,507)	176	1,199	55	11,046
Liabilities from financing activities	7,509	5,195	49	164	1,199	138	14,254
Cash and cash equivalents	(3,837)	-	(85)	(140)	-	-	(4,062)
Other current interest-bearing deposits	(2,437)	-	(103)	(81)	-	-	(2,621)
	1,235	5,195	(139)	(57)	1,199	138	7,571

€ million	Balance at January 1, 2018	Cash flows	Exchange movements	Non-cash	Balance at December 31, 2018
Bank and other loans	1,824	(275)	4	28	1,581
Finance leases	5,507	254	134	33	5,928
Liabilities from financing activities	7,331	(21)	138	61	7,509
Cash and cash equivalents	(3,292)	(583)	38	-	(3,837)
Other current interest-bearing deposits	(3,384)	924	23	-	(2,437)
	655	320	199	61	1,235

20 Trade and other payables

€ million	2019	2018
Trade creditors	2,311	2,079
Other creditors	1,099	1,007
Other taxation and social security	271	332
Accruals and deferred income	663	541
	4,344	3,959

Average payment days to suppliers – Spanish Group companies

Days	2019	2018
Average payment days for payment to suppliers	33	37
Ratio of transactions paid	32	33
Ratio of transactions outstanding for payment	43	119

€ million	2019	2018
Total payments made	7,165	6,306
Total payments outstanding	114	317

21 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2019	1,769	3,066	4,835
Changes in estimates	6	(20)	(14)
Cash received from customers	-	23,029	23,029
Loyalty points issued to customers	844	47	891
Revenue recognised in the income statement ^{1,2}	(805)	(22,691)	(23,496)
Exchange movements	103	138	241
Balance at December 31, 2019	1,917	3,569	5,486

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2018	1,752	2,990	4,742
Changes in estimates	-	(8)	(8)
Cash received from customers	-	22,149	22,149
Loyalty points issued to customers	781	-	781
Revenue recognised in the income statement ¹	(733)	(22,027)	(22,760)
Exchange movements	(31)	(38)	(69)
Balance at December 31, 2018	1,769	3,066	4,835

- 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 is an amount of €3,361 million previously held as deferred revenue at December 31, 2018.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios points. Avios points 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 points 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.

22 Other long-term liabilities

€ million	2019	2018
Non-current trade creditors	6	6
Accruals and deferred income	65	192
	71	198

23 Long-term borrowings

a Current

€ million	2019	2018
Bank and other loans	75	153
Asset financed liabilities	74	-
Lease liabilities (2018: Finance lease obligations)	1,694	723
Interest-bearing long-term borrowings	1,843	876

b Non-current

€ million	2019	2018
Bank and other loans	1,879	1,428
Asset financed liabilities	1,180	-
Lease liabilities (2018: Finance lease obligations)	9,352	5,205
Interest-bearing long-term borrowings	12,411	6,633

Banks and other loans are repayable up to the year 2028. Bank and other loans of the Group amounting to €266 million (2018: €354 million) are secured on fleet assets with a net book value of €325 million (2018: €467 million) (note 12). Asset financing liabilities are all secured on the associated aircraft or property, plant and equipment.

In July 2019, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1 billion; €500 million fixed rate 0.50 per cent due in 2023, and €500 million fixed rate 1.50 per cent due in 2027.

During the year the Group early redeemed all of the €500 million 0.25 per cent convertible bonds due in 2020.

c Total long-term borrowings

€ million	2019	2018
Current portion of long-term borrowings	1,843	876
Interest-bearing long-term borrowings	12,411	6,633
Interest-bearing long-term borrowings	14,254	7,509

d Bank and other loans

€ million	2019	2018
€500 million fixed rate 0.50 per cent bond 2023 ¹	497	-
€500 million fixed rate 1.50 per cent bond 2027 ¹	496	-
€500 million fixed rate 0.625 per cent convertible bond 2022 ²	470	460
Floating rate euro mortgage loans secured on aircraft ³	226	252
€200 million fixed rate unsecured bonds ⁴	136	175
Fixed rate unsecured US dollar mortgage loan ⁵	71	43
Fixed rate Chinese yuan mortgage loans secured on aircraft ⁶	40	53
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) ⁷	18	13
€500 million fixed rate 0.25 per cent convertible bond 2020 ⁸	-	482
Floating rate euro syndicate loan secured on investments ⁹	-	99
Floating rate pound sterling mortgage loans secured on aircraft ¹⁰	-	4
	1,954	1,581
Less current instalments due on bank and other loans	(75)	(153)
	1,879	1,428

1 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.

2 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, 2019.

3 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.13 and 1.10 per cent. The loans are repayable between 2024 and 2027.

4 Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.

5 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.98 to 2.86 per cent. The loan is repayable in 2023.

6 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.

7 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 2020 and 2028.

8 Senior unsecured bond convertible into ordinary shares of IAG issued in November 2015; €500 million fixed rate 0.25% raising net proceeds of €494 million and due in 2020. The Group held an option to redeem the bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group exercised its option to early redeem the bond in July 2019 with no conversion to ordinary shares.

9 Floating rate euro syndicate loan secured on specific investment assets of the Group and bears interest of 1.375 per cent above 3 month EURIBOR. The loan was repaid in 2019.

10 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.81 per cent. The loans were repaid in 2019.

e Total loans, asset financed liabilities and lease liabilities

Million	2019	2018
Loans		
Bank:		
US dollar	\$79	\$49
Euro	€380	€364
Pound sterling	-	£4
Chinese yuan	CNY 314	CNY 422
	€491	€465
Fixed rate bonds:		
Euro	€1,463	€1,116
	€1,463	€1,116
Asset financed liabilities		
US dollar	\$996	-
Euro	€319	-
Japanese yen	¥4,867	-
	€1,254	-
Lease liabilities (2018: finance leases)		
US dollar	\$8,408	\$3,259
Euro	€2,142	€2,308
Japanese yen	¥77,984	¥77,379
Pound sterling	£597	£134
	€11,046	€5,928
	€14,254	€7,509

24 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2019	1,359	693	591	112	72	2,827
Transition to IFRS 16	120	-	-	-	-	120
Net book value January 1, 2019	1,479	693	591	112	72	2,947
Reclassifications	-	-	-	-	(31)	(31)
Provisions recorded during the year	395	26	133	34	110	698
Utilised during the year	(224)	(180)	(76)	(58)	(50)	(588)
Release of unused amounts	(28)	(21)	(2)	(9)	(7)	(67)
Unwinding of discount	14	4	18	1	-	37
Exchange differences	39	6	-	2	4	51
Net book value December 31, 2019	1,675	528	664	82	98	3,047
Analysis:						
Current	259	202	58	46	66	631
Non-current	1,416	326	606	36	32	2,416
	1,675	528	664	82	98	3,047

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.

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan, 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 next nine years. The restructuring provision also includes a provision recognised in 2018 in relation to restructuring plans at British Airways. The payments related to this provision will be made over a maximum of five years.

At December 31, 2019, €513 million of this provision related to collective redundancy programmes (2018: €682 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, 2019 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.59 per cent and 0.00 per cent (2018: iBoxx index of 1.59 per cent and 0.39 per cent) depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €600 million at December 31, 2019 (2018: €523 million).

Legal claims provisions

Legal claims provisions include:

- Amounts for multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination; 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 (note 31).

Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO₂ emitted on flights within the EU in excess of the EU Emission Allowances granted.

Reclassifications from other provisions relate to the movement of the provision arising from costs the Group incurs in relation to compensation for flight delays and cancellations into accruals and deferred income within trade payables.

25 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), counterparty risk and liquidity risk. Further information on the Group's financial instruments exposure to these risks is disclosed on note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial markets movements.

The Group Treasury department is responsible for the oversight of the Financial Risk Management programme. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other foreign exchange currencies and interest rate risks are also the subject of the Financial Risk Management. The IAG Audit and Compliance Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the approved hedging levels. Each operating company Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The Group Treasury Committee provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy and risk appetite once a year.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The Group Treasury Policies determine the list of approved over the counter (OTC) derivative instruments that can be contracted with approved counterparties.

The Group strategy is to hedge a proportion of fuel consumption up to 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:

2019			2018		
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	-	1,774	30	-	1,613
(30)	-	(1,824)	(30)	(3)	(1,695)

b Foreign currency risk

The Group presents its consolidated financial statements in euros, has subsidiaries with functional currencies in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The Group strategy is to hedge a proportion of up to three years within the approved hedging profile.

Each operating company hedges its net balance sheet assets and liabilities in US dollars through a rolling hedging programme using a number of derivative instruments to minimise the profit and loss volatility arising from revaluation of these items into its functional currency. British Airways utilises its euro, Japanese yen and Chinese yuan debt repayments as a hedge of future euro, Japanese yen and Chinese yuan revenues.

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:

	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
2019	10 (10)	22 -	388 (365)	10 (10)	(23) 20	(178) 171	10 (10)	(1) 2	(58) 58
2018	10 (10)	(16) 18	(9) 91	10 (10)	(40) 41	262 (273)	10 (10)	(6) 1	(54) 54

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. After taking into account the impact of these derivatives, 88 per cent of the Group's borrowings were at fixed rates and 12 per cent were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

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:

	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
2019	50 (50)	- -	19 (19)	50 (50)	(2) 2	16 (13)	50 (50)	2 (2)	- -
2018	50 (50)	(1) 1	20 (20)	50 (50)	2 (2)	16 (25)	50 (50)	2 (2)	- -

d 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 account any guarantees in place or other credit enhancements.

At December 31, 2019 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography	
	2019	2018
United Kingdom	41%	42%
Spain	3%	-
Ireland	3%	3%
Rest of Eurozone	30%	33%
Rest of world	23%	22%

e 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, 2019 the Group had undrawn overdraft facilities of €13 million (2018: €11 million). The Group held undrawn uncommitted money market lines of €nil (2018: €28 million).

The Group held undrawn general and committed aircraft financing facilities:

Million	2019	
	Currency	€ equivalent
Euro facilities expiring between February and October 2020	€129	129
US dollar facility expiring December 2021	\$652	587
US dollar facility expiring June 2020	\$1,330	1,196

Million	2018	
	Currency	€ equivalent
Euro facilities expiring between January and June 2020	€131	131
US dollar facility expiring December 2021	\$1,164	1,024
US dollar facility expiring June 2022	\$1,044	918

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 2019
Interest-bearing loans and borrowings:						
Asset financing liabilities	(56)	(49)	(95)	(289)	(988)	(1,477)
Lease liabilities	(1,073)	(957)	(1,753)	(4,505)	(6,289)	(14,577)
Fixed rate borrowings	(20)	(31)	(46)	(1,158)	(599)	(1,854)
Floating rate borrowings	(13)	(17)	(30)	(110)	(67)	(237)
Trade and other payables	(3,881)	-	1	-	-	(3,880)
Derivative financial instruments (assets):						
Interest rate swaps	1	1	1	2	-	5
Forward contracts	115	116	157	96	-	484
Fuel derivatives	66	25	12	2	-	105
Derivative financial instruments (liabilities):						
Interest rate swaps	(9)	(19)	(18)	(22)	(1)	(69)
Forward contracts	(47)	(43)	(62)	(86)	-	(238)
Fuel derivatives	(61)	(73)	(90)	(11)	-	(235)
December 31, 2019	(4,978)	(1,047)	(1,923)	(6,081)	(7,944)	(21,973)

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2018
Interest-bearing loans and borrowings:						
Finance lease obligations	(509)	(367)	(882)	(2,304)	(2,642)	(6,704)
Fixed rate borrowings	(53)	(18)	(533)	(645)	(58)	(1,307)
Floating rate borrowings	(18)	(67)	(80)	(93)	(118)	(376)
Trade and other payables	(3,591)	-	(13)	-	-	(3,604)
Derivative financial instruments (assets):						
Interest rate derivatives	11	2	2	6	4	25
Foreign exchange contracts	69	58	122	72	-	321
Fuel derivatives	23	18	15	1	-	57
Derivative financial instruments (liabilities):						
Interest rate derivatives	(18)	(7)	(13)	(16)	(1)	(55)
Foreign exchange contracts	(16)	(8)	(18)	(16)	-	(58)
Fuel derivatives	(342)	(290)	(270)	(110)	-	(1,012)
December 31, 2018	(4,444)	(679)	(1,670)	(3,105)	(2,815)	(12,713)

f 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, 2019	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
€ million					
Financial assets					
Derivative financial assets	550	42	592	(9)	583
Financial liabilities					
Derivative financial liabilities	580	(42)	538	(9)	529

December 31, 2018	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
€ million					
Financial assets					
Derivative financial assets	363	13	376	(7)	369
Financial liabilities					
Derivative financial liabilities	1,092	(13)	1,079	(7)	1,072

g 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, 2019, the net debt to EBITDA was 1.4 times (2018 pro forma: 1.2 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 financial review.

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2019 and December 31, 2018 by nature and classification for measurement purposes is as follows:

December 31, 2019	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	
€ million					
Non-current assets					
Other equity investments	-	82	-	-	82
Derivative financial instruments	-	-	268	-	268
Other non-current assets	133	-	-	140	273
Current assets					
Trade receivables	2,255	-	-	-	2,255
Other current assets	414	-	-	900	1,314
Derivative financial instruments	-	-	324	-	324
Other current interest-bearing deposits	2,621	-	-	-	2,621
Cash and cash equivalents	4,062	-	-	-	4,062

	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	
€ million					
Non-current liabilities					
Lease liabilities	9,352	-	-	-	9,352
Interest-bearing long-term borrowings	3,059	-	-	-	3,059
Derivative financial instruments	-	-	286	-	286
Other long-term liabilities	12	-	-	59	71
Current liabilities					
Lease liabilities	1,694	-	-	-	1,694
Current portion of long-term borrowings	149	-	-	-	149
Trade and other payables	3,881	-	-	463	4,344
Derivative financial instruments	-	-	252	-	252

December 31, 2018	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial assets	
€ million					
Non-current assets					
Other equity investments	-	80	-	-	80
Derivative financial instruments	-	-	221	-	221
Other non-current assets	154	-	-	155	309
Current assets					
Trade receivables	1,597	-	-	-	1,597
Other current assets	444	-	-	731	1,175
Derivative financial instruments	-	-	155	-	155
Other current interest-bearing deposits	2,437	-	-	-	2,437
Cash and cash equivalents	3,837	-	-	-	3,837

€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	
Non-current liabilities					
Interest-bearing long-term borrowings	6,633	-	-	-	6,633
Derivative financial instruments	-	-	423	-	423
Other long-term liabilities	13	-	-	185	198
Current liabilities					
Current portion of long-term borrowings	876	-	-	-	876
Trade and other payables	3,591	-	-	368	3,959
Derivative financial instruments	-	-	656	-	656

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.

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 at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant. 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.

Level 3: Inputs for the asset or liability that are not based on observable market data.

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, 2019 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	10	-	72	82	82
Derivative financial assets:					
Interest rate swaps ¹	-	1	-	1	1
Foreign exchange contracts ¹	-	488	-	488	488
Fuel derivatives ¹	-	103	-	103	103
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	1,623	-	1,623	1,254
Fixed rate borrowings	1,640	136	-	1,776	1,728
Floating rate borrowings	-	226	-	226	226
Derivative financial liabilities:					
Interest rate derivatives ²	-	67	-	67	67
Foreign exchange contracts ²	-	240	-	240	240
Fuel derivatives ²	-	231	-	231	231

1 Current portion of derivative financial assets is €324 million

2 Current portion of derivative financial liabilities is €252 million

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2018 are set out below:

€ million	Fair value			Total	Carrying value Total
	Level 1	Level 2	Level 3		
Financial assets					
Equity investments	17	–	63	80	80
Derivative financial assets:					
Interest rate derivatives ¹	–	12	–	12	12
Foreign exchange contracts ¹	–	321	–	321	321
Fuel derivatives ¹	–	43	–	43	43
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	6,086	–	6,086	5,928
Fixed rate borrowings	1,096	113	–	1,209	1,226
Floating rate borrowings	–	355	–	355	355
Derivative financial liabilities:					
Forward currency contracts ²	–	43	–	43	43
Foreign exchange contracts ²	–	54	–	54	54
Fuel derivatives ²	–	982	–	982	982

1 Current portion of derivative financial assets is €155 million.

2 Current portion of derivative financial liabilities is €656 million.

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

The financial instruments listed in the previous table are measured at fair value in the consolidated financial statements, with the exception of interest-bearing borrowings, which are measured at amortised cost.

c Level 3 financial assets reconciliation

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

€ million	2019	2018
Opening balance for the year	63	56
Additions	6	8
Exchange movements	3	(1)
Closing balance for the year	72	63

d Hedges

Cash flow hedges

At December 31, 2019 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayments in foreign currency (predominantly US dollar loan repayments), hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the loans are recognised in equity and transferred to the income statement within revenue when the loan is repaid (generally in instalments over the life of the loan).
- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement or balance sheet to match against the related cash inflow or outflow.
- 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.
- Interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments.

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	2019	2018
Loan repayments to hedge future revenue	141	682
Foreign exchange contracts to hedge future revenue and expenditure ¹	(80)	(216)
Crude, gas oil and jet kerosene derivative contracts ¹	113	933
Derivatives used to hedge interest rates ¹	72	34
Instruments for which hedge accounting no longer applies ¹	355	22
	601	1,455
Related tax credit	(94)	(267)
Total amount included within equity	507	1,188

1 The carrying value of derivative instruments recognised in assets and liabilities is analysed in parts a and b above.

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below:

Notional principal amounts € million	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2019
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling ¹	1.17-1.51	3,493	1,810	1,359	6,662
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros ¹	0.74-1.39	1,397	1,091	483	2,971

1 Represents the value of the hedged item.

Notional principal amounts € million	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2018
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling ¹	1.22-1.50	1,982	1,858	1,685	5,525
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros ¹	1.06-1.34	2,299	1,993	2,197	6,489

1 Represents the value of the hedged item.

The movements in other comprehensive income in relation to cash flow hedges are set out below:

For the year to December 31, 2019 € million	(Gains)/losses recognised in Other comprehensive income ¹	(Gains)/losses associated with ineffectiveness recognised in the Income statement ²	Total recognised (gains)/ losses	Gains/(losses) reclassified to the Income statement	Gains/(losses) reclassified to the Balance sheet
Loan repayments to hedge future revenue	(106)	-	(106)	(20)	-
Foreign exchange contracts to hedge future revenue and expenditure	20	-	20	99	7
Crude, gas oil and jet kerosene derivative contracts	(622)	8	(614)	(178)	-
Derivatives used to hedge interest rates	56	-	56	(11)	-
Instruments for which hedge accounting no longer applies	(38)	-	(38)	(54)	-
	(690)	8	(682)	(164)	7

1 Gains and losses recognised in Other comprehensive income represent gains and losses on the hedged items

2 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.

For the year to December 31, 2018 € million	(Gains)/losses recognised in Other comprehensive income ¹	(Gains)/losses associated with ineffectiveness recognised in the Income statement ²	Total recognised (gains)/ losses	Gains/(losses) reclassified to the Income statement	Gains/(losses) reclassified to the Balance sheet
Loan repayments to hedge future revenue	208	-	208	(82)	-
Foreign exchange contracts to hedge future revenue and expenditure	(387)	-	(387)	10	1
Crude, gas oil and jet kerosene derivative contracts	732	16	748	672	-
Derivatives used to hedge interest rates	37	-	37	(2)	-
Instruments for which hedge accounting no longer applies	6	-	6	(2)	-
	596	16	612	596	1

1 Gains and losses recognised in Other comprehensive income represent gains and losses on the hedged items.

2 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.

The Group has no significant fair value hedges at December 31, 2019 and 2018.

27 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, 2018: Ordinary shares of €0.50 each	2,057,990	1,029	6,022
Cancellation of ordinary shares of €0.50 each	(65,957)	(33)	-
January 1, 2019: Ordinary shares of €0.50 each	1,992,033	996	6,022
Special 2018 dividend of €0.35 per share			(695)
December 31, 2019	1,992,033	996	5,327

A total of 1.0 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2019 the Group held 7.7 million shares (2018: 8.7 million) which represented 0.39 per cent of the issued share capital of the Company.

During 2018, IAG carried out a €500 million share buyback programme as part of its corporate finance strategy to return cash to shareholders. The programme was executed between May and October 2018 during which time IAG acquired and subsequently cancelled 65,956,660 ordinary shares.

28 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. From 2015, the awards have been made as nil-cost options, and also have a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made since 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

b 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.

c Share-based payment schemes summary

	Outstanding at January 1, 2019 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	Outstanding at December 31, 2019 '000s	Vested and exercisable December 31, 2019 '000s
Performance Share Plans	16,549	6,456	(3,783)	(44)	19,178	52
Incentive Award Deferral Plans	4,238	2,113	(213)	(1,665)	4,473	17
	20,787	8,569	(3,996)	(1,709)	23,651	69

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

	December 31, 2019	December 31, 2018
Expected share price volatility (per cent)	35	35
Expected comparator group volatility (per cent)	20	20
Expected comparator correlation (per cent)	55	60
Expected life of options (years)	4.8	4.6
Weighted average share price at date of grant (£)	5.67	6.91
Weighted average fair value (£)	1.93	4.01

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 €34 million for the year to December 31, 2019 (2018: €31 million).

29 Other reserves and non-controlling interests

For the year to December 31, 2019

€ million	Other reserves							Total other reserves	Non-controlling interest ⁷
	Retained earnings	Unrealised gains and losses ¹	Time value of options ²	Currency translation ³	Equity portion of convertible bond ⁴	Merger reserve ⁵	Redeemed capital reserve ⁶		
January 1, 2019	3,324	(1,138)	10	(136)	101	(2,467)	70	(236)	6
Adoption of IFRS 16	(554)	8	(4)	-	-	-	-	(550)	-
Profit for the year	1,715	-	-	-	-	-	-	1,715	-
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	-	55	-	-	-	-	-	55	-
Fuel and oil costs	-	106	-	-	-	-	-	106	-
Currency differences	-	(26)	-	-	-	-	-	(26)	-
Finance costs	-	6	-	-	-	-	-	6	-
Net change in fair value of cash flow hedges	-	540	-	-	-	-	-	540	-
Net change in fair value of other equity investments	-	(8)	-	-	-	-	-	(8)	-
Net change in fair value of cost of hedging	-	-	68	-	-	-	-	68	-
Cost of hedging reclassified and reported in the net profit	-	-	(10)	-	-	-	-	(10)	-
Currency translation differences	-	-	-	296	-	-	-	296	-
Remeasurements of post-employment benefit obligations	(788)	-	-	-	-	-	-	(788)	-
Hedges reclassified and reported in property, plant and equipment	-	(7)	(4)	-	-	-	-	(11)	-
Cost of share-based payments	33	-	-	-	-	-	-	33	-
Vesting of share-based payment schemes	(14)	-	-	-	-	-	-	(14)	-
Dividend	(615)	-	-	-	-	-	-	(615)	-
Redemption of convertible bond	38	-	-	-	(39)	-	-	(1)	-
December 31, 2019	3,139	(464)	60	160	62	(2,467)	70	560	6

€ million	Other reserves								Non-controlling interest ⁷
	Retained earnings	Unrealised gains and losses ¹	Time value of options ²	Currency translation ³	Equity portion of convertible bond ⁴	Merger reserve ⁵	Redeemed capital reserve ⁶	Total other reserves	
January 1, 2018	2,278	(161)	(3)	(133)	101	(2,467)	37	(348)	307
Profit for the year	2,885	-	-	-	-	-	-	2,885	12
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	-	77	-	-	-	-	-	77	-
Fuel and oil costs	-	(565)	-	-	-	-	-	(565)	-
Currency differences	-	4	-	-	-	-	-	4	-
Finance costs	-	4	-	-	-	-	-	4	-
Net change in fair value of cash flow hedges	-	(491)	-	-	-	-	-	(491)	-
Net change in fair value of cost of hedging	-	-	13	-	-	-	-	13	-
Net change in fair value of other equity investments	-	(5)	-	-	-	-	-	(5)	-
Currency translation differences	-	-	-	(80)	-	-	-	(80)	-
Remeasurements of post-employment benefit obligations	(696)	-	-	-	-	-	-	(696)	-
Hedges reclassified and reported in property, plant and equipment	-	(1)	-	-	-	-	-	(1)	-
Cost of share-based payments	31	-	-	-	-	-	-	31	-
Vesting of share-based payment schemes	(15)	-	-	-	-	-	-	(15)	-
Dividend	(582)	-	-	-	-	-	-	(582)	-
Cancellation of treasury shares	(500)	-	-	-	-	-	33	(467)	-
Dividend of a subsidiary	-	-	-	-	-	-	-	-	(1)
Transfer between reserves	(77)	-	-	77	-	-	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	-	-	(312)
December 31, 2018	3,324	(1,138)	10	(136)	101	(2,467)	70	(236)	6

- 1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.
- 2 The time value of options reserve records fair value changes on the cost of hedging.
- 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, 2019, this related to the €500 million fixed rate 0.625 per cent convertible bond (note 23). During 2019 the Group exercised its option to early redeem the €500 million fixed rate 0.25 per cent convertible bond with no conversion to ordinary shares.
- 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 The redeemed capital reserve represents the nominal value of the decrease in share capital, relating to cancelled shares.
- 7 On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred security which was previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2019 is €6 million (2018: €6 million).

30 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 24).

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, 2019 were €262 million (2018: €214 million).

Defined benefit schemes

APS and NAPS

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. NAPS was closed to future accrual from March 31, 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). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments following the 2021 valuation has been made in the valuation of the defined benefit obligation.

APS has been closed to new members since 1984. 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.

As reported in previous years, the Trustee of APS has proposed an additional discretionary increase above CPI inflation for pensions in payment for the year to March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. In July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule.

Subsequently, in April 2019 the Trustee Directors of the Airways Pension Scheme unanimously agreed with British Airways terms for an out-of-court settlement and on November 11, 2019 the APS discretionary pension increase settlement agreement ('the Agreement') was ratified by the High Court. This brought to an end the dispute that commenced in 2013, that would otherwise have proceeded to final appeal at the Supreme Court. Under the Agreement, the Trustee of APS are permitted, subject to certain affordability tests, to award discretionary increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases tending to RPI prior to 2021. British Airways ceased to pay further deficit recovery contributions from January 1, 2019, including cash sweep payments. British Airways has provided a €47 million indemnity, which is payable in full or part as appropriate following the triennial valuation of the scheme as at March 31, 2027 if that valuation shows that the scheme is not able to pay pension increases at RPI for the remaining life of the scheme. The APS actuarial valuation as at March 31, 2015 and March 31, 2018 was completed in November 2019. The APS actuarial valuation at March 31, 2018 resulted in a surplus of €683 million.

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.

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at March 31, 2018 with respect to NAPS (see note 30i below). The actuarial valuations performed as at March 31, 2018 for APS and NAPS are different to the valuation performed as at December 31, 2019 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. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Group of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

Other plans

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

The defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk, including currency risk.

Cash payments

Cash payments in respect to pension obligations comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2019 net of service costs were €865 million (2018: €843 million) being the employer contributions of €870 million (2018: €716 million) less the current service cost of €5 million (2018: €55 million) (note 30b) and including payments made under transitional arrangements on the closure of NAPS to future accrual in 2018 of €182 million.

a Employee benefit schemes recognised on the Balance sheet

€ million	2019			Total
	APS	NAPS	Other ¹	
Scheme assets at fair value	8,830	22,423	428	31,681
Present value of scheme liabilities	(8,401)	(21,650)	(731)	(30,782)
Net pension asset/(liability)	429	773	(303)	899
Effect of the asset ceiling ²	(127)	(565)	-	(692)
Other employee benefit obligations	-	-	(11)	(11)
December 31, 2019	302	208	(314)	196
Represented by:				
Employee benefit assets				524
Employee benefit obligations				(328)
				196

€ million	2018			Total
	APS	NAPS	Other ¹	
Scheme assets at fair value	8,372	18,846	382	27,600
Present value of scheme liabilities	(7,110)	(17,628)	(645)	(25,383)
Net pension asset/(liability)	1,262	1,218	(263)	2,217
Effect of the asset ceiling ²	(469)	(896)	-	(1,365)
Other employee benefit obligations	-	-	(12)	(12)
December 31, 2018	793	322	(275)	840
Represented by:				
Employee benefit assets				1,129
Employee benefit obligations				(289)
				840

1 The present value of scheme liabilities for the US PRMB was €15 million at December 31, 2019 (2018: €13 million).

2 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2019	2018
Defined benefit plans:		
Current service cost	5	55
Past service cost/(credit) ^{1,2}	665	(586)
	670	(531)
Defined contribution plans	262	214
Pension costs/(credits) recorded as employee costs	932	(317)

1 Refer to note 4 for amounts recorded within exceptional items in 2019 and 2018.

2 Includes a past service credit of €7 million (2018: €nil) relating to schemes other than APS and NAPS.

Pension costs charged as finance costs are:

€ million	2019	2018
Interest income on scheme assets	(775)	(731)
Interest expense on scheme liabilities	710	690
Interest expense on asset ceiling	39	14
Net financing income relating to pensions	(26)	(27)

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2019	2018
Return on plan assets excluding interest income	(1,916)	1,313
Remeasurement of plan liabilities from changes in financial assumptions	3,423	(997)
Remeasurement of experience losses/(gains)	193	(297)
Remeasurement of the APS and NAPS asset ceilings	(781)	806
Exchange movements	(13)	5
Pension remeasurements charged to Other comprehensive income	906	830

d Fair value of scheme assets

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

€ million	2019	2018
January 1	27,600	29,172
Interest income	775	731
Return on plan assets excluding interest income	1,916	(1,313)
Employer contributions ¹	870	716
Employee contributions	6	128
Benefits paid	(1,269)	(1,340)
Exchange movements	1,783	(494)
December 31	31,681	27,600

¹ Includes employer contributions to APS of €5 million (2018: €111 million) and to NAPS of €816 million (2018: €582 million) of which deficit funding payments represented nil for APS (2018: €108 million) and €797 million for NAPS (2018: €509 million).

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 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.

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2019	2018
Return seeking investments – equities		
UK	2,310	1,737
Rest of world	4,774	4,602
	7,084	6,339
Return seeking investments – other		
Private equity	1,035	931
Property	2,135	1,917
Alternative investments	1,081	1,183
	4,251	4,031
Liability matching investments		
UK fixed bonds	6,356	4,885
Rest of world fixed bonds	93	70
UK index-linked bonds	6,266	5,019
Rest of world index-linked bonds	120	103
	12,835	10,077
Other		
Cash and cash equivalents	689	418
Derivatives	(344)	57
Insurance contract	1,740	1,663
Longevity swap	4,547	4,321
Other	879	694
	31,681	27,600

All equities and bonds have quoted prices in active markets.

For APS and NAPS, the composition of the scheme assets is:

€ million	December 31, 2019		December 31, 2018	
	APS	NAPS	APS	NAPS
Return seeking investments	347	10,844	702	9,477
Liability matching investments	1,897	10,828	1,538	8,457
	2,244	21,672	2,240	17,934
Insurance contract and related longevity swap	6,260	-	5,956	-
Other	326	751	176	912
Fair value of scheme assets	8,830	22,423	8,372	18,846

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, 2019, the benchmark for NAPS was 46 per cent (2018: 49 per cent) in return seeking assets and 54 per cent (2018: 51 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, 2019 was 4 per cent (2018: 8 per cent) in return seeking assets and 96 per cent (2018: 92 per cent) in liability matching investments.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2018: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2018: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract. The fees are linked to LIBOR, and an assumed future LIBOR rate has been derived based on swap prices at December 31, 2019.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pension from APS at March 31, 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are 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 insurance products (the asset swap and longevity swaps with Rothesay Life), APS is now 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 (RPI) basis).

e Present value of scheme liabilities

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

€ million	2019	2018
January 1	25,383	28,363
Current service cost	5	55
Past service cost/(credit)	665	(778)
Interest expense	710	690
Remeasurements – financial assumptions	3,423	(997)
Remeasurements of experience losses/(gains)	193	(297)
Benefits paid	(1,269)	(1,340)
Employee contributions	6	128
Exchange movements	1,666	(441)
December 31	30,782	25,383

The defined benefit obligation comprises €30 million (2018: €36 million) arising from unfunded plans and €30,752 million (2018: €25,347 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

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

€ million	2019	2018
January 1	1,365	570
Interest expense	39	14
Remeasurements ¹	(781)	806
Exchange movements	69	(25)
December 31	692	1,365

¹ The decrease in remeasurements follows the reduction in APS surplus as a result of the discretionary pension increase settlement agreement, and a decrease in the NAPS surplus principally due to the reduction in the discount rate. In 2018 the increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018 which resulted in an IAS 19 accounting surplus in the scheme, 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.

g Actuarial assumptions

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

Per cent per annum	2019			2018		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	1.85	2.05	0.8 – 3.2	2.65	2.85	1.6 – 4.4
Rate of increase in pensionable pay ²	2.90	-	2.5	3.20	-	2.5 – 3.7
Rate of increase of pensions in payment ³	2.90	2.15	1.2 – 3.5	2.10	2.05	1.5 – 3.8
RPI rate of inflation	2.90	n/a	2.5 – 2.8	3.20	3.15	2.5 – 3.2
CPI rate of inflation	n/a	2.15	1.2 – 3.0	2.10	2.05	1.5 – 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 long term market inflation expectations. The RPI rate assumptions for APS, from April 2021 are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. 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. As described in note 2(b), in September 2019 correspondence was published relating to potential future changes to RPI outlining a clear preference by the UK Statistics Authority (UKSA) for alignment of RPI with CPIH (a variant of CPI). To make changes prior to 2030, however, the UKSA requires the consent of the Chancellor. Following this announcement, market-implied break-even RPI inflation forward rates after 2030 have reduced in investment market. In assessing RPI and CPI from investment market data, allowance has therefore been made for a reduction in the gap between RPI and CPI from 2030.

3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and from April 2021 with RPI for APS. At December 31, 2018 pension increases for both schemes were based in CPI.

Rate of increase in healthcare costs is based on medical trend rates of 6.50 per cent grading down to 5.00 per cent over five years (2018: 6.25 per cent to 5.00 per cent over five years).

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

Mortality assumptions	2019	2018
Life expectancy at age 60 for a:		
- male currently aged 60	28.2	28.5
- male currently aged 40	29.9	29.7
- female currently aged 60	29.0	30.3
- female currently aged 40	31.6	32.9

At December 31, 2019, the weighted-average duration of the defined benefit obligation was 12 years for APS (2018: 11 years) and 19 years for NAPS (2018: 19 years).

In the US, mortality rates were based on the RP-14 mortality tables.

h Sensitivity analysis

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

€ million	(Decrease)/increase in scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	(24)	(402)	45
Future salary growth (increase of 10 basis points)	-	n/a	6
Future pension growth (increase of 10 basis points)	(24)	(354)	24
Future mortality rate (one year increase in life expectancy)	(24)	(732)	8

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.

i Funding

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. 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 the following undiscounted deficit payments:

€ million	NAPS
Within 12 months	488
2-5 years	1,195
Total expected deficit payments for NAPS	1,683

The Group has determined that the minimum funding requirements set out above for NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan, subject to withholding taxes that would be payable by the Trustee.

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

In total, the Group expects to pay €491 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2020. This is made up of €488 million of deficit payments for NAPS as agreed at the latest triennial valuation in October 2019 and ongoing employer contributions of €4 million for APS.

Until September 2022, if British Airways pays a dividend to IAG higher than 50 per cent of pre-exceptional profit after tax it will either accelerate contributions to the scheme or provide a guarantee, in respect of the amount by which the dividend exceeds 50 per cent of the pre-exceptional profit after tax.

31 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 now presented Note 9. For information pertaining to previously reported contingent liabilities associated with the Airways Pension Scheme, refer to Note 30.

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways recorded the financial effect of the resultant fine in the 2007 financial statements. Following an appeal to the General Court (GC), the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Court Judgment). British Airways appealed the partial annulment to the Court of Justice of the European Union, but that appeal was rejected. In parallel, the European Commission chose not to appeal the General Court Judgment, and instead adopted a new decision in March 2017 (New Decision). British Airways repaid the fine previously refunded and appealed the New Decision (as have other carriers). British Airways is expecting a decision on its appeal during 2020.

A large number of claimants brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claimed arose from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings. These claims were fully concluded in 2019.

British Airways is party to litigation in other jurisdictions together with a number of other airlines. The Directors' estimate of the outcome of these claims is included in the legal claims provisions in note 24.

Theft of customer data at British Airways

On September 6, 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on October 25, 2018 that further personal data had potentially been compromised. On July 4, 2019, British Airways received a Notice of Intent from the Information Commissioner's Office (ICO) in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act.

British Airways made extensive representations to the ICO regarding the proposed fine and has complied with various further information requests. As part of its procedures, the ICO will seek the views of other EU data protection authorities. The ICO initially had six months from issuing the Notice of Intent to British Airways within which it could issue a penalty notice, which has been extended through to May 18, 2020, to allow the ICO to fully consider the representations and information provided by British Airways. If a penalty notice is issued, British Airways has 28 days within which to lodge an appeal with the First-tier Tribunal in the General Regulatory Chamber. A decision by the First-tier Tribunal may, with permission, be appealed to the Upper Tribunal. Any appeal of the Upper Tribunal decision would be to the Court of Appeal. It is British Airways' intention to vigorously defend itself in this matter, including using all available appeal routes should they be required.

At December 31, 2019, and through to the date of these financial statements, no final penalty notice has been received from the ICO, although it reserves the right to issue such a notice on completion of its investigation. It has not been proven that British Airways failed to comply with its obligations under GDPR and the UK Data Protection Act. Should any final penalty notice be issued, and having regard to the representations made by British Airways, the Directors consider that it should be for a considerably lower amount than the initial Notice of Intent.

Other

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2019 amounted to €53 million (December 31, 2018: €28 million).

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2019 are not expected to result in material losses for the Group.

32 Related party transactions

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

€ million	2019	2018
Sales of goods and services		
Sales to associates and joint ventures ¹	6	7
Sales to significant shareholders ²	32	44
Purchases of goods and services		
Purchases from associates ³	76	55
Purchases from significant shareholders ²	149	121
Receivables from related parties		
Amounts owed by associates ⁴	2	7
Amounts owed by significant shareholders ⁵	8	3
Payables to related parties		
Amounts owed to associates ⁶	3	3
Amounts owed to significant shareholders ⁵	18	7

1 Sales to associates and joint ventures: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €4 million (2018: €5 million) and €1 million (2018: €1 million) to Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A. (Iberia Cards) and Serpista, S.A.

2 Sales to and purchases from significant shareholders: Related to interline services with Qatar Airways.

3 Purchases from associates: Consisted primarily of €50 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2018: €35 million), €16 million of maintenance services received from Serpista, S.A. (2018: €13 million) and €10 million of handling services provided by Dunwoody (2018: €6 million).

4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A. (2018: €1 million) and €1 million of services provided to Dunwoody, Iberia Cards and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2018: €5 million for Dunwoody and €1 million for Iberia Cards, Viajes AME, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

5 Amounts owed by and to significant shareholders: Related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of €1 million due to Dunwoody (2018: less than €1 million) and €2 million due to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2018: €3 million due to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

During the year to December 31, 2019 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 €9 million (2018: €10 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, 2019, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2018: 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, 2019 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of nil (2018: €98 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2019 and 2018 is as follows:

€ million	Year to December 31	
	2019	2018
Base salary, fees and benefits		
Board of Directors		
Short-term benefits	5	5
Share based payments	3	2
Management Committee		
Short-term benefits	8	10
Share based payments	5	5

For the year to December 31, 2019 the Board of Directors includes remuneration for three Executive Directors (December 31, 2018: two Executive Directors). The Management Committee includes remuneration for 12 members (December 31, 2018: ten members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2019 the Company's obligation was €63,000 (2018: €58,000).

At December 31, 2019 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €1 million (2018: €4 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at December 31, 2019 (2018: nil).

33 Changes to accounting policies

New accounting policy

IFRS 16 'Leases' was adopted by the Group on January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model.

The Group used the modified retrospective transition approach on application of IFRS 16. Lease liabilities were determined based on the value of the remaining lease payments, discounted by the appropriate incremental borrowing rates and translated at the rates of exchange at the date of transition (January 1, 2019). ROU assets in respect of aircraft were measured as if IFRS 16 had been applied at the commencement date of each lease using the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease and depreciated to January 1, 2019. Other ROU assets were measured based on the related lease liability as at the date of transition, adjusted for prepaid or accrued lease payments. Deferred gains on sale and operating leasebacks, previously recognised in current and non-current liabilities, were reclassified to the related ROU asset. IFRS 16 does not permit comparative information to be restated if the modified retrospective transition approach is used.

The details of the changes in accounting policy are disclosed below:

1. Interest-bearing borrowings and non-current assets increased on implementation of the standard as obligations to make future payments under leases previously classified as operating leases were recognised on the Balance sheet, along with the related ROU asset. The Group has used the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases are recognised in the Income statement on a straight-line basis over the life of the lease. No adjustment has been made to the recognition and measurement of assets previously recognised as 'finance leases' under IAS 17 which were transferred to ROU assets on adoption of IFRS 16, with the related borrowings transferred to lease liabilities.
2. Expenditure on operations has decreased and finance costs have increased, as operating lease costs have been replaced by depreciation and lease interest expense.
3. The adoption of IFRS 16 required the Group to make a number of judgements, estimates and assumptions. These included:
 - *The estimated lease term* – The term of each lease was based on the original lease term unless management was 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term included fleet plans which underpin approved business plans, and historic experience regarding extension options.
 - *The discount rate used to determine the lease liability* – The rates used on transition to discount future lease payments were the Group's incremental borrowing rates. These rates have been calculated for each airline, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component was based on LIBOR rates available in the same currency and over the same term as the lease and was adjusted for credit risk. For future aircraft lease obligations, the Group will use the interest rate implicit in the lease.
 - *Terminal arrangements* – The Group has reviewed its arrangements at airport terminals to determine whether any agreements previously considered to be service agreements should be classified as leases. No additional leases have been identified.
 - *Restoration obligations* – The Group has certain obligations associated with the maintenance condition of its aircraft on redelivery to the lessor, such as the requirement to complete a final airframe check, repaint the aircraft and reconfigure the cabin. Under IAS 17 these costs were recognised as a maintenance expense over the lease term. On adoption of IFRS 16, they were recognised as part of the ROU asset on transition, resulting in an increase in restoration and handback provisions. Judgement has been used to identify the appropriate obligations and estimation has been used (based on observable data) to measure them. Other maintenance obligations associated with these assets, comprising obligations that arise as the aircraft is utilised, such as engine overhauls and periodic airframe checks, are recognised as a maintenance expense over the lease term.

The above adjustments resulted in a post-tax charge to equity of €550 million.

Foreign currency balances on lease obligations, which are predominantly denominated in US dollars, are remeasured at each balance sheet date, with the ROU asset recognised at the historic exchange rate. The Group manages foreign exchange risk arising on these US dollar obligations as part of its risk management strategy as described further in note 25.

The Group recognised the following assets and liabilities on the Consolidated balance sheet at January 1, 2019 on adoption of IFRS 16:

Consolidated balance sheet (extract as at January 1, 2019)

€ million	As reported	IFRS 16 adjustments	Restated
Non-current assets			
Property, plant and equipment			
Fleet	10,790	3,730	14,520
Property and equipment	1,647	755	2,402
Deferred tax assets	536	130	666
Other non-current assets	4,968	-	4,968
	17,941	4,615	22,556
Current assets			
Other current assets	10,093	(35)	10,058
	10,093	(35)	10,058
Total assets	28,034	4,580	32,614
Total equity	6,720	(550)	6,170
Non-current liabilities			
Interest-bearing long-term borrowings	6,633	4,315	10,948
Deferred tax liability	453	(40)	413
Provisions	2,268	120	2,388
Other non-current liabilities	910	(125)	785
	10,264	4,270	14,534
Current liabilities			
Current portion of long-term borrowings	876	880	1,756
Other current liabilities	10,174	(20)	10,154
	11,050	860	11,910
Total liabilities	21,314	5,130	26,444
Total equity and liabilities	28,034	4,580	32,614

The following table reconciles the amount disclosed as operating lease commitments at December 31, 2018 disclosed in the Group's 2018 consolidated financial statements to the amount recognised on the Balance sheet in respect of lease liabilities on adoption of IFRS 16.

€ million	
Operating lease commitments at December 31, 2018	8,664
Weighted average incremental borrowing rate at January 1, 2019	6.2%
Operating lease commitments discounted using the weighted average incremental borrowing rate	5,612
Less:	
Leases considered to be short-term (less than 12 months duration)	(61)
Leases for assets considered to be substitutable	(66)
Future variable payments based on an index or rate	(140)
Prepayments	(11)
Commitments for leases that had not commenced on December 31, 2018	(459)
Add:	
Service contracts	232
Residual value guarantees	61
Rentals associated with extension options reasonably certain to be exercised	27
Lease liability recognised at January 1, 2019	5,195
Reclassification from finance lease obligations	5,928
Lease liability at January 1, 2019	11,123

Change in accounting policy

In September 2019, the IFRS Interpretations Committee clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect €148 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The following table summarises the impact of the change in accounting policy on the Income statement for the year to December 31, 2018:

Consolidated income statement (extract for the year to December 31, 2018)

€ million	Previously reported	Adjustment	Restated
Passenger revenue	21,549	(148)	21,401
Cargo revenue	1,173	-	1,173
Other revenue	1,684	-	1,684
Total revenue	24,406	(148)	24,258
Handling, catering and other operating costs	2,888	(148)	2,740
Other expenditure on operations	17,840	-	17,840
Total expenditure on operations	20,728	(148)	20,580
Operating profit	3,678		3,678
Non-operating expenses	(191)	-	(191)
Profit before tax	3,487	-	3,487
Tax	(590)	-	(590)
Profit after tax	2,897	-	2,897

There is no impact on profit after tax in the Consolidated Income Statement for 2018, the Consolidated Balance Sheet as at January 1, 2018 or December 31, 2018 or the Consolidated Statement of Changes in Equity as at January 1, 2018 or December 31, 2018.

ALTERNATIVE PERFORMANCE MEASURES

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. These measures are not defined under International Financial Reporting Standards (IFRS), should be considered in addition to IFRS measurements and may differ to definitions given by regulatory bodies applicable to the Group. 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'. Further information on why these APMs are used is provided in the Strategic priorities and key performance indicators section.

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

a Changes to APMs in 2019

The Group has adopted IFRS 16 'Leases' on January 1, 2019, and has used the modified retrospective transition approach. In doing so, for 2019, all operating leases have been recognised on the balance sheet as a right of use (ROU) asset with associated lease liability, and all finance leases previously recognised have been transferred into the ROU asset within Property, plant and equipment. As a result of this adoption the way in which the Group monitors the performance of the Group and how the associated measures are calculated have changed as follows:

New APMs

- *Pro forma financial information* - In adopting the modified retrospective transition approach for IFRS 16, the comparative figures for 2018 have not been restated. Accordingly, to provide a consistent basis for comparison with 2019, the Group has introduced Pro forma financial information for 2018, which is the Group's restated statutory results for 2018 with an adjustment to reflect the estimated impact of IFRS 16 from January 1, 2018;
- *Levered free cash flow* - A measure which represents the cash generating ability of the underlying businesses before shareholder returns and is used in conjunction with a targeted level of leverage, measured using Net debt to EBITDA. This measure is monitored by the Group in making both investment and capital decisions;
- *Airline non-fuel costs per ASK* - A measure for monitoring airline unit cost performance per ASK excluding, amongst other items, fuel. The measure is monitored by the Group to demonstrate the performance of the airline based activities that are largely within the control of the Group.

Changes to APMs

- *Adjusted net debt to EBITDAR* - Both Adjusted net debt and EBITDAR incorporated adjustments to reflect the impact of aircraft operating leases, which under IFRS 16 the Group now presents within total borrowings and EBITDA. Accordingly, this measure has been revised and presented as net debt to EBITDA;
- *Return on Invested Capital* - The Group has amended the methodology to reflect IFRS 16. Prior to IFRS 16, in calculating the numerator (return) a cost of 0.67 times the annual lease rental was deducted and in calculating the denominator (invested capital) a capital value was calculated for the operating leased aircraft by multiplying the annual operating lease rentals by a factor of 8. These adjustments are no longer required, as the aircraft now have ROU values and associated depreciation.

No longer applicable

- *Lease adjusted operating margin* - The associated impact of lease expenses is now reflected within the operating margin, such that this adjusted measure is no longer applicable;
- *Equity free cash flows* - The Group no longer considers the equity free cash flow measure in assessing the performance of the Group, as certain arrangements are treated differently on transition to IFRS 16 compared to pre-transition and accordingly there is inconsistency over time. This has been replaced with 'levered free cash flow' as defined above.

b Pro forma financial information

The Group elected to apply the modified retrospective approach on transition to IFRS 16 to reduce complexity on transition arising from the volume and nature of the leases held by the Group. The modified transition approach does not allow restatement of comparatives. To aid users of the financial statements, the Group has provided Pro forma information for 2018 to provide a consistent basis for comparison with 2019 results. Pro forma results for 2018 are the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 as if it had applied from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 33) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date. There is no adjustment to the 2019 financial information.

The following table provides a reconciliation from the reported Consolidated income statement to the Pro forma financial information for 2018.

Consolidated income statement 2018 € million	2018 Before exceptional items	Exceptional items	2018 Reported	Adjustment	Restated 2018	IFRS 16 Adjustment	2018 Pro forma
Passenger revenue	21,549		21,549	(148)	21,401		21,401
Cargo revenue	1,173		1,173		1,173		1,173
Other revenue	1,684		1,684		1,684		1,684
Total revenue	24,406		24,406	(148)	24,258		24,258
Employee costs	4,812	(460)	4,352		4,352		4,352
Fuel, oil costs and emissions charges	5,283		5,283		5,283		5,283
Handling, catering and other operating costs	2,888		2,888	(148)	2,740	(7)	2,733
Landing fees and en-route charges	2,184		2,184		2,184		2,184
Engineering and other aircraft costs	1,828		1,828		1,828	29	1,857
Property, IT and other costs	918	12	930		930	(129)	801
Selling costs	1,046		1,046		1,046		1,046
Depreciation, amortisation and impairment	1,254		1,254		1,254	742	1,996
Aircraft operating lease costs	890		890		890	(890)	-
Currency differences	73		73		73		73
Total expenditure on operations	21,176	(448)	20,728	(148)	20,580	(255)	20,325
Operating profit	3,230	448	3,678	-	3,678	255	3,933
Net finance costs	(182)		(182)		(182)	(330)	(512)
Other non-operating charges	(9)		(9)		(9)		(9)
Profit before tax	3,039	448	3,487	-	3,487	(75)	3,412
Tax	(558)	(32)	(590)	-	(590)	16	(574)
Profit after tax	2,481	416	2,897	-	2,897	(59)	2,838
Attributable to:							
Equity holders of the parent	2,469	416	2,885		2,885	(59)	2,826
Non-controlling interest	12		12		12		12
	2,481	416	2,897	-	2,897	(59)	2,838

c Profit 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. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as exceptional.

Management believes that these additional measures are useful as they exclude the impact of exceptional items in profit from operations, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of underlying business performance.

The details of these exceptional items are given in Note 4 to the financial statements and on the face of the Consolidated income statement.

d Basic earnings 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	2019	2018 Reported	2018 Pro forma
Earnings attributable to equity holders of the parent	b	1,715	2,885	2,826
Exceptional items	4	672	(416)	(416)
Earnings attributable to equity holders of the parent before exceptional items		2,387	2,469	2,410
Interest expense on convertible bonds		26	18	18
Adjusted earnings		2,413	2,487	2,428
Weighted average number of shares used for basic earnings per share	10	1,984,073	2,021,622	2,021,622
Weighted average number of shares used for diluted earnings per share	10	2,065,776	2,113,081	2,113,081
Adjusted earnings per share (€ cents)		116.8	117.7	114.9
Basic earnings per share before exceptional items (€ cents)		120.3	122.1	119.2

e Airline non-fuel unit costs

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.

The comparative information for 2018 has been presented on a Pro forma basis due to the Group adopting IFRS 16 from January 1, 2019. See note b for further information.

€ million	note	2019 Reported	ccy adjustment ¹	2019 ccy	2018 Pro forma
Total operating expenditure before exceptionals	b	22,221	(325)	21,896	20,773
Less: Fuel, oil costs and emission charges		6,021	(212)	5,809	5,283
Non-fuel costs		16,200	(113)	16,087	15,490
Less: Non-flight specific costs		1,654	(40)	1,614	1,450
Airline non-fuel costs		14,546		14,473	14,040
Available seat kilometres (ASK million)		337,754		337,754	324,808
Airline non-fuel unit costs (€ cents)		4.31		4.29	4.32

1 Refer to note i for the definition of the ccy adjustment

f Levered free cash flow (KPI)

Levered free cash flow represents the cash generating ability of the underlying 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 Other current interest-bearing deposits and adding back the cash outflows associated with dividends paid and the acquisition of treasury shares. The Group believes that this measure is useful to the users of the financial statements in understanding the underlying cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

€ million	2019	2018
Net Increase in cash and cash equivalents	85	583
Add / less: Increase/(decrease) in other current interest-bearing deposits	103	(924)
Add: Acquisition of treasury shares	-	500
Add: Dividends paid	1,308	577
Levered free cash flow	1,496	736

g 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. In 2019 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 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	2019
EBITDA	h	5,396
Less: Fleet depreciation multiplied by inflation adjustment		(2,040)
Less: Other property, plant and equipment depreciation		(259)
Less: Software intangible amortisation		(131)
		2,966
Invested capital		
Average fleet book value ²	12	15,598
Less: Average progress payments ³	12	(1,297)
Fleet book value less progress payments		14,301
<i>Inflation adjustment</i> ¹		1.19
		17,065
Average net book value of other property, plant and equipment ⁴	12	2,448
Average net book value of software intangible assets ⁵	14	603
Total invested capital		20,116
Return on invested capital		14.7%

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the fleet (2019: 12 years).

2 The average net book value of owned aircraft excluding progress payments is calculated from an amount of €13,451 million at January 1, 2019 and €15,150 million at December 31, 2019.

3 The average net book value of progress payments is calculated from an amount of €1,069 million at January 1, 2019 and €1,525 million at December 31, 2019.

4 The average net book value of other property, plant and equipment is calculated from an amount of €2,402 million at January 1, 2019 and €2,493 million at December 31, 2019.

5 The average net book value of software intangible assets is calculated from an amount of €539 million at December 31, 2018 and €666 million at December 31, 2019.

2018 RoIC:

For 2018 RoIC is defined as EBITDAR (being operating profit before depreciation, amortisation and rental charges), less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

The lease adjustment reduces aircraft operating lease costs to 0.67 of the annual reported charge. The inflation adjustment is applied to the fleet depreciation charge and is calculated using a 1.5 per cent inflation rate over the average age of the fleet to allow for inflation and efficiencies of new fleet.

Invested capital is the fleet net book value at the balance sheet date, excluding progress payments for aircraft not yet delivered and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs multiplied by 8. Intangible assets are excluded from the calculation.

The table below shows the reconciliation to derive the RoIC measure for 2018, including the change in methodology as described for 2019 and adjusting for IFRS 16. As the Group adopted IFRS 16 from January 1, 2019, the comparative RoIC inputs for 2018 have been adjusted on a pro forma basis to reflect the impact of this change in the 2018 Income statement for the year to December 31, 2018 and for the balance sheets at January 1, 2018 and December 31, 2018:

€ million	2018 Reported	Change in methodology	Pro forma adjustments	2018 Pro forma
EBITDAR / EBITDA	5,374	-	107	5,481
Less: Aircraft operating lease costs multiplied by 0.67	(596)	596	-	-
Less: Depreciation charge for fleet assets multiplied by inflation adjustment				
<i>Depreciation charge for fleet assets</i>	(984)	-	(634)	(1,618)
<i>Inflation adjustment¹</i>	1.22	-	1.15	1.19
	(1,205)	-	(726)	(1,931)
Less: Depreciation charge for other property, plant and equipment	(138)	-	-	(138)
Less: Depreciation charge for other ROU assets		-	(108)	(108)
Less: Amortisation charge for software intangibles		(123)	-	(123)
	3,435	473	(727)	3,181
Invested capital				
Fleet closing/average book value excluding progress payments ²	9,721	(223)	3,757	13,255
<i>Inflation adjustment¹</i>	1.22	1.22	1.12	1.19
	11,902	(273)	4,194	15,823
Closing/average book value of other property, plant and equipment ³	1,647	(17)	813	2,443
Aircraft operating lease costs multiplied by 8	7,120	(7,120)	-	-
Average book value of software intangible assets ⁴		506	-	506
Total invested capital	20,669	(6,904)	5,007	18,772
Return on invested capital	16.6%			16.9%

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the fleet (11.9 years).

2 The change in methodology to calculate the average net book value of owned aircraft excluding progress payments is calculated from an amount of €9,275 million at December 31, 2017 and €9,721 million at December 31, 2018. The average pro forma net book value of owned and ROU aircraft excluding progress payments is calculated from an amount of €13,058 million at December 31, 2017 and €13,451 million at December 31, 2018.

3 The change in methodology to calculate the average net book value of other property, plant and equipment is calculated from an amount of €1,613 million at December 31, 2017 and €1,647 million at December 31, 2018. The average pro forma net book value of owned and ROU other property plant and equipment is calculated from an amount of €2,483 million at December 31, 2017 and €2,402 million at December 31, 2018.

4 The change in methodology to calculate the average net book value of software intangible assets is calculated from an amount of €473 million at December 31, 2017 and €539 million at December 31, 2018.

h 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.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and other current interest-bearing deposits. The definition of Net debt remains unchanged from 2018, however with the adoption of IFRS 16 from January 1, 2019, total borrowings have significantly increased due to the recognition of the lease liabilities. Accordingly, the comparative figures for 2018 have been adjusted to reflect the impact of such a change at December 31, 2018.

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	2019	2018 Pro forma
Interest-bearing long-term borrowings	23, 33	14,254	12,704
Less: Cash and cash equivalents	19	(4,062)	(3,837)
Less: Other current interest-bearing deposits	19	(2,621)	(2,437)
Net debt		7,571	6,430
Operating profit before exceptionals	b	3,285	3,485
Add: Depreciation, amortisation and impairment	b	2,111	1,996
EBITDA		5,396	5,481
Net debt to EBITDA		1.4	1.2

i 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 re-translation, 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 2019 figures are stated at a constant currency basis, they have applied the 2018 rates stated below:

Foreign exchange rates	Average		Closing	
	2019	2018	2019	2018
Euro to pound sterling	1.13	1.13	1.18	1.11
US dollar to euro	1.12	1.18	1.11	1.14
US dollar to pound sterling	1.27	1.33	1.31	1.26

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 OGB	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 OGB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 OGB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways E-Jets Leasing Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft leasing	Bermuda	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 OGB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Trustee company	England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Former airline	England	99%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB	Former airline	England	100%

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE	Dormant	Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	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.* Ejército Nacional 439, Mexico City, 11510	Storage and custody services	Mexico	100%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
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	Provision of human resources support to fellow group companies	Republic of Ireland	100%
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, Isle of Man, IM1 4LZ	Dormant	Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus Northern Ireland Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Dormant	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%
Shinagh Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

Avios

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%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trademark ownership	England	100%

IAG Cargo Limited

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Routestack Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Shipping solutions	England	100%
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Shipping solutions	England	100%

Vueling

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Anilec Holding GmbH Office Park I Top B04, Vienna, 1300	Holding company	Austria	100%
Level Europe GmbH Office Park I Top B04, Vienna, 1300	Airline operations	Austria	100%
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%
Waleria Beteiligungs GmbH Office Park I Top B04, Vienna, 1300	Holding company	Austria	49.8%

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% ²
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 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 49.9% 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, correspond to 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, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Dunwoody Airline Services Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	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	25%

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 Muñoz s/n, El Caserio, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	62	14
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.68%	GBP	287	24
Importwise Limited International House, 12 Constance Street, London, E16 2DQ	England	14.8%	CHF	n/a	n/a
Comair Limited 1 Marignane Drive, Bonaero Park, Johannesburg, 1619	South Africa	11.49%	ZAR	2,571	1,103
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
Monese Limited 5th floor, Finsbury Square, London EC2A 1HD	England	7.42%	GBP	18	(13)

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND
SUBSIDIARIES**

Consolidated management report
for the year ended
December 31, 2019

CONTENTS

This Management Report has been prepared in accordance with Article 262 of the Spanish Companies Act and Article 49 of the Spanish Commercial Code. Pursuant to this legislation, this Management Report must contain a fair review of the progress of the business and the performance of the company, together with a description of the principal risks and uncertainties that it faces. In the preparation of this report, IAG has taken into consideration the guide published in 2013 by the Spanish National Securities Market Commission (CNMV) which establishes a number of recommendations for the preparation of Management Reports of listed companies.

The Management Report contains the following sections:

2	Business model
4	Our strategic priorities and key performance indicators
8	IAG Platform
10	Sustainability
33	Risk management and principal risk factors
41	Regulatory environment
43	Financial overview
44	Financial review

Both the Annual Corporate Governance Report and the Non-Financial Information Statement in response to the requirements of Law 11/2018, of December 28, (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), are part of this Management Report.

Our business model is built to maximise choice and value creation

Our vision is to be the world's leading airline group, maximising sustainable value creation for our shareholders and customers.

What we do

IAG combines leading airlines in Ireland, the UK and Spain, with key non-airline businesses, enabling them to enhance their presence in the aviation market while retaining their individual brand identities.

The airlines each target specific customer markets and geographies, providing choice across the full spectrum of customer needs and travel occasions.

The airlines' customers benefit from a larger combined network for both passengers and cargo and greater ability to invest in new products and services through improved financial robustness.

Our vision is to be the leading airline group on sustainability. We are committed to reducing our carbon footprint and to reach the goal of net zero CO₂ emissions by 2050 across all of the IAG businesses.

How we're organised

IAG is the parent company of the Group, exerting both direct and functional influence over its portfolio of companies. IAG is supported by its Management Committee which is made up of CEOs from across the operating companies and IAG senior management. The portfolio sits on a common integrated platform driving efficiency and simplicity while allowing each operating company to achieve its individual performance targets and maintain its unique identity.

Our resources

A portfolio of world-class brands and operations

The Group portfolio consists of unique operating companies, from full service longhaul to low-cost shorthaul carriers, each targeting specific customer needs and geographies.



Global leadership positions

598
fleet

779
routes

279
destinations

4
joint businesses

A common integrated platform

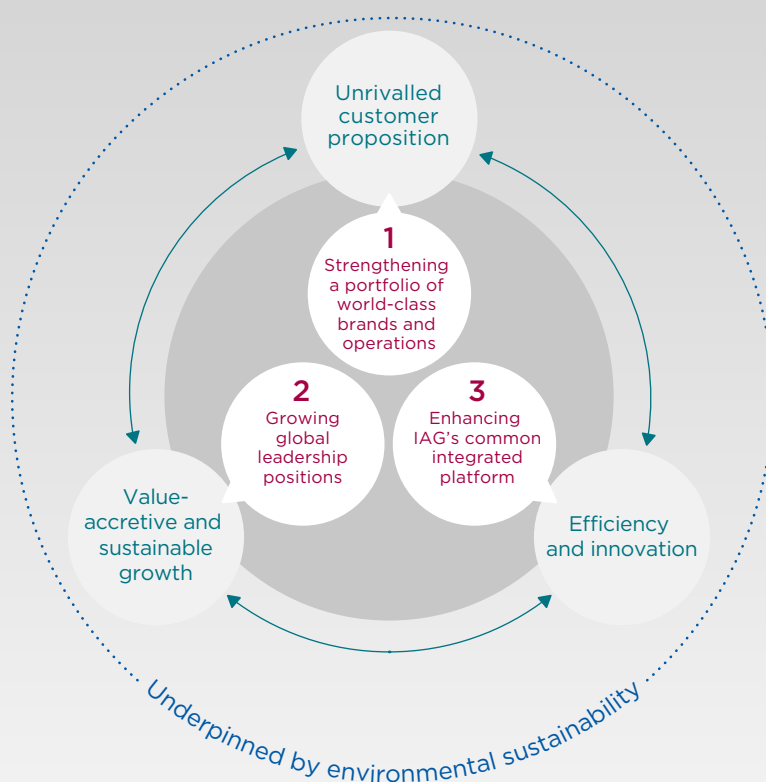
IAG's common integrated platform allows the Group to exploit revenue and cost synergies that the operating companies could not achieve alone.



How we create value

Unrivalled customer propositions

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



Value accretive and sustainable growth

- Pursue value accretive organic and inorganic growth options to reinforce existing or pursue new global leadership positions
- Attract and develop the best people in the industry
- Set the industry standard for environmental stewardship, safety and security

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
- Drive incremental value with external business-to-business services

The value we deliver

Shareholders

31.5 € cents

Final dividend 17.0€ cents and total returns to shareholders since 2015 of €4.4 billion.

Customers

25.8

Net Promoter Score
+9.5pts vly

Employees

66,034

Manpower equivalent
+2.0% vly

7%

Workforce voluntary turnover
-1.0% vly

30%

Female senior executives

Community and environment

89.8g CO₂/pkm

Carbon efficiency
-1.8% vly

**Commitment
to net zero CO₂
emissions by 2050**

Strategic priorities and key performance indicators

Following the adoption of the new lease accounting standard IFRS 16 'Leases' on January 1, 2019, the IAG Management Committee has changed how it monitors the performance of the Group and has also taken the opportunity to evaluate the definitions and appropriateness of the

remaining KPIs. Lease adjusted operating margin has changed to operating margin. Capital expenditure (CAPEX) will now be measured using average gross CAPEX replacing average net CAPEX. Equity free cash flow has been replaced with levered free cash flow and adjusted net debt to

EBITDAR has been replaced with net debt to EBITDA. For further detail see the Alternative performance measures section and for definitions refer to the Glossary.

Strategic priority		1 Strengthening a portfolio of world-class brands and operations	
How we create value		Unrivalled customer proposition	
Our performance		Our activity in 2019 In 2019, IAG customer satisfaction scores improved across all touch-points with each of its brands maintaining focus on addressing the specific needs of their target customer segments. At British Airways, investments in refurbishing lounges in key longhaul markets such as San Francisco and New York JFK were well received by customers, as was the additional investment in catering across the cabins. British Airways also began the roll-out of the new longhaul business class seat, "Club Suite", with excellent reviews from industry commentators. The new seat will provide gate-to-gate in-flight entertainment, increased privacy and stowage, as well as all-aisle access. Over the same period, Iberia completed the refurbishment of its lounges in the Madrid hub, implemented a new set of boarding procedures designed to improve on-time performance and added new channels of communication with the customer such as WhatsApp. Aer Lingus continued to achieve the highest Net Promoter Score amongst the IAG airlines with investment focused on improving the connections experience, aided by a new flight connections facility in Pier 4 at its Dublin hub, as well as enhancements to its catering proposition including complimentary beer and wine in longhaul economy. With Air Traffic Control (ATC) challenges continuing into 2019, disruption management remained a priority issue for Vueling. It developed in-house digital solutions and combined these with new business rules that empowered decision making to front-line staff. Additionally, the automation of how Vueling responds to customers in the event of a flight delay or cancellation has significantly reduced processing times, improving the overall quality of passenger service in times of disruption, and the speed and accuracy with which hotels are assigned to disrupted customers.	Our priorities for 2020 IAG will continue to strengthen its customer propositions to ensure competitiveness in its chosen priority customer demand spaces. Particular focus will be paid to the proposition attributes that matter most to the customer, namely food and drink, service, Wi-Fi and seat comfort. Major initiatives will include the roll-out of British Airways' new Club Suite to gain coverage across a wider number of its longhaul aircraft and Wi-Fi provisioning across the Group.
KPI or industry measure		Net Promoter Score (NPS)	Performance
		Definition and purpose NPS is a non-financial metric which measures the customer's sentiment and loyalty to a brand. 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 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.	IAG's NPS in 2019 increased 9.5 points versus last year's reported figure. Product upgrades and service enhancements, alongside improved operational performance, helped deliver improvements in customer satisfaction across all key journey touch-points. All IAG airlines delivered NPS growth or maintained industry-leading levels of customer recommendation. Vueling contributed solidly to the IAG NPS increase, achieving substantial growth in satisfaction through greatly improved operational performance and the successful delivery of multiple disruption management initiatives. Customer highlights for 2019 included British Airways' 100th anniversary celebrations and the launch of the new Club Suite product.
		 2022 target 33.0 2019 25.8 +9.5pts vly	

2 Growing global leadership positions

How we create value

Value accretive and sustainable growth

Our performance

Our activity in 2019

IAG maintained leadership revenue positions in its home markets of Barcelona, Dublin, London and Madrid. During the period, the Group managed to grow capacity by 1.7 per cent and 1.4 per cent to Europe and North America respectively, IAG's two most important markets.

In May 2019, Chile's Supreme Court rejected an appeal for the proposed South American joint business between IAG and LATAM. Prior to the appeal, the joint business had received clearance by Chile's anti-trust tribunal and also secured approvals from Brazil, Colombia and Uruguay. Subsequently on December 6, 2019, IAG and LATAM confirmed that plans to develop a joint business agreement had been terminated.

On November 4, 2019, IAG announced that definitive transaction agreements had been signed to acquire the entire issued share capital of Air Europa for

€1 billion to be satisfied in cash. The deal will transform the Madrid hub into a true rival to Europe's four largest hubs: Amsterdam, Frankfurt, London Heathrow and Paris Charles De Gaulle. This transaction will also clearly position IAG as a leader on the important Europe to Latin America and Caribbean market. It is anticipated that the deal will complete in the second half of 2020 following receipt of the relevant competition approvals.

In December 2019, British Airways entered a revenue sharing joint business with China Southern on services between the Peoples Republic of China and the United Kingdom. The deal is designed to improve services to consumers, in particular by offering enhanced connectivity in the respective hubs in London and China. Currently China is the sixth largest longhaul destination from the UK, and the UK is the largest European destination from China by passenger volumes. With 31 per cent share of seats the joint business is the market leader between China and the UK.

Our priorities for 2020

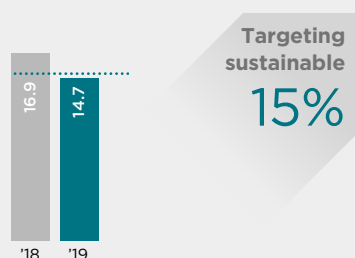
IAG will focus on obtaining competition clearance to complete the Air Europa acquisition. IAG will then prioritise the integration of Air Europa into the Group and commence delivering the synergies brought about by the acquisition.

Growth will be focused on building network depth in core markets with limited investment in new markets. This growth strategy is expected to deliver incremental value and to be RoIC-accretive, whilst at the same time improving resilience to demand shocks.

IAG will continue to prioritise its assessment of consolidation opportunities in Europe to further enhance its existing portfolio, and shape industry consolidation where strategically attractive targets are identified for growth or entry into new markets.

KPI or industry measure

RoIC (%)^{1,2,4}



A Definition and purpose

Return on Invested Capital (RoIC) is defined as EBITDA³, less adjusted fleet depreciation, other depreciation and software amortisation, divided by average invested capital. We use 12 months 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.

R Performance

The Group's RoIC fell 2.2 points versus last year. The decrease reflects a reduction in EBITDA of 1.6 per cent on 7.2 per cent higher invested capital.

Operating margin (%)^{1,2,3}



A Definition and purpose

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

Performance

Operating margin remains within our target range of 12 to 15 per cent with a 1.5 points decline to 12.9 per cent. This was supported by strong revenue and continued focus on non-fuel costs which helped offset the significant rise in fuel costs, and the impact of strikes at British Airways.

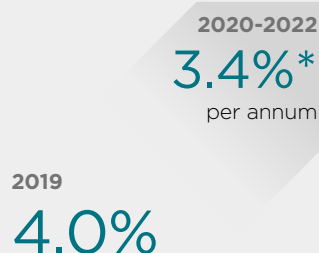
A Alternative performance measure

R Measure linked to remuneration of Management Committee

- 1 2018 pro forma financial information is based on the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018.
- 2 For detailed calculations refer to the Alternative performance measures section.
- 3 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit.
- 4 During 2019, management amended the methodology for calculating RoIC. Refer to the Alternative performance measures section for the definition.

KPI or industry measure

Average growth (ASKs)



Definition and purpose

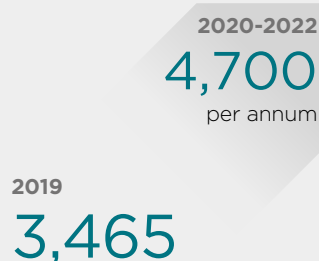
Capacity in the airline industry is measured in available seat kilometres (ASKs) which is the number of seats available for sale multiplied by the distance flown.

Planned growth

IAG is moderating its growth expectations over the next three years in response to the current economic environment and expected market demand. Capacity forecasts have been reduced from 7.4 per cent to 3.4 per cent over the three-year period. IAG has good flexibility in our fleet plans to reduce or increase our capacity as needed.

* Last year's growth target over 2020-2022 was 7.4% per annum.

Average gross CAPEX (€m)



Definition and purpose

Gross CAPEX (capital expenditure) is the total investment in fleet, customer product, IT and infrastructure before any proceeds from the sale of property, plant and equipment.

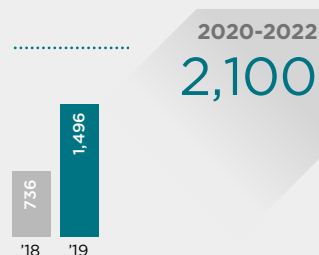
We track the planned capital expenditure through our business planning cycle to ensure it is in line with achieving our other financial targets.

Planned CAPEX

IAG recognises the need to continue to invest in fleet, customer product, IT and infrastructure projects which will all improve our customer offerings and competitiveness in the market.

Our 2019 gross CAPEX of €3,465 million reflects the level of fleet additions during the year and the additional investment in customer propositions including British Airways' new Club Suite. In 2019, we announced our average gross CAPEX forecast spend for 2020 to 2022 of €4,700 million per annum, of which the majority is replacement fleet spend and reflects the aircraft that are due for delivery in that period.

Levered free cash flow (€m)²



A Definition and purpose

Levered free cash flow is the cash generated in the year 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 was €760 million higher than 2018, with net debt increasing by €1.1 billion, reflecting the increased investments the Group is making in fleet, customer and IT. The Group continues to focus on its capital discipline and flexibility.

3 Enhancing IAG's common integrated platform

How we create value

Efficiency and innovation

Our performance

Our activity in 2019

IAG delivered strong progress over the last year in the areas of efficiency and innovation. Central to this has been the Group's focus on leveraging the capabilities brought about by digital technology.

In the last quarter of 2019, British Airways and Iberia reached the highest IATA New Distribution Channel (NDC) certification. NDC has allowed both carriers to reduce their indirect sales and distribution costs and enhance their content offering, such as creating additional longhaul price points across the North Atlantic which have helped increase yields.

Through its Hangar 51 accelerator programme, IAG continued to make strategic investments in promising early-stage and emerging technology partners such as 'Assaia' and 'Importwise', with whom IAG Cargo has partnered. Assaia provides an artificial intelligence solution to monitor aircraft turnarounds as a means to generate

predictive analysis to help airlines reduce delays and increase utilisation, benchmark handler performance and implement optimal service-level agreements. Importwise is focused on small and medium sized importers of freight, offering them access to a digital platform that allows them to create and manage new imports. The platform reduces paperwork, increases price transparency and ultimately lowers cost for the importer.

During the period, IAG also accelerated the development of its Nexus Global Data Platform. This platform is core to driving advanced analytics within the Group, with IAG's maintenance function already relying on its functionality to build predictive maintenance capabilities.

The Group has also accelerated its journey to transform its approach to loyalty, recognising the integral nature of loyalty across multiple business units. Central to this is the modernisation of the Group's core loyalty technology

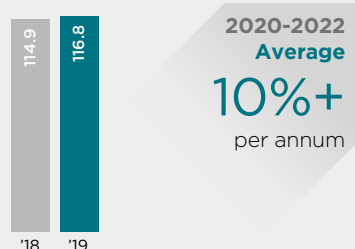
that will enable significant improvements in the speed of partner integration and customer changes. Accompanying this has been the merging of IAG customer data with the opportunities offered through artificial intelligence to increase customer engagement.

Our priorities in 2020

In 2020, IAG will continue to invest in enhancing its common integrated platform to provide quality services and solutions across the Group at a faster pace and lower unit cost, while supporting innovation across the Group. A refreshed IT operating model will be introduced that brings together IAG's digital and IT teams to better transform existing areas of legacy systems and processes. IAG will continue to make investments through its Hangar 51 programme and support IAG operating companies to accelerate their digital transformations.

KPI or industry measure

Adjusted EPS (€ cents)¹²



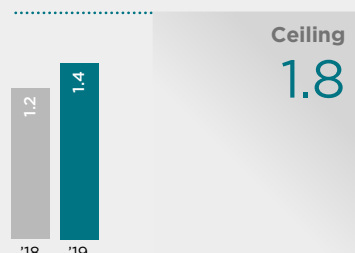
A Definition and purpose

Adjusted earnings per share 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.

R Performance

Adjusted earnings per share increased by 1.7 per cent from 2018 pro forma. Profit after tax before exceptional items declined by 1.4 per cent, but the number of dilutive shares also fell, reflecting the full year impact of the 2018 €500 million share buyback programme and redemption of a €500 million convertible bond in 2019.

Net debt to EBITDA¹²



A 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.

IAG uses this measure to monitor leverage, to assess financial headroom and to maintain the investment grade rating.

Performance

The Group's financial headroom remained strong in 2019 with net debt to EBITDA at 1.4 times.

Net debt rose by €1,141 million to €7,571 million primarily from an increase in borrowings reflecting additions to the fleet in the year.

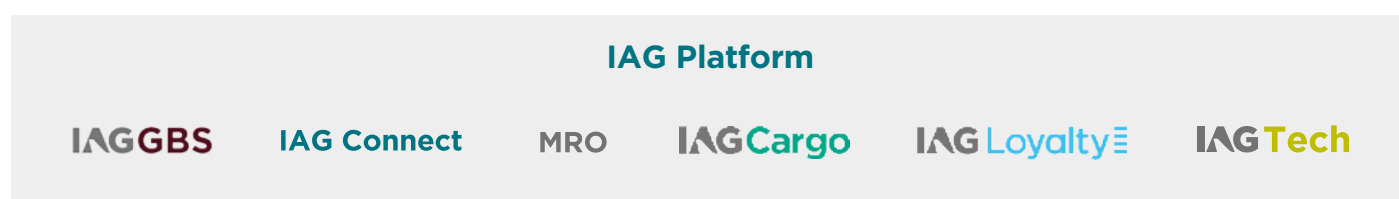
A Alternative performance measure

R Measure linked to remuneration of Management Committee

- 1 2018 pro forma financial information is based on the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018.
- 2 For detailed calculations refer to the Alternative performance measures section.

Enabling quality, innovation and efficiency across the Group

The IAG Platform is now a well-established part of the Group's delivery model. It allows IAG to achieve revenue and cost synergies that the operating companies could not attain alone and provides a "plug and play" platform that new operating companies can efficiently join and rapidly exploit. The Group has already extracted significant value from the IAG Platform with opportunities identified to further enhance synergies and support innovation.



The IAG Platform enables IAG operating companies to access centres of excellence, quality resources and systems that would be hard to achieve as a standalone organisation.

Global Business Services (GBS)

IAG GBS was established in 2014, following which it was engaged in a period of fast-paced start up activity centralising the core finance, IT and procurement functions across the Group, starting with British Airways and Iberia and rolling out to Aer Lingus and Vueling. In 2019, GBS has focused on consolidating the considerable achievements to date while also continuing to drive further improvements across the Group in areas such as supplier management, automation of processes and operational resilience through the introduction of common cross Group systems.

Procurement

In 2019, Group Procurement integrated the procurement platform into the new common finance system enabling enhanced streamlined processes and further synergies for the Group. These include simplification of the end-to-end supply chain from sourcing through to payments; a standardised workflow for all operating companies; and improved supplier spend analytics across the Group to identify potential savings. New digital tools have also been deployed to provide a more robust and automated approach to supplier relationship management. Non-fuel cost savings of more than €280 million were delivered across the Group in 2019.

In 2020 Group Procurement will continue to focus on streamlining the supply base to progress towards stability and effective Corporate Social Responsibility with the Group's partners. It will continue to develop its key supplier relationships to deliver value to the Group.

Finance

2019 saw the continued roll-out of the common finance system across the Group, with GBS Finance joining the platform in the first half of the year and British Airways from July 2019. GBS Finance continues to focus on the simplification, harmonisation and automation of processes to improve efficiency and constantly evaluates opportunities for further cost savings.

Moving forwards and with a growing demand for services, in 2020 GBS Finance will continue to transform migrated functions through the optimisation of processes, and a review of insource, outsource and onshore and offshore opportunities.

IAG Connect and .air portal

IAG Connect enables airlines to leverage a connected fleet with the development of digital in-flight services across entertainment, retail and loyalty through the universal platform, .air. Throughout 2019 the embodiment of the Group's aircraft with Wi-Fi capabilities continued. IAG Connect commenced shorthaul connectivity on British Airways, Iberia and Vueling aircraft enabling a Wi-Fi offering to customers on over 300 aircraft. The IAG Connect .air portal has been installed and operates on all newly connected aircraft across the Group. The portal provides a

scalable platform removing complexity and cost across the Group, enabling the carriers to provide consistent customer experiences across three connectivity providers, regardless of the aircraft. 2020 will continue to be a year of delivery for IAG Connect. The Group is on track to have 90 per cent of aircraft enabled with Wi-Fi connectivity by the second half of 2020, enabling a consolidated product offering across the Group. IAG Connect will continue to develop the .air portal with the introduction of new features and services to further enhance customers' in-flight experience.

Maintenance, repair and overhaul (MRO) and fleet

In 2019 the Group's MRO organisations remained focused on further strengthening their operations and ensuring competitiveness in cost, quality and sustainability. The main achievements delivered were:

- completion of outsourcing of inventory management and repair activities for British Airways' narrow-bodied fleet including the transfer of assets ownership to the supplier;
- consolidation of line maintenance suppliers across regions to leverage Group volume;
- transformation of the wide-bodied airframe maintenance division through the roll-out of a new organisation and implementation of further lean practices to improve quality and cost performance; and

- continued optimisation of the supply chain together with IAG GBS Procurement.

The main areas of focus in 2020 will include:

- further outsourcing of inventory management and repair activities for additional selected fleets across the operating companies;

- continued optimisation of supply chain including the restructuring of selected airframe and components contracts, leveraging new fleets;

- preparation for the future introduction of new narrow-bodied engine types, repair and overhaul capabilities; and

- continued improvement of the competitiveness of wide-bodied maintenance to reach our objective of best in class performance.

In 2019, the Group has incorporated new, more efficient aircraft into the fleet, reducing fuel consumption, noise and CO₂ emissions.

Aircraft Fleet

	Owned	Right of use ¹	Total December 31, 2019	Total December 31, 2018	Changes since December 31, 2018	Future deliveries	Options
Airbus A318	1	-	1	1	-	-	-
Airbus A319	17	40	57	61	(4)	-	-
Airbus A320	50	204	254	241	13	34	76
Airbus A321	20	46	66	56	10	45	14
Airbus A330-200	5	19	24	22	2	-	-
Airbus A330-300	2	14	16	16	-	1	-
Airbus A340-600	9	6	15	17	(2)	-	-
Airbus A350	5	4	9	2	7	33	52
Airbus A380	2	10	12	12	-	-	-
Boeing 747-400	32	-	32	35	(3)	-	-
Boeing 777-200	36	10	46	46	-	-	-
Boeing 777-300	2	10	12	12	-	4	-
Boeing 777-9	-	-	-	-	-	18	24
Boeing 787-8	-	12	12	12	-	-	-
Boeing 787-9	1	17	18	18	-	-	-
Boeing 787-10	-	-	-	-	-	12	-
Embraer E170	6	-	6	6	-	-	-
Embraer E190	9	9	18	16	2	-	-
Group total	197	401	598	573	25	147	166

¹ Includes 108 finance leased aircraft transferred to ROU assets on adoption of IFRS 16.

As well as those aircraft in service the Group also holds 10 aircraft (2018: 5) not in service.

The table above excludes one wet lease which is recognised as a right of use asset on the Balance sheet.

A world-first commitment to net zero emissions

2019 was a momentous year for our sustainability programme and we have restructured this part of the report to highlight the bold environmental actions we are taking and our engagement with stakeholders on this increasingly pressing issue.

For over a decade we have led the aviation industry in taking action on climate change and this remained our main focus during the year.

In October, we became the world's first airline group to commit to achieving net zero carbon emissions by 2050. Our Flightpath [net zero](#) commitment is built on a 30-year programme of far-reaching initiatives, backed by challenging targets. These include improving carbon efficiency by 10 per cent to 80gCO₂/pkm by 2025 and reducing net emissions by 20 per cent to 22 million tonnes by 2030. This year we will introduce management incentives to encourage senior executives to act to reduce emissions.

The actions we are taking are based on the science needed to keep global temperature rises to below 1.5 degrees Celsius and we underlined our determination to meet that objective when, in December, we became the only airline group to sign the UN's Business Ambition for 1.5 degrees Celsius pledge.

Achieving our net zero goal will involve a whole range of actions, including improving operational efficiency, renewing our aircraft fleets, investing in sustainable fuel and offsetting and removing carbon.

We will take delivery of 143 new aircraft in the next three years that are between 20 to 40 per cent more carbon efficient, and 50 per cent quieter, than those they replace.

Over the next two decades we plan to invest \$400 million (€360 million) in sustainable aviation fuels, including British Airways' groundbreaking venture with Velocys to build Europe's first household-waste-to-jet-fuel plant in Humberside. It is due to begin operations in 2024, turning waste destined for landfill into fuel producing 70 per cent less CO₂ emissions over their lifecycle. We are also exploring carbon capture technologies through our Hangar 51 accelerator programme.

We were instrumental in setting up CORSIA, the UN's first global offsetting scheme. This will enable our industry to cut emissions by 2.5 billion tonnes in the next 15 years through a \$40 billion investment in verified carbon reduction projects.

From January 2020, British Airways began offsetting emissions for all its domestic flights through investments in, for example, solar and forestry projects in South America, Africa and Asia, while Iberia is offering companies the chance to offset emissions created when their employees fly by funding a forest protection scheme in Peru.

Our efforts have also accelerated in other areas such as recycling and reducing plastic, glass, metal cans, paper and food waste. For example, we cut 160 tonnes of single-use plastics during the year. Iberia is leading an EU project to develop best practice guidance on sustainable cabin waste management.

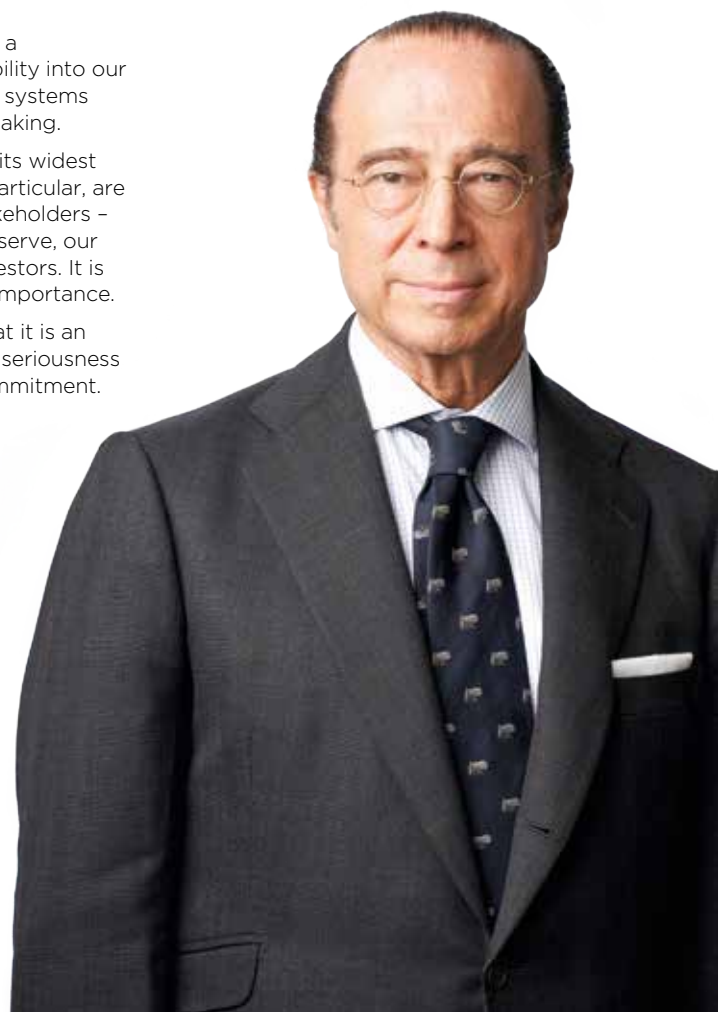
All these moves are backed by a commitment to build sustainability into our strategy, our risk management systems and our day-to-day decision making.

We know that sustainability in its widest sense, and climate change in particular, are of growing concern to our stakeholders – including the communities we serve, our customers, employees and investors. It is an issue that will only grow in importance.

I hope this report will prove that it is an issue we treat with the utmost seriousness and that we take on as our commitment.

Antonio Vázquez
Chairman

“We’ve led our industry in tackling climate change in the last ten years and are continuing to take bold steps to ensure environmental sustainability is fully integrated into our strategy and decision making.”



Sustainability overview

Sustainability governance structure



Sustainability governance

IAG’s sustainability strategy sets the context and ambition for our sustainability programmes, which are coordinated at Group level. It covers our Group policies and objectives, governance structure, risk management, strategy and targets on climate change and noise, sustainability performance indicators, communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy.

The IAG Management Committee provides the forum for review, challenge and setting strategic direction of these programmes. Further oversight and direction are provided by the IAG Board and the IAG Audit and Compliance Committee. The above diagram depicts how sustainability is governed across the Group.

In addition, we have continued to progress our environmental management with the adoption of the International Air Transport Association (IATA) Environmental Assessment (IEnvA) management system. IEnvA is the airline industry version of

ISO 14001 (the international standard for environmental management systems) tailored specifically for airlines and is fully compatible with the International Organisation for Standardisation (ISO). British Airways achieved Stage 1 certification in 2019 and all other Group airlines are progressing on Stage 1 certification in 2020.

Sustainability strategy

Sustainability underpins our business strategy and is fundamental to our long-term growth. We have set our vision to be the world's leading airline group on sustainability and are committed to minimising our environmental impact. We are also committed to delivering best practice solutions and demonstrating thought leadership to drive global improvements in the aviation industry's sustainability performance.

We have aligned our sustainability strategy to IAG's strategic priorities, as demonstrated in the diagram below.

We measure our progress against our vision to be the leading airline group on sustainability against five strategic aims.

- 1 Clear and ambitious targets relating to our most material issues
- 2 Low-carbon transition pathway embedded in business strategy
- 3 Management incentives aligned to delivering low-carbon transition plan
- 4 Leadership in carbon disclosures
- 5 Accelerating progress in sustainable aviation fuels, future aircraft and low carbon technologies

More details on our 2019 progress can be found in the Climate change - Overview and targets, Sustainability risks and

opportunities, and Engagement with stakeholders on sustainability subsections, as well as relevant case studies.

In 2019 we further embedded our consideration of sustainability issues into core business processes: IAG three-year business plans, one-year financial plans, enterprise risk management, procurement and financial approvals now address climate and sustainability impacts.

We have also committed to developing management incentives aligned to our climate targets, to improve the alignment of our business strategy and decarbonisation pathway. We will implement these incentives in 2020.



Materiality

Disclosure and reporting standards

To ensure we disclose relevant and meaningful data about our sustainability performance, we align our reporting with relevant and emerging disclosure standards. This includes compliance with our obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain. Our secondary reference point is the Sustainability Reporting Standards from the Global Reporting Initiative (GRI). We align our reporting with the Airlines Reporting Handbook, which we worked

with the International Air Transport Association (IATA) and GRI to develop.

Key metrics in this section are included in the IAG Non-Financial Information Statement, which has been third-party verified to limited assurance and in line with ISAE3000 (Revised) standards (see "Climate change - Data governance" section).

We also submit information to several external global frameworks. These include the Carbon Disclosure Project (CDP), the Transition Pathways Initiative (TPI) and the Workforce Disclosure Initiative (WDI).

The latest ratings from key frameworks are as follows:

- B (Management) rating maintained in the CDP 2019 Climate Change questionnaire, based on our submitted response and activities in the 2018 calendar year. The progress made in 2019 will be reflected in our 2020 submission.
- Level 3 of 4 in the second TPI Management Quality ratings, based on publicly available disclosures prior to November 2019.
- Most improved IBEX company, first in sector for FTSE 100 companies, and top ten in IBEX companies in the EcoAct 2019 global review of sustainability reporting.

Identifying material issues

IAG’s sustainability reporting is also based on an assessment of the most material impacts of IAG business activities on the environment. In 2017, we worked with key stakeholders to identify these impacts in a materiality exercise facilitated by the charitable trust Business in the Community. The process included workshops, interviews with key stakeholders, benchmarking against external materiality frameworks and the production of our own materiality matrix.

Sixteen material sustainability issues were identified and are listed below. We have realigned these, under the three headings below, to reflect the new structure of this report.

These issues align with the issues identified by IATA and GRI for the airline sector. Water consumption and biodiversity are currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

We will repeat a materiality assessment in 2020.

Key material issues

Environment	Workforce and community	Governance, integrity and competitiveness
- Climate change¹ - Carbon pricing - Energy use - Waste - Noise - Air quality	- Diversity and equality - Community engagement and charitable support - Local economic impacts - Employee satisfaction - Talent management	- Supply chain management - Compliance with legislation and regulation - Customer satisfaction - Innovation, research and development - Financial performance²

Alignment with Sustainable Development Goals (see right)



1 Including GHG emissions, fleet modernisation, fuel efficiency and sustainable aviation fuels (SAF).
2 Short-term investor returns and long-term sustainability.

Sustainable Development Goals

The UN has identified 17 Sustainable Development Goals (SDGs) for all sectors to work towards as part of a 2030 Agenda for Sustainable Development. The aim of this agenda is to “end poverty, protect the planet and improve the lives and prospects of everyone, everywhere”.

We draw links to nine SDGs, which align with those identified by IATA and UK trade association Sustainable Aviation (SA). Four priority SDGs - **5, 7, 8 and 13** - were identified by IAG as part of our materiality assessment and are indicated in grey. How our initiatives align with, and support, these goals is also indicated.

How IAG activities align with the SDGs

Goal 3: Good health and wellbeing	Goal 4: Quality education	Goal 5: Gender equality
Initiatives on: - Operational efficiency - Fleet modernisation - Noise - Air quality - Health and safety - Modern slavery - Accessibility	Initiatives on: - Work experience programmes - Modern slavery	Initiatives on: - Work experience programmes - Workforce diversity - Modern slavery
Goal 7: Affordable and clean energy	Goal 8: Decent work and economic growth	Goal 9: Industry, innovation and infrastructure
Initiatives on: - Climate change - Sustainable aviation fuels	Initiatives/metrics on: - Work experience programmes - Revenue per tonne CO₂	Initiatives on: - Sustainable aviation fuels - Fleet modernisation - Hanger 51 - Carbon capture, utilisation and storage (CCUS)
Goal 11: Sustainable cities and communities	Goal 12: Responsible consumption and production	Goal 13: Climate action
Initiatives on: - Noise - Air quality - Community giving - Accessibility	Initiatives on: - Waste - Supply Chain	Initiatives on: - Climate change - Operational efficiency - Sustainable aviation fuels - Carbon offsets and removals

Engagement with stakeholders on sustainability

We regularly engage with many stakeholders on sustainability issues to understand their requirements and interests, communicate our initiatives, influence policy, and drive action to meet our sustainability objectives.

Examples of specific stakeholder engagement and 2019 actions are below. More detail on actions can be found in the Key climate change case studies subsection, Waste and Noise case studies, and Workforce and community subsection.

Stakeholders	Why we engage	How we engage	Key 2019 actions/outcomes
Communities	• Our operations can affect quality of life in communities near where we operate • To maximise our positive wider impact	• Participating in airport community forums • Community giving campaigns • Engaging local schools in sports, charity and learning events	• We manage the noise performance of our airlines and met our Group noise reduction target a year early • We maintained a range of charity partnerships and raised over €4.2 million for not-for-profit organisations • See "Community giving" case study
Customers	• To demonstrate our 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	• Sharing information on the IAG website • British Airways website for passengers to offset their flight emissions during booking • Social media communications • Onboard communications e.g. in-flight entertainment • Customer surveys • Focus groups • Meetings and interviews	• Flightpath net zero material available on IAG website • British Airways enhanced its voluntary offsetting option for passengers • Iberia achieved over 12 million online and offline media impressions from World Environment Day activities • British Airways is the first airline in the UK to receive the "Autism Friendly Award" by the National Autistic Society
Workforce	• To align individual airline sustainability programmes with IAG Group • To share ideas and best practice • To respond to demands from internal stakeholders • To drive positive employee engagement	• Regular facilitated meetings of IAG staff in sustainability roles • Voluntary environmental and waste champions • Staff awareness campaigns	• Bi-annual meetings of the IAG Sustainability Network • Inaugural meetings of new waste reduction network and IAG Cargo sustainability working group • Vueling ran a staff awareness campaign around quieter aircraft operations • British Airways and Iberia ran World Environment Day activities for staff • Connected supplier representatives to sustainability leads in the IAG operating companies
Shareholders and other financial stakeholders	• To respond to legal obligations and changing expectations of financial stakeholders • To maintain and increase transparency • To demonstrate action and leadership to external stakeholders on our initiatives	Engagement includes institutional investors and shareholders, debtholders, debt providers and credit rating agencies • Via corporate website • Corporate disclosure initiatives • Investor relations activity • Conference calls with institutional investors	• Significantly expanded sustainability section of IAG website • Disclosed information to CDP and TPI external ratings and support for the development of TPI framework • Integrated into investment case • Sustainability presentation at IAG Capital Markets Day
Suppliers	• To minimise exposure to environmental, social and governance (ESG) risks • To support manufacturers in improving aircraft efficiency • To gain support for sustainable aviation fuels (SAF) • To identify opportunities to reduce supplier emissions	• Procurement processes • Screening and on-site audits • Joint projects • Hangar 51 accelerator programme • Industry conferences • Supplier sustainability workshops	• See "Supply chain" case study • See "Sustainable aviation fuel" case study • Partnerships with key fuel suppliers to reduce emissions from road transport of jet fuel • Introduced new Hangar 51 "Sustainability" category • Participated in Airbus and Boeing workshops

Stakeholders	Why we engage	How we engage	Key 2019 actions/outcomes
Government and regulators	- To influence UK, Spanish, Irish, EU and global policies on taxes, SAF and carbon pricing so that these policies are effective and fair - To increase research and funding for low-carbon aircraft, SAF and carbon removal technologies - To support the UK government commitment to net zero emissions - To build support for a net zero emissions target for aviation through the UN aviation regulator International Civil Aviation Organisation (ICAO)	- Attending UN summits and working groups - Through dialogue with trade associations - Meetings with government officials, ministers and parliamentarians - Responding to EU and national public policy consultations	- IAG representatives take leading roles in ICAO and IATA steering and working groups - Ongoing engagement programmes in Brussels and Westminster to promote Flightpath net zero (see Climate Change subsection)
Industry associations	- To develop common policy positions - To improve lobbying effectiveness - To ensure alignment between our sustainability goals and the goals of associations we are members of - To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment	Global aviation associations: - IATA, Air Transport Action Group (ATAG) European trade associations: - Airlines 4 Europe (A4E) UK trade associations: - Sustainable Aviation (SA), Airlines UK	- Joint statements and press releases with A4E, SA, Airlines UK - Keynote speaking at numerous major industry events on sustainability - IAG staff are chairing the IATA Sustainability and Environment Advisory Council and Fuels Task Group - IAG staff are chairing the newly formed Oneworld environment and sustainability best practice group
Non-governmental organisations (NGOs)	- For independent reviews of materiality - To maintain an informed position on sustainability leadership - To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment	- Meetings and visits - Industry conferences and workshops - Contributing to NGO initiatives	- IAG hosted multiple workshops and provided expertise for the SA Decarbonisation Road-Map: A Path to Net Zero - Engaged with initiatives from the Science Based Targets Initiative (SBTi), World Wide Fund for Nature (WWF), The Climate Group, and The World Economic Forum's "Cleaner Skies for Tomorrow" initiative

Sustainability risks and opportunities

Overview

The IAG Sustainability team is responsible for identifying and monitoring sustainability and climate-related risks and challenges. These are reviewed by the Enterprise Risk Management (ERM) team and reported at least annually to the IAG Management Committee and the IAG Audit and Compliance Committee. The Sustainability team considers risks over medium-term (two to five years) and long-term (five to 30 years) timescales as part of its risk management processes.

IAG is subject to both risks and opportunities related to sustainability, which are assessed in line with the IAG ERM methodology and are assessed for likelihood and impact considered over different time horizons. The four categories of likelihood are “remote”, “possible”, “probable” and “likely”, and the four categories of impacts are “manageable”, “moderate”, “serious” and “critical”.

Other risks relating to people and employee relations and safety and security are described within the business and operational risks of our ERM framework.

We have identified and assessed longer-term sustainability and climate-related risks and opportunities for IAG through our ERM process, materiality review and applying scenario analysis techniques as set out by the Task Force on Climate-Related Financial Disclosures (TCFD) process. We were one of the early signatories to the TCFD, an initiative led by the Financial Stability Board which complements the Carbon Disclosure Project (CDP) framework and sets guidelines for how to review the resilience of our business strategies in the context of climate change.

We are also allocating significant resource to environmental risk management including investment of over €2 million over five years in Honeywell GoDirect Flight Efficiency software and over \$400 million (€360 million) over the next 20 years in sustainable aviation fuels infrastructure development and offtake agreements.

Taskforce on Climate-Related Financial Disclosures

Scenario analysis

In 2018, we followed the TCFD process for scenario analysis and analysed the implications of climate change on our business in 2030. 2030 was selected as a nearer-term timeframe en route to 2050. The analysis exercise included an initial qualitative assessment of potential IAG responses in terms of business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans. We considered two scenarios:

- a two-degree temperature rise scenario, consistent with the goals of the Paris Agreement; and
- a four-degree temperature rise scenario, as an alternative high-emission scenario.

We identified that IAG would incur additional operating costs under both a two-degree and four-degree scenario. Under a two-degree scenario, most of this increase would result from carbon prices or climate-related policy interventions. Under a four-degree scenario, IAG was more likely to face increased costs from operational disruption as a result of extreme weather events becoming more frequent. Key outcomes of this scenario analysis were:

- raising climate change awareness internally and further integrating it into the business planning process;
- driving engagement with the Hangar 51 accelerator programme; and
- identifying and disclosing several new climate-related challenges.

We will review the results of scenario analysis in line with the latest recommendations and guidance and intend to repeat it when relevant.

In 2019, we completed further analysis of climate-related risks and opportunities.

See the Risk Management and principal risk factors report for details on sustainable aviation risks.

Summary

Climate transition risks and opportunities

Description and potential impact

Emergence of global patchwork of uncoordinated national and regional climate policies – regulation

Risk: use of inappropriate tax instruments may lead to competitive distortion including potential carbon leakage and result in increased compliance costs while failing to effectively address aviation emissions.

Climate regulation – regional application

Risk: CORSIA has been agreed internationally however the risk remains of regional regulatory duplication and/or inconsistent application of agreed Monitoring Reporting and Verification (MRV) requirements and eligible offsets which could create inequitable costs and competitive distortion.

Sustainable aviation fuels – regulation

Risk: EU and Spanish proposals to mandate a proportion of sustainable aviation fuels (SAF) would incentivise production but could force airlines to purchase SAF at a price premium compared with conventional fuels creating competitive distortion and may lead to production of less sustainable fuels. IAG believes sustainable fuel mandates, if applied, should only be at a global level.

Consumer behaviour

Risk: trends in ethical and sustainability concerns being a factor in consumer choices may mean some consumers choose to fly less frequently.

Opportunity: to differentiate our brands by showing leadership, innovation and action to mitigate climate impacts.

Sustainable aviation fuels – production

Opportunity: commercial and environmental opportunity to source cost-effective sustainable fuel and reduce our CO₂ emissions thereby reducing compliance costs for CORSIA and the European Union Emissions Trading Scheme (EU ETS).

Higher carbon price and strong policy incentives

Risk: higher cost of carbon adds to our operating cost.

Opportunity: support stronger business case for investment in low-carbon technologies which would accelerate decarbonisation progress.

How we manage it

- Allocating resources to engage with governments, trade associations, IATA and ICAO to lobby for and help deliver a single effective global carbon-pricing solution for aviation via CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). Regular updates on progress are provided to the IAG Management Committee and IAG Board

- Supporting implementation of CORSIA through IATA and ICAO and engaging other airlines to ensure CORSIA is effectively adopted
- Supporting development of robust rules for CORSIA on Monitoring, Reporting and Verification (MRV), and Emissions Unit Criteria
- Lobbying for universal adoption of CORSIA

- Lobbying to prevent mandates that create competitive distortion, both directly and through industry organisations, at EU and UK levels
- Supporting policy incentives that help deliver SAF at prices competitive with conventional fuels through new technologies reaching scale and becoming cost competitive

- Setting our vision to be the world's leading airline group on sustainability with ambitious goals on net emissions and carbon efficiency
- Using all the tools at our disposal: modern aircraft, efficient technology, best operational practice and sustainable fuels, as well as influencing global policy and driving industry-wide action, to minimise our carbon footprint
- Effectively communicating our practices to customers and suppliers

- Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the global, EU and UK levels
- British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate SAF development

- IAG supports ambitious climate targets and effective global regulation and strong policies to meet global climate goals
- Continued investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency
- Effective procurement strategy for carbon credits to protect against price volatility
- Innovating and collaborating on future fuels and carbon technologies through our Hangar 51 accelerator programme

Climate physical risks and opportunities

Description and potential impact

Extreme weather impact on operating costs

Risk: for example, increased frequency of high winds, fog events, storms, turbulence, sustained extreme heat events or stronger jet stream would increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs.

Drought-induced water scarcity at outstations could also increase fuel costs with increased potable water carriage.

Destinations becoming unattractive for visitors

Risk: for example, extreme weather events and physical impacts of climate change such as flooding, drought, forest fires, heat waves, algae blooms, coral bleaching, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.

Opportunity: climate change could make certain destinations more attractive or accessible to visitors, for example a longer summer season.

How we manage it

- IAG climate strategy (see "Climate change" subsection) and our support for strong global action to tackle climate change
- Partnerships to mitigate operational disruption. For example, working with the UK National Air Traffic Service (NATS) and other air navigation service providers, a "Linear Holding" system called XMAN was launched at London Gatwick airport in 2019. If arriving aircraft are delayed by more than seven minutes, this system ensures they are slowed down, reducing stack holding and fuel burn and therefore CO₂ emissions
- Ongoing lobbying and engagement in projects and initiatives designed to reduce the industry's impact on climate change
- Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes
- Strategy to ensure aircraft and crew flexibility means we are prepared and able to respond to shifting demand patterns

Other sustainability risks and opportunities

Description and potential impact

Operational noise restrictions and charges

Risk: airport operators and regulators apply operational noise restrictions and charging regimes which may restrict our ability to operate especially in the night period and/or may introduce additional cost.

Supply chain CSR compliance

Risk: potential breach of sustainability, corporate social responsibility or anti-bribery compliance by an IAG supplier or third party resulting in financial, legal, environmental, social and/or reputational impacts.

Environment regulation compliance

Risk: an inadvertent breach of compliance requirements with associated reputational damage and fines.

Potential target for direct action protests

Risk: direct action and civil disobedience protests could disrupt flight operations and/or restrict staff and passenger access.

How we manage it

- Investing in new quieter aircraft
- 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 challenges
- Integrity, sanctions and CSR screenings for new suppliers, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct, supplier compliance audits
- Internal governance including training and workshops to identify challenges and mitigation
- Management IT systems for suppliers and higher-risk third parties
- Adopting a Group-wide Environmental Management System, the IATA IEnvA programme
- Reviewing and strengthening sustainability governance processes including embedding sustainability into business plans, financial plan, and business cases
- Internal governance, training and assigning ownership for environmental compliance obligations
- Engaging with carbon market advisors to understand and mitigate compliance challenges and identify future opportunities
- Close liaison with government agencies, airport operators and commercial organisations to assess challenges
- Contingency planning

Environment

Climate change

Overview and targets

Climate change is our most material sustainability issue. IAG's main impact on climate change is via the jet fuel consumed by our aircraft fleet. In 2019, the greenhouse gases (GHGs) produced from this activity contributed 99.8 per cent of our Scope 1 emissions, and 77.1 per cent of our combined Scope 1, 2 and 3 emissions¹. We also have an impact via our ground operations – for example the use of ground vehicles – and from the energy used in terminals, hangars, offices, lounges and other buildings.

We are committed to minimising our CO₂ impacts and non-CO₂ impacts on the climate. Our Scope 1 activities in 2019 directly emitted 30.47 million tonnes (MT) of carbon dioxide, 0.02 MT of methane, and 0.29 MT of nitrogen oxide, measured in units of CO₂-equivalent. Given that CO₂ is over 99 per cent of this impact, reducing CO₂ is our primary focus.

IAG is committed to IATA industry targets, which are:

- 1.5 per cent per annum fuel efficiency improvement until 2020; we have averaged 1.6 per cent per annum improvements between 2011 and 2019;
- Carbon-neutral growth from 2020 onwards; and

- 50 per cent reduction in net CO₂ emissions by 2050, versus a 2005 baseline.

We have been working towards a fuel efficiency target of 87.3 grammes of CO₂ per passenger per km (gCO₂/pkm) by 2020. This represents a 10 per cent reduction from 97.5 gCO₂/pkm in 2014.

In October 2019, IAG committed to a new set of climate targets and became the first airline group worldwide to commit to net zero emissions of greenhouse gases by 2050. This Flightpath [net zero](#) programme covers our Scope 1 and 2 CO₂ emissions. "Net zero" means that by 2050 any CO₂ that IAG operations emit in a year will be balanced by an equivalent amount of CO₂ reduction. This is in line with UN science requirements to keep global average temperatures below a 1.5°C rise.

As part of the Flightpath [net zero](#) programme, we set new short-, medium- and long-term targets at Group level:

- 10 per cent improvement in fuel efficiency between 2020 and 2025, equating to 80 gCO₂/pkm in 2025;
- 20 per cent reduction in net CO₂ emissions by 2030, equating to 22 million tonnes (MT) of CO₂ in 2030;
- Net zero CO₂ emissions by 2050; and
- Net zero CO₂ emissions for British Airways UK domestic flights from 2020.

In addition, in December 2019 we became one of 185 companies worldwide to sign the Business Ambition for 1.5°C pledge from the UN Global Compact and Science-Based Targets initiative (SBTi). As part of this pledge, we committed to climate targets and decarbonisation pathways which are consistent with keeping global temperatures below a 1.5°C rise. In 2020 we intend to support efforts to develop guidance on decarbonisation pathways for aviation.

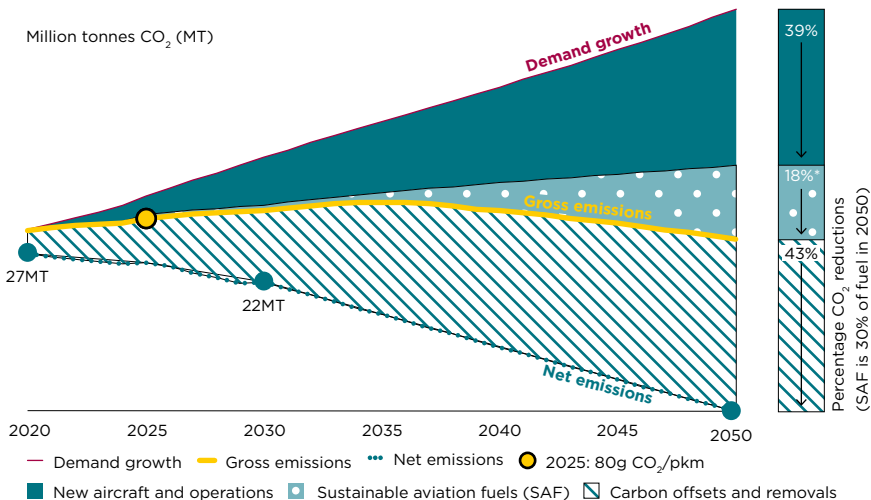
We rely on four areas to achieve our Flightpath [net zero](#) 2050 programme: operational efficiency, fleet modernisation, sustainable aviation fuels, and structured schemes to deliver carbon reductions in other sectors. We have created a detailed carbon reduction roadmap to quantify the impact of each aspect of our plan and this is shown below. Compared with a scenario of growth at today's efficiency, 39 per cent of reductions in 2050 will come from new aircraft and operations, and 43 per cent from market-based measures and carbon-removal projects such as carbon capture, utilisation and storage (CCUS) technology. We expect 30 per cent of IAG fuel in 2050 will be from sustainable aviation fuels.

We will regularly review this roadmap to account for policy and technology changes and new insight. In 2020 we expect to update the roadmap to account for IAG business changes and any relevant insights from national, regional and global carbon reduction roadmaps.

GHG emissions by scope, in tonnes CO₂-equivalent



1 Definitions of Scope 1, 2 and 3 emission can be found next to the metrics on pages 50 and 51.
2 Values rounded to the nearest thousand tonnes



Key climate change case studies

The case studies below relate to the main focus areas in our Flightpath [net zero](#) emissions programme.

Operational efficiency

Operational efficiency means changing the way we fly and operate our aircraft, reducing CO₂ saving fuel. Small improvements can make a big difference, and there are many ways to reduce fuel consumption without negatively affecting passenger experiences or flight schedules.

Fuel efficiency initiatives saved 77,386 tonnes of CO₂e in 2019. Examples of 2019 initiatives include optimised engine washes, reducing the use of Auxiliary Power Units (APUs), reduced time for landing light deployment, reduced engine taxi in and out, continuous descent operations, lighter main wheels and reducing weight onboard. Vueling ran an awareness campaign with flight crew about how operational best practices can reduce CO₂. As part of meeting Group efficiency targets to 2020 and 2025, an expanded programme of initiatives is planned for 2020.

IAG also has a strategic commitment to fuel efficiency. Since 2018 we have been using the GoDirect Flight Efficiency software, developed by Honeywell, in British Airways, Iberia, Vueling, and Aer Lingus. This tool enables detailed analysis of fuel use trends to identify savings. In 2019 we launched the Group-wide portal of this tool to enable benchmarking across the Group.

[Link to SDGs](#)



Fleet modernisation

Fleet modernisation means investing in new aircraft and engines as well as upgrading existing aircraft. IAG's fleet modernisation programme will play a major role in reducing our emissions intensity per passenger from 89.8 gCO₂/pkm in 2019 to 87.3 gCO₂/pkm in 2020 and then to 80 gCO₂/pkm in 2025. As a result of our fleet modernisation programme, the age of our fleet is expected to drop from 11.4 years in 2019 to 10.2 years in 2022.

In 2019 we continued to invest in modernising our fleet. Key examples are:

- across the Group 45 new aircraft were delivered and 18 older aircraft stood down
- Iberia introduced four new Airbus A350s into their fleet
- Vueling now has the youngest fleet in Southern Europe
- Aer Lingus added three new Airbus A321neoLRs into its fleet, which showed an average of 23 per cent fuel saving compared with the Boeing 757s replaced
- British Airways retired three Boeing 747 aircraft and will completely phase out these aircraft by 2024
- We continued to undertake engine upgrades and weight saving initiatives
- Hangar 51 increased activity focused on start-ups pioneering low-carbon flight, including electric aircraft development. This activity focused on partnering with, and bringing investment to, new low-carbon technology companies

IAG fleet planning teams also factor the current and future price of carbon emissions into relevant fleet planning decisions.

[Link to SDGs](#)



Sustainable aviation fuels

Sustainable aviation fuels (SAF) are made from materials which have previously absorbed carbon, such as organic waste and food items. These fuels are chemically almost identical to jet fuel from fossil fuels, but over their recent life cycle emit 70 to 100 per cent less CO₂. SAFs will play a key role in enabling IAG to reduce our impact on climate change.

We remain at the forefront of SAF development and of influencing domestic, regional and international policy to support these fuels. We have committed to invest \$400 million in SAF over 20 years from 2017. In August 2019, the British Airways partnership with Velocys and Shell submitted a planning application for Europe's first household-waste-to-jet-fuel plant in Immingham, England. Construction of the plant is due to start in 2021 and the plant will be operational in 2024. It is expected to produce over 32,000 tonnes of sustainable jet fuel per year.

IAG continues to work with several technology developers to establish a range of SAF supply options for the future. We participate in academic boards and public-private partnerships to support new technologies and innovation. We are also exploring options to use carbon capture, utilisation and storage (CCUS) technology as part of our Velocys project in the near term.

We also support wider innovation on SAF. In 2019, British Airways ran a Future of Fuels competition, open to academics at UK universities. The winners were announced in May and awarded a £25,000 grant to further their research, along with presenting their winning proposal at the industry-leading IATA Alternative Fuels Symposium and ATAG Global Sustainable Aviation Summit.

IAG contributes to the Fuels Task Group at the UN International Civil Aviation Organisation (ICAO), which is helping to shape new legislation for SAF as part of the upcoming CORSIA scheme. We are working on new government policy options for recycled fuels – i.e. non-biogenic, like plastics which cannot be recycled – which we believe have great potential to offer additional CO₂ reductions. We are also calling for the UK government to set up a dedicated cross-government body to provide policy support to accelerate UK SAF development.

[Link to SDGs](#)



Carbon fund, offsets and removals

Carbon reductions can be achieved through market-based measures and offsets:

- Contributing to emission reductions in Europe through the European Emissions Trading Scheme (ETS)
- Through the global CORSIA scheme, preparing to purchase verified carbon reduction units to offset our emissions growth
- Voluntarily purchasing offsets for emissions from specific groups of flights, events and staff activities
- Offering customers the option to fund carbon reduction projects to make their flights carbon neutral
- Investing in technology to capture carbon dioxide out of the air and store

it underground – not yet implemented by IAG but being explored

IAG reduced its net emissions by 3.2 million tonnes of CO₂ in 2019, largely through participation in the EU ETS. All British Airways' UK domestic flights will be net zero carbon from 2020 onwards; a volume of around 400,000 tonnes achieved through emission reductions under the EU ETS and carbon reductions from investment in projects supporting forest protection and renewable energy.

The British Airways Carbon Fund continues to offer passengers the option to voluntarily invest in community energy efficiency projects in the UK and Africa. Our partnership with charity Pure Leapfrog completed nine projects in 2019 including the installation of solar panels and high-efficiency lighting, peatland restoration and renewable energy.

In 2019, IAG continued to actively support the use of smart market-based measures to reduce emissions. Representatives worked with IATA and ICAO to help finalise the rules governing the CORSIA scheme, the treatment of SAF and the rules for airlines and carbon offsetting programmes relating to eligible carbon offsets. We continue to work with IATA, trade associations and national governments to call for effective carbon regulation and effective regulatory reforms.

In 2019, IAG selected two carbon offset and removal start-ups to work with as part of our Hangar 51 innovation accelerator programme. Mosaic Materials has created a material to absorb CO₂ emissions from the atmosphere. ClimateTrade uses blockchain technology to track carbon offset projects. These partnerships have improved our understanding of how we can incorporate these technologies into our business.

In 2020 we plan to expand our voluntary carbon reduction programmes and continue to support smart market-based measures to reduce emissions. We expect the price of carbon per tonne to rise over time and we are liaising with the UK Government on options for the treatment of aviation after the UK leaves the EU.

[Link to SDGs](#)



Data governance

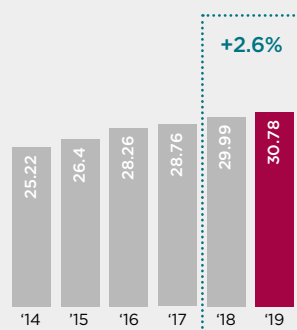
The scope of our environment performance data includes all our airlines and cargo operations. Some specific data from LEVEL is excluded but this is not considered material, as LEVEL accounts for less than two per cent of our Scope 1 emissions. Similarly, IAG Loyalty and IAG GBS functions are also not in scope of our environmental metrics and form less than one per cent of material environmental impacts. Our emissions data is calculated using UK Government greenhouse gas conversion factors for company reporting and International Energy Agency (IEA) national electricity emissions factors.

Metrics included in our Non-Financial Statement have been verified to limited assurance, aligned with ISAE3000¹ (Revised) standards. In addition, Scope 1 emissions data is subject to further verification for compliance with the EU ETS and CORSIA. This happens after the publication of this report. Where full year data was not available for this report, estimates have been applied and the methodology approved by our external auditors.

Our five key climate-related metrics are below and on the next page. Scope 2 emissions only constitute 0.2 per cent of our carbon footprint so are in the "Additional climate-related metrics" table. Where applicable, 2018 values have been restated based on the latest available data.

Key climate change metrics

- Indicator improved
- Indicator not improved



Scope 1 emissions (million tonnes CO₂e)

Description

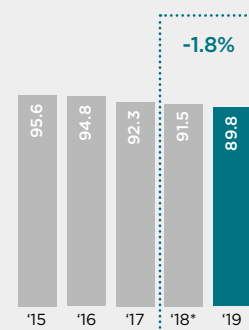
Scope 1 emissions are direct emissions associated with our operations including use of jet fuel, diesel, petrol, natural gas, and halon. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines.

These emissions are primarily CO₂ but other GHGs such as methane and nitrogen oxide are also reported as part of our CO₂-equivalent metric.

Commentary

99.8% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.

An improvement in flight only emissions intensity of 1.8% has limited growth in Scope 1 emissions to 2.6%, despite capacity growth of 4.0%.



* Restated

Flight-only emissions intensity (grammes of CO₂/pkm)

Description

Grammes of CO₂ per passenger kilometre is a standard industry measure of flight fuel efficiency.

This value is calculated by taking annual jet fuel use and dividing by passenger-km travelled, using a conversion factor to account for the weight of cargo.

Commentary

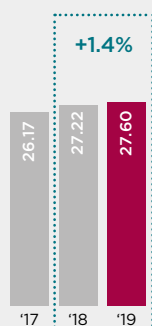
The 2019 improvement is driven by the strong performance of A320s, A350s and B787s and higher load factors.

The 2018 value has been restated using the latest verified data.

Between 2011 and 2019, our average annual improvement in grammes of CO₂/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%.

Key climate change metrics

● Indicator improved
● Indicator not improved



Net Scope 1 emissions (million tonnes CO₂e)

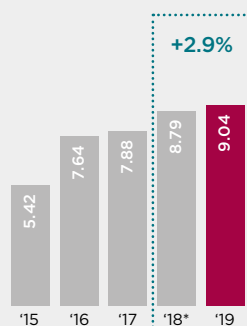
Description

This value is calculated by taking the total GHG emissions from our operations and subtracting the tonnes of carbon reductions achieved through the EU ETS. The methodology aligns with that used by the European Union Aviation Safety Agency (EASA).

Commentary

In 2019, our net Scope 1 emissions were 3.2 MT lower than our Scope 1 emissions due to participation in the ETS.

From 2020 we expect our net emissions from international flights to continue to decline as a result of CORSIA, continued participation in the EU ETS, and IAG voluntary purchases of carbon offsets.



* Restated

Scope 3 emissions (million tonnes CO₂e)

Description

Scope 3 emissions are indirect emissions associated with products we buy and sell.

In 2019 we are reporting on four² material categories of our indirect emissions which accounted for 98% of our 2018 Scope 3 footprint.

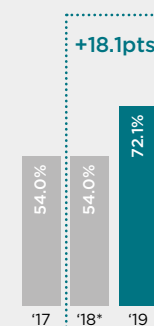
2018 Scope 3 emissions have been restated based on these four categories, to enable a year-on-year comparison with 2019.

Commentary

The increase in Scope 3 emissions was primarily driven by activity growth and so higher use of jet fuel.

The breakdown of Scope 3 emissions is:

- Fossil fuel production – 70%
- Aircraft manufacturing and disposal – 18%
- Franchises – 9%
- Downstream transportation and distribution – 3%



* Restated

Renewable electricity (% of kWh)

Description

Our electricity use is measured in kilowatt-hours (kWh). The above metric represents the share of electricity generated by renewable sources such as solar power and wind. It includes the volume procured from renewable electricity suppliers.

In cases where no information was available on electricity sources, the source of electricity is assumed to be the national grid.

Commentary

This metric was first reported in 2017. The 2018 value has been restated using the latest verified data.

The 2019 increase is driven by procurement of renewables in Vueling and Iberia and at UK airports where we operate.

Footnotes

1 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

2 These four Scope 3 categories are defined and calculated as follows:

Fossil fuel production represents the life-cycle emissions from producing and transporting the fuels that we consume – calculated using conversion factors from the UK Government.

Aircraft manufacturing and disposal represents emissions from making and disposing of aircraft at the end of their usable life – calculated using a standardised factor from the EU.

Franchises represent emissions from aircraft that are franchises to IAG – calculated based on the emissions from fuel use.

Downstream transportation and distribution represents emissions from subcontracted air and ground fleets, including for carrying freight – calculated based on the emissions from fuel use.

While our focus remains on climate change, we are committed to addressing a range of other sustainability issues. These include local environmental impacts which may affect the quality of life for communities where we operate. For example, minimising the noise impact of our aircraft remains an important focus of our sustainability programme, as well as the impact of these aircraft on air quality. We also recognise that waste, particularly the use of single-use plastics, is an important issue and one which we are actively addressing.

Waste

We continue to make progress in recycling and reducing plastic, glass, metal cans, paper and food waste. In 2019, IAG initiatives reduced over 160 tonnes of single-use plastic waste. A new cross-airline waste reduction group was also established which involved representatives from all airline.

Waste reduction initiatives include:

- At the IAG and British Airways Head Office, over 1.5 million single-use plastic items have been removed since 2018
- British Airways and Iberia replaced plastic swizzle sticks with sustainable bamboo versions, saving 47.5 tonnes of plastic a year
- Iberia saved 68.5 tonnes of plastic with different plastic reduction measures such as replacing the bags on pillows and blankets with paper bands;
- Aer Lingus reduced plastics on 24 per cent of their Bia and Boutique onboard products
- Vueling has replaced plastic cups on shorthaul flights with biodegradable alternatives

- British Airways' new World Traveller Plus amenity kit was designed with sustainability in mind, using material from recycled plastic bottles
- Iberia is in the EU LIFE+ Zero Cabin Waste programme, which aims to recycle 80 per cent of the cabin waste generated on board, including food waste and plastics. Waste per flight has dropped by 15 per cent since the beginning of this project
- LEVEL is using an app to monitor and reduce unnecessary water onboard

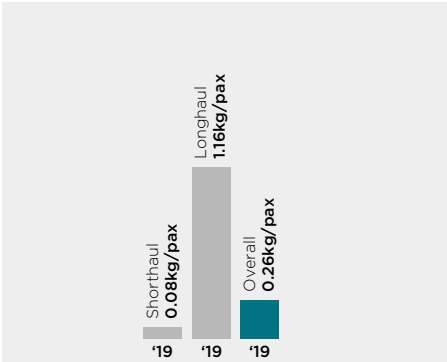
In 2019, British Airways' waste per shorthaul passenger improved by 26 per cent while waste per longhaul passenger improved by 10 per cent, due to the expanded use of waste treatment options and recyclable material onboard. Iberia waste per flight dropped by 7 per cent due to LIFE+ Zero Cabin Waste project initiatives.

We will continue to take steps to reduce and manage waste. From 2020, British Airways will have a target to reduce single-use plastics by 900 tonnes per annum over the next five years. IAG will also explore Group-wide waste targets.

[Link to SDGs](#)



Key waste metric



Average aircraft cabin waste (kilogrammes per passenger) (kg/pax)

Description

Onboard catering waste generated per passenger, net of recycling, and split between shorthaul and longhaul operations. Some operating companies reported total cabin waste due to limited data availability.

Passenger numbers are based on inbound passengers at base airports e.g. Heathrow, Madrid, Barcelona and Dublin.

Shorthaul and longhaul flights are defined here by distance – for example, UK to Europe as shorthaul.

Commentary

2019 is the first year we are reporting a Group average. We expect to report Group year-on-year trends from 2020.

There are large differences between the waste per passenger metric for individual operating companies due to differences in business model, onboard product, the availability of local waste treatment options, and national waste-related regulations.

The above methodology is considered a good representation of overall waste. Catering waste includes food and packaging left over from onboard catering, while non-catering cabin waste includes items such as onboard newspapers.

Noise

IAG continues to make progress in reducing aircraft noise over time. Between 2015 and 2019, we reduced the average noise per landing/take-off cycle by 10 per cent, meaning that we met our 2020 noise target one year early. All our aircraft meet ICAO Chapter 4 standards for noise and over half now meet the more rigorous ICAO Chapter 14 standards.

In 2019 we continued to invest in quieter aircraft, as part of our fleet modernisation programme. For example, Vueling and Aer Lingus grew their fleet of Airbus A320neos and Airbus A321neos, which have noise levels 50 per cent lower than the Airbus A320ceos and Airbus A321ceos that they replace, respectively.

We continue to focus on best operational practices to reduce our local noise impacts. One of these is to carry out continuous descent operations (CDOs). 82 per cent of Vueling's UK flights over the course of 2019 were CDOs, and the company ran a bi-monthly staff awareness campaign to promote CDOs across their network. Aer Lingus and British Airways also performed strongly in the Heathrow "Fly Quiet and Green" league table of 50 airlines which use Heathrow airport: Aer Lingus has consistently ranked in the top five performing airlines since the ranking began in 2017 and British Airways shorthaul operations topped the league table in the first half of 2019.

All our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible. In 2019, we continued to engage with stakeholders including community groups, regulators and industry partners at our hub airports to share operational insights and participate in research and operational trials.

In 2020 IAG will set new Group-wide noise targets to help support and drive further progress.

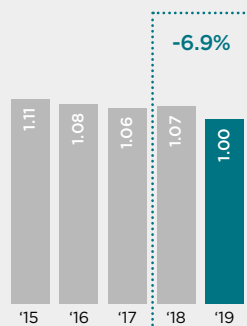
Key metrics are below. Other noise metrics are in the "Additional noise and air quality metrics" table.

[Link to SDGs](#)



Key noise and air quality metrics

Indicator improved
Indicator not improved



Noise per landing/take-off cycle (Quota Count per landing/take-off cycle)

Description

This metric calculates the average noise per flight considering arrival and departure noise for each aircraft type. UK Government Quota Count (QC) values 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 calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

Commentary

A key driver of the 2019 improvement was the use of Airbus A320neos on shorthaul routes.

Trends in noise per cycle can fluctuate due to new aircraft, retirements, use of leased aircraft, shorthaul versus longhaul routes and changes to engine certification.



NOx per landing/take-off cycle (kilogrammes NOx per landing/take-off cycle)

Description

This metric calculates the 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 the fleet, using information from the ICAO emissions database.

The calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

We monitor this performance as it is important that we minimise our impacts on local air quality.

Commentary

2018 was the first year we reported this metric.

The 2018 value has been restated due to the inclusion of aircraft which retired before the end of the year, and the resolution of a NOx calculation error.

The 2019 improvement is driven by our ongoing programme of fleet modernisation.

 Indicator improved
 Indicator not improved

Additional climate-related metrics

Metric	Unit	% 2018-19	2019	2018	2017	2016	2015
Electricity	million kWh	+4.4%¹	245.3	234.9 ⁴	253.2	n/a	n/a
Scope 2 emissions (location-based)²	thousand tonnes CO ₂ e	-2.5%¹	68.6	70.4 ⁴	92.6	103.1	117.7
Scope 2 emissions (market-based)³	thousand tonnes CO ₂ e	-56.4%	17.8	40.7 ⁴	61.9	92.9	n/a
Scope 2 energy intensity (location-based)	gCO ₂ /pkm	-6.3%	0.20	0.22 ⁴	0.28	0.35	0.43
Fleet age	years	+0.5%	11.4	11.3	11.4	10.8	10.8
Jet fuel	million tonnes fuel	+2.2%	9.65	9.41	9.02	8.86	8.28
Revenue per tonne CO₂e	euros/tonne CO ₂ e	+1.9%	827	811	796	796	862

Footnotes:

- 1 2019 kWh increased due to an expanded scope of reporting to include overseas offices and electrical power to aircraft. Using the same scope as in 2018, this value would have dropped by 17%. Scope 2 emissions (location-based) would have dropped by 27%.
- 2 Scope 2 emissions are emissions associated with electricity use. The location-based metric is calculated by multiplying kWh of electricity by the IEA national electricity emissions factors in each country or region of operation.
- 3 The market-based method is based on the specific CO₂/kWh of the electricity purchased from suppliers, although where information is not available the IEA national electricity emissions factors are used instead. The Scope 2 market-based measure is net of renewables and dropped significantly in 2019 due to renewable electricity purchases.
- 4 Restated based on the latest verified data and not including overseas offices or electrical power to aircraft. The previously reported values were based on the best available data but used provisional figures for the final months of the year.

Additional noise and air quality metrics⁵

Metric	Unit	% 2018-19	2019	2018	2017	2016	2015
ICAO Chapter 4⁶	% compliance	-	100%	100%	99%	99%	99%
ICAO Chapter 14	% compliance	+3pts	53%	50%	46%	46%	n/a
ICAO CAEP 4⁷	% compliance	+1pt	98%	97%	96%	94%	93%
ICAO CAEP 6	% compliance	+4pts	78%	74%	69%	68%	65%
ICAO CAEP 8	% compliance	+6pts	35%	29%	26%	25%	n/a
Continuous descent operations (CDO)⁸	% compliance at UK airports	-1.1pts	91.6%	92.7%	92.3%	2013 baseline: 91.0%	

Footnotes:

- 5 IAG compliance with ICAO Noise and NOx standards is based on the fleet position at the end of 2019, excluding leased aircraft.
- 6 ICAO Chapter 4 and Chapter 14 standards are for noise from aircraft. They compare aircraft noise against standardised limits that are a combination of lateral, approach, and flyover noise levels. The ICAO Chapter 4 technology standard applies to new aircraft certified from January 1, 2006 and Chapter 14 applies to new aircraft certified from January 1, 2017.
- 7 ICAO CAEP standards are for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8-certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard. The CAEP 4 NOx standard applied to engines manufactured from January 1, 2004, CAEP 6 applied from January 1, 2008 and CAEP 8 applied from January 1, 2014.
- 8 Continuous descent operations (CDO) employ a smooth approach angle when landing, allowing aircraft to fly higher for longer, compared with stepped approaches to airports. This can help reduce fuel consumption as well as noise for those living under approach flightpaths. CDO scores are calculated based on the share of flights employing this approach at UK airports, using data supplied by the National Air Traffic Services (NATS). Data above is for all IAG airlines excluding LEVEL, with 2013 as the baseline year. The 2019 average for all airlines in the UK is 88.2%.

Workforce and community

Workforce overview

At the end of 2019, 72,268 people were employed across the Group in 83 countries, an increase of 1.6 per cent in the year. Employees across the Group play a vital role in delivering the service experience that customers expect, whether on the ground or in the air. They bring a diverse range of talent and perspectives that contribute to the values and cultures of our operating 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 aim to provide employees with industry-leading training and development opportunities. Our individual operating companies have responsibility for the 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. Our voluntary turnover rate for 2019 was 7 per cent, a level that reflects a balance between a stable workforce whilst enabling new talent to join the Group.

At the Group level, IAG 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. IAG also 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.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

Due to the diverse nature of our businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level and 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 corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Over 95 per cent of our employees are 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.

IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates, covering around 95 per cent of the Group's total workforce. There were two full meetings of the EWC in 2019. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG sustainability representatives presented details of the FlightPath [net zero](#) plan to the EWC in 2019.

Employee satisfaction is an important matter for all operating companies within the Group. Each company has its own established methods of measuring employee satisfaction.

Talent management is also important across the Group, and this is primarily managed within the operating companies. At the Group level we are focused on the IAG Management Committee and their direct reports and we have a good track record of retaining and promoting talent into these roles. We are currently working to align the talent management framework across the Group.

Across all the markets we serve, our growth continues to lead to improved local employment opportunities and local economic benefits for our supply chain partners. These economic benefits extend to the airports we serve and their related supply chains, partners and tenants.

[Link to SDGs](#)



Workforce diversity

The progression of women into leadership roles is important to IAG and we have set a target to reach 33 per cent women across our senior executive levels (top 200 staff) by 2025. We monitor and report on our progress, including the management pipeline across the Group. We have put in place an extensive programme of action to help deliver this.

Some key 2019 achievements included:

- 30 per cent women across senior executive levels by the end of year, up from 24 per cent in 2017
- Recruitment activity across the Group continued to focus on roles where women are under-represented including pilots, engineering and technology
- British Airways and IAG Loyalty reported their 2018 gender pay gap data in April 2019. Detailed reports are available at: <https://gender-pay-gap.service.gov.uk/>
- Launched a cross-Group female mentoring programme supported by Women Ahead. For the second year, 11 British Airways mentors and mentees joined the 30% Club cross-company mentoring programme
- International Women's Day was marked with British Airways welcoming 100 young women to its Global Learning Academy to inspire more girls to become commercial airline pilots
- At Iberia, the "Quiero Ser" (I Want to Be) programme, part of the Diversity and Inclusion Plan, gave young girls once again the opportunity to meet female aviation professionals in person. This programme launched in 2018 to lend greater visibility to female talent and to promote careers in aviation for women at all levels and in all company areas
- Aer Lingus partnered up with the Irish Girl Guides to create the brand new 'Aviation Badge'. The badge aims to engage girls from a young age with all things aviation, by building interest for future study in STEM subjects and encouraging them to consider future aviation careers

At British Airways, within the UK, around 16 per cent of our employees have declared a Black, Asian and Minority Ethnic (BAME) background. We recognise that, as in many companies, there are fewer people from a BAME background in more senior roles and this is something we are working to address. In 2019, British Airways joined 80 other organisations in making a public commitment to the Business in the Community (BITC)

Race at Work Charter in tackling barriers to BAME recruitment and career progression.

[Link to SDGs](#)



Work experience programmes

IAG sees work experience as a valuable way of engaging young people with our business and preparing them for potential careers in aviation.

British Airways launched the Flying Experience Days across the summer holidays as a way to engage more young people with a career in the flight deck, in partnership with The Air League Trust. Trial flights were offered to 200 students (of which 25 per cent were girls) at Booker Gliding Club and Airfield in High Wycombe in either a glider or motor-powered aircraft, as well as other activities that are focused around becoming a pilot. As a result of the Flight Experience Day, the share of students set on becoming a pilot rose from 68 per cent to 95 per cent.

In the August summer holidays, British Airways invited 45 former Inspire work experience students to undergo a training programme that looks at developing their presenting skills and building confidence, as well as techniques for representing British Airways at external events. There are now 145 Inspire Student Ambassadors in the programme. The award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry and develop their employability skills.

Similarly, the Aer Lingus Transition Year Programme has been developed to provide second-level transition year students with a structured 'behind the scenes' glimpse into the daily operations in Dublin and the various potential career paths available within the airline.

[Link to SDGs](#)



Health and safety

Health and safety is fundamental to our business, whether in the air or on the ground. It is our highest priority. We are committed to operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. This commitment applies equally to our employees, customers and all others affected by our activities.

We have robust governance in place led by the safety committees in each of our operating companies. IAG's Safety Committee, chaired by the Group CEO, monitors all matters relating to the operational safety of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

Our 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.

[Link to SDGs](#)



Community giving

Community giving is a key way that IAG operating companies contribute to their wider communities. These efforts are often long-standing and continue to support a variety of causes.

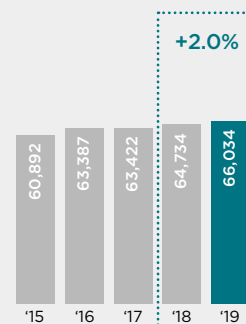
Here are some key 2019 achievements:

- The British Airways "Flying Start" global charity programme, in partnership with Comic Relief, raised over £3.4 million in 2019 and has raised over £24 million since 2010. Customer collections and fundraising have helped over 800,000 people in some of the world's poorest communities;
- British Airways continued its commitment to international humanitarian response and launched a new partnership with the British Red Cross focusing on support for UK community preparedness and crisis response work;
- Aer Lingus staff continued their commitment to "Make a Difference" Day, where they volunteered one day's annual leave to help their local communities. In 2019, the eighth year of this programme, 140 employees from across all departments transformed the outdoor grounds of St Monica's School in Dublin, benefitting 150 pupils;
- Since 2013, Iberia has been collecting customer donations through the Iberia website for UNICEF children's vaccination programmes. Over one million euros has been raised so far, which have paid for the vaccinations for more than a million children in Chad, Angola and Cuba. €110k was raised in 2019; and
- Since 2016, Vueling has collected €950k in donations for Save the Children, being the second-largest sponsor of this NGO in Spain. €194k was raised in 2019.

[Link to SDGs](#)



Key workforce metrics



Employment (average manpower equivalent)

Description

Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average manpower equivalent is the mean of the manpower equivalent captured quarterly to reflect seasonality.

Commentary

Our manpower equivalent increased by 2.0% whilst our ASKs grew by 4.0%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base.

Key workforce metrics



Headcount (number of people)

Description

Headcount is the actual number of people employed across the Group (employees) as at December 31, 2019.

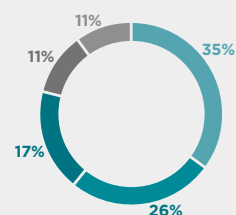
Commentary

This metric was first reported in 2018.

Overall headcount grew over the year by 1.6%.



■ Part-time ■ Full-time
■ Temporary ■ Permanent



■ Cabin crew ■ Airport
■ Corporate ■ Pilots
■ Maintenance

Composition (% headcount by employment type, contract and employee categories)

Description

Per cent headcount by employment type, contract and employee categories.

Composition is a breakdown of headcount as at December 31, 2019.

The definitions of full-time and part-time vary across the Group.

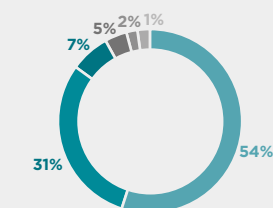
A temporary employment contract has a defined end date.

Our employee category breakdown portrays the distribution of the major groups within our workforce “in the air” – Pilots and Cabin Crew – and “on the ground” – Airport, Corporate and Maintenance.

Commentary

This metric was reported for the first time in 2018.

There were no significant changes in 2019.



■ UK ■ Spain ■ Republic of Ireland
■ Other countries ■ India ■ USA

Employees by country (number of people)

Description

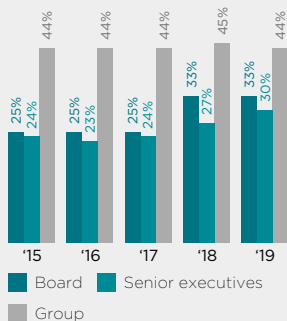
This metric depicts the distribution of the Group's employees according to the country in which are based.

Commentary

This metric was reported for the first time in 2018.

There were no significant changes in 2019.

In 2019 IAG had employees based in 83 countries, with 95% based in the European Economic Area (EEA).



Gender diversity (% women at Board, senior executive, and Group level)

Description

The share of women as a proportion of all staff at specific levels of seniority across the Group.

We have published objectives for 33% women on the Board by 2020 and 33% women across the Group's senior executive levels by 2025.

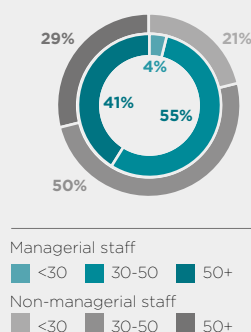
Senior executive levels include IAG and operating company Management Committee members, directors and other senior/executive positions reporting into them.

Commentary

There were 198 senior executives as at December 31, 2019.

We continue to increase our proportion of women in senior executive levels, reaching 30% by the end of 2019.

We achieved our 2020 Board target in 2018 and have maintained this level of diversity since.



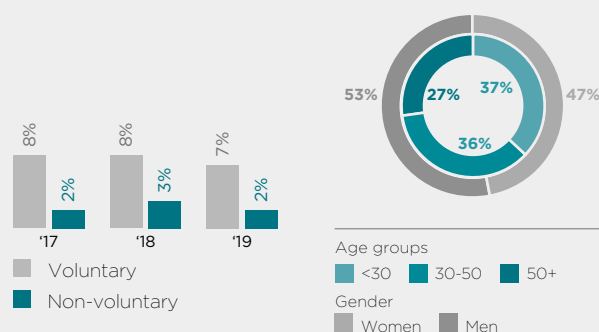
Age diversity (% of staff in each age band)

Description

Proportion of employees in each age band, for both managerial and non-managerial employees.

Our on the ground (airport, corporate and maintenance categories) managerial population includes all roles equivalent to a manager across the Group.

Our in the air (pilots and cabin crew) managerial population includes all roles equivalent to Captains and Cabin Service Managers).



Workforce turnover (% voluntary and non-voluntary turnover)

Description

Workforce turnover is 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 right-hand chart above shows the overall breakdown of turnover by gender and age.

Commentary

In 2019, the overall annual turnover was 9% - a total of 6,206 employees, of which 1,372 were non-voluntary leavers.

Additional workforce metrics

Metric	Unit	% 2018-19	2019	2018	2017	2016	2015
Social dialogue and trade unions¹	% covered by collective bargaining agreements	+1.4%	87%	86%	88%	88%	not reported
Average hours of training²	Average hours per employee per year	+17.6%	48.4	41.1 restated	45.8	34.9	36.1
Lost Time Injury (LTI) frequency rate³	LTI per 100,000 hours worked	+3.4%	2.09	2.02 restated	Not reported previously		
LTI severity rate⁴	Average days lost per LTI	+7.2%	22.64	21.12	Not reported previously		
Fatalities⁵		n/a	0	1	Not reported previously		

Footnotes:

- 1 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 period.
- 2 Average hours of training is calculated by translating training data for operating companies per full-time equivalent (FTE) into training hours per Group Average Manpower Equivalent (AME). All mandatory and non-mandatory training is in scope. 2018 data was restated, an improvement in data capture during 2019 resulted in re-applying that methodology to 2018. There was an increase in average hours of training per employee in 2019 explained by the additional number of pilot hours of training during the year. This was due to the introduction of new aircraft types, which in turn meant more conversion courses to train existing and new pilots (employee category with the highest year-on-year headcount increase).
- 3 A lost time injury (LTI) is a non-fatal injury arising out of, or in the course of, work which will lead to a loss of productive work time. LTI frequency rate is calculated using actual hours in the calculation. The 2018 LTI frequency rate has been restated at year-end due to improved method of tracking actual hours worked.
- 4 LTI severity rate measures the impact of occupational accidents as reflected in time off work by the affected workers. LTI severity rate is calculated by dividing the total lost days due to injuries by the total number of LTIs in the reporting period.
- 5 Fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business (e.g. company or contracted bus or vehicle) (GRI 403 guidance), except for employees in Spain, as the inclusion of these is a legal requirement.

Governance and integrity

Supply chain management

On behalf of IAG and its operating companies, IAG Global Business Services (GBS) works with approximately 27,000 suppliers. We aim to do business and build relationships with suppliers who share our Group values: acting with honesty and integrity in all business dealings, reducing our supply chain environmental footprint, improving safety, and strengthening contributions to building better societies, locally and globally.

From 2019, our Supplier Code of Conduct, which lays out expectations for suppliers working with all IAG operating companies, has been included as part of our supplier onboarding process. This means all new suppliers are asked to sign up to and acknowledge the Code before we establish any trading relationship and helps ensure that established standards are accepted and followed by all our supply chain partners.

We have built on our sustainable supply chain strategy throughout 2019 and have screened an additional 13,000 existing suppliers in the Group. This means that approximately 18,400 IAG suppliers – 68 per cent – have been screened to date. This includes third-party assessments of legal, social, environmental and financial risk.

As part of our Procurement Sustainability Programme, we have built a Corporate Social Responsibility (CSR) audit plan and are increasing the number of audits carried out each year, focusing on those suppliers located in countries where there may be human rights or environmental concerns. These audits are carried out by trusted third-party inspectors with CSR expertise, who are aligned with the world-class Sedex Members Ethical Trade Audit (SMETA) methodology.

In 2019, the number of on-site supplier audits was tripled compared with the same period in 2018. Audits carried out with our business partners did not show any significant violations. However, the findings that potentially deviated from our supplier standards are being reviewed to determine what, if any, corrective actions are required.

We also have collaboration projects with key suppliers to encourage sustainability innovation and identify ways to reduce emissions. Examples include shifting the transport of jet fuel from road to rail, and the Catering 2020 Project, which resulted in sourcing suppliers from a 5-7 mile radius of each London hub therefore reducing transport emissions.

In 2020, we will continue to invest in the development of our Procurement Sustainability Programme. This means we will focus on supply chain sustainability, assessment, performance and control by implementing new tools, continuing to increase the number of CSR audits, and introducing supplier self-assessment and projects that recognise sustainability contributions.

[Link to SDGs](#)



Ethics and integrity

All directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate. Resources are available across the Group for employees to get advice, report grievances or any alleged or actual wrongdoing.

IAG and its operating companies have policies in place setting out the general guidelines that govern the conduct of directors and employees of the Group when carrying out their duties in their business and professional relationships. Various training and communications activities are carried out for directors, employees and third parties to support awareness of the principles that govern the conduct of the Group and its employees. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

There are Speak Up channels provided by Safecall and Ethicspoint available throughout the Group, where concerns can be raised on a confidential basis. The IAG Audit and Compliance Committee reviews the effectiveness of Speak Up channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements. The annual review is co-ordinated by the Head of Group Audit.

In 2019, a total of 282 Speak Up reports were received compared with 201 in 2018. These reports concerned issues relating to Employment Matters (62%), Dishonest Behaviour/Reputation (23%), Health & Safety (14%) and Regulatory Matters (1%). All reports were followed up and investigated where appropriate.

Anti-bribery and corruption policy and programme

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our Group policies which are available to all directors and employees. Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks. In 2019, 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.

Anti-bribery and corruption training is mandatory for all IAG operating companies and takes the form of either e-learning or classroom sessions. Individual training requirements are set by each operating company and are determined by factors such as the level and responsibilities of an employee. In 2019, a new anti-bribery and corruption e-learning course was rolled out across the Group.

The programme's risk-based third-party due diligence includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. In 2019 a new third-party management tool for higher-risk third-parties was implemented, together with updated Group-wide Know Your Counterparty procedures. 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.

Anti-money laundering

IAG has various 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.

Modern slavery

Human trafficking is of real concern in the airline industry.

Transporting over 118 million passengers per year and with tens of thousands of suppliers, slavery and human trafficking is relevant to IAG. We have no known cases of human rights violations within our organisation and we are increasing our screening of our suppliers to ensure that this is also the case in their organisations. We work closely with governments and the airports in which we operate to ensure that any suspected trafficking on our flights is reported and dealt with appropriately. We train our staff to recognise the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected.

In 2019, we published our third Group Slavery and Human Trafficking Statement. This statement is made under section 54, part 5 of The Modern Slavery Act 2015 (MSA) and outlines the steps taken by IAG to prevent modern slavery within the Group and ensure it does not take place in our business and supply chains. We ask our suppliers to adhere to this statement. Modern slavery clauses feature in all new supplier contracts as well as those coming up for renewal.

IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

In addition, British Airways, Aer Lingus and Vueling run training for pilots and cabin crew on identifying and responding to human trafficking. Guidance and procedures for flight crew and cabin crew are also included in the Aer Lingus and Vueling Operations Manuals.

[Link to SDGs](#)



Sustaining the risk management culture

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. The Board has oversight of the Group's operations to ensure that internal controls are in place and operate effectively. Management is responsible for the execution of the agreed plans.

The Group has an Enterprise Risk Management (ERM) policy which has been approved by the Board. This policy sets the framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks facing the Group, including emerging risks. This process is led by the Management Committee and best practices are shared across the Group.

Risk owners are responsible for identifying and managing risks in their area of responsibility within the key underlying business processes. All risks are assessed for likelihood and impact against the Group Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans. Every risk has clear Management Committee oversight.

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends, regulations or business disruptors that could impact the Group's business strategy and plans. These emerging risks are monitored within the overall risk framework until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact can be made, and appropriate mitigations can be put in place.

IAG considers risks to the strategic business plan over the short-term up to two years, medium-term from three to five years and in the longer-term beyond five years.

Risk management professionals ensure that the framework is embedded across the Group. They maintain risk maps for each operating company and at the Group level, and ensure consistency over the risk management process.

Risk maps are reviewed by each operating company's management committee, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Each operating company's management committee confirms to its operating company board as to the identification, quantification and management of risks within its operating company as a whole annually.

The management committee of each operating company escalates risks that have a Group impact or require Group consideration in line with the Group ERM framework.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. 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 Board of Directors discusses risk at a number of meetings in addition to the risk map review, including a review of the assessment of IAG's performance against its risk appetite.

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalises how performance is monitored either on a Group-wide basis or within major projects. These statements were reviewed for relevance and appropriateness of tolerances at the year end and it was confirmed to the Board that the Group continued to operate within each of the risk appetite statements.

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. IAG remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government regulation, external events causing operational disruption including civil

unrest, adverse weather or pandemic, fuel price and foreign exchange volatility and changes in the competitive landscape.

Risks are grouped into four categories: strategic, business and operational, financial including tax, 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.

The list is not intended to be exhaustive.

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and consumers. IAG has a high appetite for continued deregulation and consolidation. The Group seeks to mitigate the risk from government intervention or changes to the regulations that can have a significant impact on operations.

In general, the Group's strategic risks were stable during the year with competitor capacity being monitored and assessed within the Group. IAG continues to support deregulation, manage its supplier base and explore opportunities for consolidation.

Business and operational risks

The safety and security of customers and employees is a fundamental value. The Group balances the resources devoted to building resilience into operations and the impact of disruption on customers. The Group airlines are still highly exposed to the significant level of Air Traffic Control (ATC) airspace restrictions in Europe, requiring additional resilience to be built into the networks.

Strike action impacted British Airways, Iberia and Vueling operations this year. IAG continues to engage with the trade unions representing our workforces to agree collective bargaining agreements and minimise disruption.

The cyber threat environment remains challenging for all organisations including the airline industry. The Group continues to prioritise investment in the security controls framework, to mitigate and control these risks.

The political and economic environment remained volatile across the year, with the risk of demand impact from changes in trade relationships which could drive the imposition of tariffs, increasing costs.

Financial risks

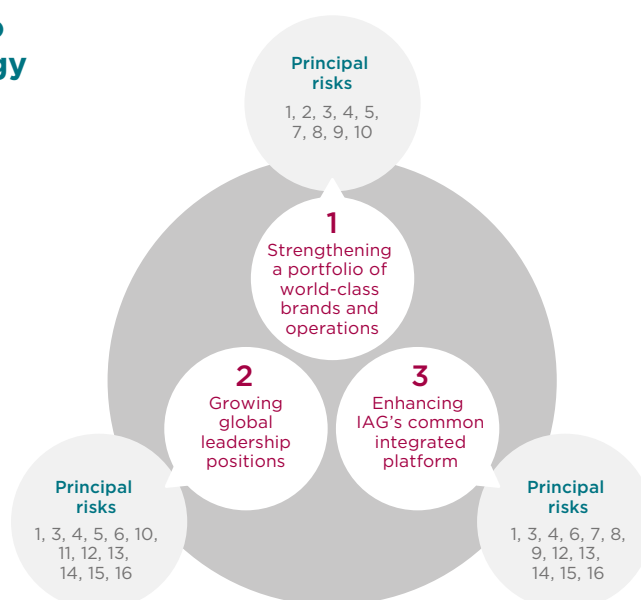
IAG balances the relatively high business and operational risks inherent in its business through adopting a low appetite for financial risk. This conservative approach involves maintaining adequate cash balances and substantial committed financing facilities. There are clear hedging policies for fuel price and currency risk exposure which explicitly consider appetite for fluctuations in cash and profitability resulting from market movements.

However, the Group is also careful to understand its hedging positions compared to competitors to ensure that it is not commercially disadvantaged by being over-hedged in a favourable market.

Compliance and regulatory

The Group has no tolerance for breaches of legal or regulatory requirements.

Link to strategy



Key: Risk trend



Increase



Stable



Decrease

Strategic

1. Airports, infrastructure and critical third parties



Status The Group has been impacted by ongoing issues with Rolls-Royce Trent engines in the year, as well as the impact of the new aircraft delivery delays from Airbus. 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. In October 2016, the UK Government confirmed a third runway expansion proposal at London Heathrow and IAG continues to promote an efficient, cost-effective, ready-to-use and fit-for-purpose solution. The Group is also dependent on the timely delivery of appropriate facilities by the Dublin Airport Authority.

Risk description	Strategic relevance	Mitigations
IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and support the delivery of the Group sustainability programme.	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.	- The Group mitigates engine and fleet performance risks 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. - There is active supplier management including contingency plans and the Group also enters into long-term contracts with fuel suppliers.
IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.	Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.	
IAG is dependent on resilience within the operations of ATC services to ensure that our flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity.	
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.	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.	

Strategic continued

2. Brand reputation



1

Status 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. Customer product improvements were launched throughout the year and there was an ongoing focus on systems underpinning the customer journey.

Risk description	Strategic relevance	Mitigations
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.	The Group's brands are well positioned in their respective markets and have significant commercial value. Customers will choose to fly because of the brand proposition. Any change in engagement could impact the financial performance of the Group.	- All IAG airlines are considered within the brand portfolio review. - Brand initiatives for each operating company have been identified and are aligned to the Strategic Business plan. - Product investment to enhance the customer experience supports the brand propositions. - All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
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.	IAG will continue to strengthen its customer propositions to ensure competitiveness in its chosen priority customer demand spaces. The Group is clear on the key levers to improve brand perception and satisfaction and has specific initiatives in place to achieve leadership for each of its operating company brands.	- 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.

3. Competition, consolidation and government regulation



1

2

3

Status The Group announced plans in 2019 to acquire Air Europa, subject to regulatory approvals. In May 2019, Chile's Supreme Court rejected an appeal for the proposed South American joint business between IAG and LATAM. IAG and LATAM subsequently confirmed the termination of plans to develop a joint business agreement. LATAM has announced its intention to leave the **one**world alliance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).

Risk description	Strategic relevance	Mitigations
Competitor capacity growth in excess of demand growth could materially impact margins.	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.	- The IAG Management Committee devotes one weekly meeting per month to strategic issues. - The Board of Directors discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. - The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.
Any failure of a joint business or a joint business partner could adversely impact our business operations and financial performance.	Regulation of the airline industry covers many of our 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.	- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. - The Group maintains rigorous cost control and targeted investment to remain competitive. - The Group has the flexibility to react to market opportunities. - 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 government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.
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.		

4. Digital disruption



Status The Group's focus on the customer experience, together with the Group's exploitation of technology, reduces the impact digital disruptors can have.

In the year, IAG Loyalty launched its Global Loyalty Platform first phase.

Risk description	Strategic relevance	Mitigations
Technology disruptors may use tools to position themselves between our brands and our customers.	Competitors and new entrants to the travel market may use technology more effectively and disrupt the Group's business model.	- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels - The Hangar 51 programme continues to create early engagement and leverages new opportunities with start-ups and technology disruptors

5. Sustainable aviation

NEW



Status Aviation represents 2.4 per cent of carbon emissions. IAG is the first airline group to commit to a target of net zero carbon emissions by 2050, including adding management targets. There is an emerging trend of aviation "eco taxes" in Europe and governments are also targeting net zero emissions by 2050 including the UK and France.

Risk description	Strategic relevance	Mitigations
Increasing global concern about climate change and the impact of carbon affect Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.	IAG is committed to be 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.	- IAG Climate Change strategy to meet target of net zero carbon emissions by 2050. - British Airways plans to offset UK domestic flight carbon emissions from 2020. - Fleet replacement plan introducing aircraft into the fleet that are up to 40 per cent more carbon efficient. - IAG investment in sustainable aviation fuels of \$400 million in the next 20 years, including British Airways' partnership with Velocys. - Management incentives under development to align to IAG's new targets. - Partnering with Mosaic Materials to explore carbon capture technology. - Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.
New taxes and increasing price of carbon costs impact on demand for air travel. Customers may choose to reduce the amount they fly.		

Business and operational

6. Cyber attack and data security



Status The risks from cyber threats remain high and the regulatory regimes associated with those risks are becoming more complex. In addition to privacy legislation such as GDPR, some Group airlines are subject to the requirements of the National Information Security Directive (NISD) with varied approaches taken by the different member states as they apply those requirements.

In relation to the theft of customer data in 2018, on July 4, 2019, the UK Information Commissioner's Office (ICO) notified British Airways that it proposed to impose a penalty. British Airways continues to make representations and as at the date of this report, the ICO had not issued a final penalty notice. See note 31.

Risk description	Strategic relevance	Mitigations
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 hackers.	The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hackers are capable of and are motivated 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.	- The Group has a Board approved Cyber Strategy that drives investment and operational planning. This is regularly reviewed by the IAG Board, IAG Management Committee and the IAG Tech leadership. - 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. - A cyber risk management framework reviews the risk 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. - Threat Intelligence is used to analyse cyber risks to the Group. - Data Protection Officers are in place where required in all operating companies.
If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.		

Business and operational continued

7. Event causing significant network disruption



1

3

Status The significant level of ATC airspace restrictions imposed in Europe impacted the Group airlines' operational performance. Many events remain outside of the Group's control such as civil unrest seen in cities served by the Group's airlines, terrorism, adverse weather or pandemic.

Risk description	Strategic relevance	Mitigations
An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel.	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 our airlines' operational capability and brand strength.	- Management has business continuity plans to mitigate this risk to the extent feasible with focus on operational resilience and customer and colleague safety and recovery. - Additional resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.

8. IT systems and IT infrastructure



1

3

Status The Group is increasing resilience by implementing agreed plans which include investing in new technology, data centres and a robust operating platform. The Group has recognised the importance of technology across the business and has brought all of its digital and IT resources together under a new team, IAG Tech, which reports into the new Chief Information Officer on the IAG Management Committee.

Risk description	Strategic relevance	Mitigations
The failure of a critical system may cause significant disruption to the operation and lost revenue.	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.	- 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 refresh of 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.

9. People, culture and employee relations



1

3

Status IAG is a major employer with 72,268 employees worldwide. IAG invests in high-quality talent to support and grow its businesses, with a strong focus on customer and financial performance.

Across the Group, collective bargaining is in place with various unions. IAG airline operations were disrupted by strike action in 2019. British Airways pilots represented by the BALPA union took strike action in September and Iberia ground handling staff took strike action on dates across July through to September. Agreement has now been reached with the British Airways pilots represented by BALPA and a pre-agreement reached with the Ground Handling unions in Iberia.

Risk description	Strategic relevance	Mitigations
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.	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.	- Collective bargaining takes place on a regular basis with the operating companies' human resources specialists with a strong skillset in industrial relations. - Operating companies' People Strategies. - Succession planning within and across operating companies. - IAG Tech refresh of professional development framework. - Operating companies' engagement surveys. - IAG Code of Conduct.
The failure to attract, motivate or develop our people to deliver service and brand excellence.	If our people are not engaged or they do not display the required leadership behaviours then we cannot evolve or grow our business at the pace that we would like to.	

10. Political and economic environment



Status Wider macro-economic trends are being monitored such as tensions between the US and China, US and Iran, currency devaluation in Argentina and the changing political landscape. Following the referendum decision in 2016, the UK left the EU on January 31, 2020 under the terms of the Withdrawal Agreement. The completion of the agreement preserves current aviation arrangements until the end of the transition period in December 2020. The UK/EU political declaration envisages that the future relationship would be set out in a comprehensive air transport agreement. The EU Council's negotiating mandate of February 3, 2020 summary sets out the aspiration to agree a reciprocal partnership in aviation.

See the Regulatory environments section.

Risk description	Strategic relevance	Mitigations
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.	IAG remains sensitive to political and economic conditions in the markets globally.	- The Board of Directors and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. - Reviews are used to drive the Group's financial performance through the management of capacity, together with cost control, including management of capital expenditure and the reduction of operation and financial leverage. External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board of Directors and IAG Management Committee as part of business performance monitoring. - The Group's engagement with national regulators under the auspices of the EU Basic Air Connectivity Regulation. All the relevant national authorities (Austria, France, Ireland and Spain) confirmed that the Group's individual airlines would comply with the relevant EU ownership rules if the relevant remedial plans were implemented. - The Group has an established Brexit Working Group represented by all Group businesses to understand, plan and mitigate risks that could impact operations, including mechanisms to permit flights between the UK and the EU and how to ensure that arrangements are in place for the mutual recognition of safety certification, approvals and security regimes.
Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group, including Brexit.		

11. Safety or security incident



Status See the Safety Committee report.

Risk description	Strategic relevance	Mitigations
A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brands, operations and financial performance.	The safety and security of our customers and employees are fundamental values for the Group.	- 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. - Incident centres respond in a structured way in the event of a safety or security incident.

Financial

12. Debt funding



Status The Group continues to have good access to a range of financing solutions.

Risk description	Strategic relevance	Mitigations
Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.	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 and financial institutions' appetite for secured aircraft financing.	- The IAG Management Committee regularly reviews the Group's financial position and financing strategy. - The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.

Financial continued

13. Financial risk



2 3

Status In 2019, events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange. 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 is set out in note 25 to the Group financial statements.

Risk description	Strategic relevance	Mitigations
Failure to manage and respond to volatility in the price of oil and petroleum products.	Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets.
Failure to manage currency risk on revenue, purchases and borrowings in foreign currencies or identify devaluation risk of cash held in currencies other than the airlines' local currencies of euro and sterling.	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies and the devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.	- All airlines hedge in line with the IAG hedging policy with Group Treasury oversight. - The IAG Management Committee regularly reviews its fuel and currency positions. - The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching and actively managing the surplus or shortfall through treasury hedging operations.
Failure to manage interest rate risk.	Interest rate risk arises on floating rate debt and floating rate leases.	Commercial policy review of routes when there are delays in the repatriation of cash coupled with the risk of devaluation.
Failure of financial counterparties may result in financial losses.	The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term.

14. Tax



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 9 of the Group financial statements.

Risk description	Strategic relevance	Mitigations
The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media or other representative bodies.	Payment of tax is a legal obligation. Tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates. Tax issues could be a potential source of reputational damage.	- 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 with oversight from the IAG Tax Department. - Tax risk is overseen by the Board through the Audit and Compliance Committee.

Compliance and regulatory

15. Group governance structure



2 3

Status The UK's exit from the EU on January 31, 2020 may have certain implications for the regulatory environment in which the Group operates, including the structure of the Group. See section 10 for more details.

Risk description	Strategic relevance	Mitigations
The governance structure the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's route and operating licences.	Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences and therefore comply with aviation regulations, the airline must be majority owned and effectively controlled by EU members and/or member states under the Group structure, British Airways remains a UK carrier.	IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
IAG could face a challenge to its ownership and control structure.		

16. Non-compliance with key regulation and laws



2 3

Status A new Group-wide Code of Conduct was launched in 2019, supported by employee e-learning and additional management training.

Risk description	Strategic relevance	Mitigations
The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.	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.	- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. - 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 training. - Data Protection Officers are in place where required in all operating companies.

Long-term viability assessment

Key trends defining the industry, emerging risks and risks that are longer-term in nature (including changes in regulation and infrastructure developments that impact our operations) are considered by the IAG Management Committee as part of the annual Strategic Business planning process. The Board also conducts an annual strategy session where these longer-term considerations are assessed, opportunities are identified and action agreed.

More detail see the Investment case section.

When considering the viability of the Group, the directors evaluated the impact of severe but plausible downside scenarios (as described below) on the three year Group Business Plan and assessed the likely effectiveness of the mitigations that management reasonably believes would be available over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing. In addition, the directors reviewed the results of reverse stress testing, which demonstrated the level of margin decline (before mitigations) that would result in the Group using all available cash balances. The directors therefore believe that the Group could withstand further stresses beyond those modelled under the severe but plausible assumptions.

IAG has assessed the longer-term sustainability and climate related risks, applying scenario analysis techniques as set out by the Task Force on Climate related Financial Disclosures (TCFD) process. For more details of the Group's sustainability risks and opportunities, see Sustainability section.

Scenarios modelled

No.	Title	Link to principal risks
1	A multi-year global economic downturn impacting all regions starting with margin decline from the first year. This scenario assumes a downturn that stressed all of the Group airlines with the greatest margin decline experienced by any of them during the Global Financial Crisis. This scenario was considered to be the most impactful scenario that could threaten the Group.	3, 10, 12, 13
2	A fuel price shock resulting in sustained fuel price increase in a weak economic environment, across the duration of the Group Strategic three-year plan, with a material increase above the fuel price assumption within the plan.	13
3	A fuel price increase combined with different and multiple disruptive events within the Group airlines, occurring across the three-year period impacting their results. As none of these individual events would materially threaten the viability of the Group, the combined impact of these and the consequent impact to the Group Strategic plan and targets has been evaluated.	1, 2, 3, 7, 8, 9, 10, 12, 13

Viability Statement

The directors have assessed the viability of the Group over three years to December 2022 considering the external environment, 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 in line with the Group Business Plan strategic planning period and recognises the pace of change in the competitive landscape and the Group's flexibility to adjust fleet plans to market conditions.

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 2022.

Regulatory environment

Overview

Airlines have been and will continue to be subject to a significant degree of regulatory control. As well as the essential oversight of safety and security, the international nature of civil aviation means that airlines are affected by geo-political and strategic issues more than businesses in other sectors. To encourage the best outcome for our customers, IAG contributes to the discussion of global, regional and national regulatory developments, and engages with policy proposals where appropriate.

European policy

In 2019, European policy continued to be dominated by Brexit negotiations, including preparations for a potential no-deal scenario. But, in June the European Council set out its overall priorities that are likely to have as great an impact on EU policy in the medium-term as Brexit. The priority of *"building a climate-neutral, green, fair and social Europe"* supports the new European Commission President Ursula von der Leyen's proposed Green Deal, which includes measures to deliver net zero emissions by 2050 and will have wide-ranging impacts. New Transport Commissioner Adina Vălean also announced that she will consider taxes on aviation among a "basket of measures" to address the environmental challenge.

General EU aviation policy developments were limited in 2019 as progress was held up by Brexit and the election of the new Parliament in July and the establishment of the new Commission in November and December took precedence. Nevertheless, the EU did adopt rules on drones that permit Member States to put in restrictions on their use and signed an aviation agreement with Qatar which promises cooperation on standards and a gradual liberalising of market access where it is currently restricted.

In the context of the world-wide March grounding of Boeing B737 MAX aircraft, the European Council's priority to promote *"European interests and values on the global stage"* raised further questions about the overall relationship between regulators since the European Aviation Safety Agency stated in September that it would not accept Federal Aviation Administration certification of the aircraft but instead conduct its own checks. The trade dispute between the EU and USA over subsidies to Airbus and Boeing adds a further degree of uncertainty to high-level future relations and IAG will continue to monitor developments.

During 2019 IAG continued to engage with the European Commission, EU Member States and authorities including in key jurisdictions in which its airlines operate such as the USA on other policy issues. These include explaining the Group's ground-breaking commitment to net zero emissions by 2050, contributing expert opinions on safety regulation and other technical matters and promoting the benefits to consumers of industry integration.

We also continued to highlight the inadequate progress being made to address the congestion in the European air traffic management system and, with our trade association A4E (Airlines for Europe), emphasised the significant environmental benefits of more efficient use of air navigation service provider resources. The reform of airport charges legislation was also a priority topic for engagement.

Brexit

The updated Withdrawal Agreement between the UK and the EU, reached in September, was ratified by both the UK Parliament (following the Conservative Party victory in the General Election in December) and by the European Parliament in January 2020. Accordingly, the UK formally left the EU on January 31, 2020 and entered a transition period that

preserves the overall status quo until the end of December 2020. There is, therefore, no change to the status of air services between the EU and the UK until the end of the transition period. Attention now turns towards the negotiations for the future EU-UK relationship, including on air services, and which will take place from March 2020.

During 2019 IAG continued to engage with regulators and policy makers to ensure that the needs of IAG's customers after Brexit are understood and, in particular, that policymakers recognise the importance of uninterrupted air services between the EU and the UK. This importance was reflected in the preparations for a potential "no-deal" scenario, when both sides put in place separate plans to allow flights to continue, and also in the way the preparations were made – the EU passed two regulations, one on connectivity and one on aviation safety, with unprecedented speed, and both sides also activated procedures to provide airlines with the necessary operating permits. The nature and rapidity of these processes give us confidence that, should the anticipated EU-UK air services agreement not be ready by the end of the transition period, similar contingency plans would be put in place.

IAG's engagement with national regulators also continued on the issue of its ownership and control in case of a no-deal Brexit. During the summer, all the relevant national authorities (Austria, France, Ireland and Spain) confirmed that IAG's individual airlines would comply with the relevant EU ownership rules if the relevant remedial plans were implemented.

IAG's assessment remains that, even in the event of no-deal after the transition period, Brexit will have no significant long-term impact on its business.

UK aviation policy

IAG contributed to the Department for Transport's consultation on its Green Paper for a future aviation strategy to 2050 which includes potential measures to deliver sustainable growth, address the perceived needs of passengers with additional needs and to reform slot allocation rules. We continue to advocate that the Government abandon counter-productive proposals to auction slots, which would only push up prices to customers, and instead to focus on regulating monopoly suppliers, delivering airspace modernisation and supporting the UN's scheme for Carbon Offsetting and Reduction for International Aviation (CORSA).

In May, the Independent Airline Insolvency Review made its final recommendations which included a levy on departing passengers and establishment of a special administration regime. IAG continues to register its objections and anticipates that the eventual White Paper (delayed due to Brexit) will include less stringent measures.

IAG also engaged regularly with the Civil Aviation Authority (CAA) and Department for Transport on the ongoing debate on Heathrow expansion, highlighting the excessive costs of the scheme to date. In November the CAA stated that it would "set clear expectations for Heathrow to conduct its business economically and efficiently" through the airport's licence. IAG looks to the CAA to regulate Heathrow effectively to keep expansion affordable.

Irish aviation policy

IAG continued to engage with the Irish government during 2019 including as a key participant in the National Civil Aviation Development Forum. IAG welcomed the outcome in October of the Commission for Aviation Regulation's (CAR) review of future airport charges at Dublin Airport. The CAR determined that charges must reduce in the years 2020 to 2024 by an average of 11 per cent compared with 2019 and set further potential reductions should capital investments not be delivered as planned and on time. The determination confirmed that the CAR is supportive of the projects in the Capital Investment Programme (CIP) for Dublin Airport. IAG believes that the determination incentivises the delivery of the Dublin Airport hub infrastructure that is required by the Irish National Aviation Policy.

Spanish aviation policy

IAG welcomed the fact that AENA, the Spanish airport operator, confirmed that it will reduce its airport charges by 1.36 per cent in 2020 compared with 2019, and that ENAIRE, the Spanish air navigation provider, will also reduce its en-route charges by more than 12 per cent. These actions will help alleviate the expected slower Spanish GDP growth for 2020, albeit this remains above the forecast EU average growth rate.

The United Nations 25th Conference of the Parties (COP 25) under the UN Framework Convention on Climate Change was held in Madrid during December, gathering representatives from more than 200 countries to discuss how to tackle climate change, including emissions from aviation. In this context the Spanish Government expressed that it is not in favour of setting a green tax on aviation but instead it favours a Sustainable Aviation Fuel blending mandate within the framework of the Renewable Energy Directive II.

Demonstrating our resilience



“The Group has delivered another strong set of results and shown its resilience in the face of challenges through the year.”

IAG has delivered another strong set of results in 2019, despite the challenges of various forms of operational disruption including industrial action, trading weakness in specific markets and higher fuel costs. This performance once again demonstrates the agility and resilience of the Group's model.

The Group implemented the new lease accounting standard, IFRS 16, from January 1, 2019 on a modified retrospective basis and the 2018 comparative figures in this review have been adjusted to reflect the estimated impact of the new standard.

The Group achieved an operating profit of €3,285 million before exceptional items, a like-for-like deterioration of €200 million versus the previous year. The impact of the BALPA industrial action and Heathrow disruption in the summer reduced operating profit by €170 million and disruption and weakness in the low-cost segments in the second half of the year had an adverse impact of approximately €45 million. GDP growth was lower than in 2018 and certain destinations were affected by local issues affecting demand or disrupting services during the year, including Hong Kong, Barcelona, Buenos Aires and South Africa.

The Group's fuel cost was over €700 million higher than the previous year. In 2018 the Group benefitted from significant hedging profits as fuel prices rose, whereas in 2019 the Group's effective fuel price was broadly the same as the commodity price. Global demand for cargo was also weaker, with the impact on IAG partially mitigated by its ongoing strategy to focus on premium products.

The Group responded to the more challenging market conditions by reducing capacity and implementing additional cost savings. Capacity growth was 4.0 per cent, 1.9 points lower than envisaged at the start of the year, of which 0.4 points was due to the BALPA strike action. On a constant currency basis, passenger unit revenues were 0.5 per cent lower and airline non-fuel unit costs reduced by 0.9 per cent. This resulted in an operating margin of 12.9 per cent and a Return on Invested Capital of 14.7 per cent, down from 14.4 per cent and 16.9 per cent respectively.

The Group continued to invest in enhancing customer experience through on-board and ground products, including upgraded catering and lounges, and taking delivery of 39 new-generation aircraft during the year. As a result of these investments and improvements in operational planning to help mitigate continued Air Traffic Control challenges within Europe, the Net Promoter Score rose by 9.5 points. The investments in fleet and customer led to an increase in capital expenditure, with gross capital expenditure up approximately €650 million, at €3,465 million.

Following IAG's investment grade rating from S&P and Moody's in 2018, the Group successfully raised €1 billion through the issue of two unsecured bonds in July 2019, with part of the proceeds used to repay convertible bonds totalling €500 million that were due for repayment in 2020. Leverage, measured as Net Debt to EBITDA, remained strong at 1.4 times and well within the target ceiling of 1.8 times. The Group agreed, subject to regulatory approvals expected in

2020, to acquire Air Europa for €1 billion, representing a further opportunity to integrate another airline into the Group's unique model.

Cash generation remained strong, demonstrating the Group's ability to deliver sustainable dividends to shareholders. The Board proposed a final dividend of 17.0 euro cents on February 27, 2020. Taken together with the interim dividend paid in December 2019 this will represent a pay out ratio in respect of 2019 of 26.2 per cent of pre exceptional profit after tax.

Steve Gunning
Chief Financial Officer

In 2019 IAG adopted IFRS 16, the new financial reporting standard on accounting for leases.

IFRS 16 has no cash flow or economic impact on the Group. IFRS 16 does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement.

The Group used the modified retrospective transition approach and variances in this report to 2018 are on a pro forma basis, to provide a consistent basis for comparison.

IATA market growths

The air traffic industry had a positive year; however, performance was impacted by a softer global economic backdrop than previous years, slightly affecting demand. Global capacity grew at a slower pace than demand, which translated into a record load factor of 82.6 per cent, 0.7 points higher than in 2018.

In 2019, airline capacity growth in Europe softened, in line with slowing economic activity, declining business confidence heightened by industrial strikes, Brexit uncertainty and the collapse of several airlines. Capacity still grew 3.6 per cent over the previous year and passenger load factor increased, reaching 85.2 points, the highest throughout all regions.

North America performed slightly better than other regions, sustaining a solid upward trend throughout the year. Despite that, growth eased slightly from softer US economic activity and weaker business confidence. Capacity increased 2.8 per cent, less than the previous year, with passenger load factor up 0.8 points.

Latin America's airline capacity growth slowed versus last year due to social unrest and economic difficulties. Capacity growth of 2.9 per cent was significantly below 2018 growth of 6.6 per cent and passenger load factor in this region increased.

Africa benefited from a generally supportive economic landscape in 2019 and capacity grew significantly more than in 2018 and the highest of all regions at 4.7 per cent, with passenger load factor moderately higher.

Although the Middle East's airline industry growth showed the slowest growth of all the regions year on year, the last quarter of the year saw a sharp increase in capacity, placing the region as the highest in capacity increases globally for these months. Load factor improved 1.4 points on the relatively flat capacity for the year.

Airline capacity growth in the Asia Pacific region was slower than in 2018, but remained relatively high, with an increase of 4.5 per cent, impacted by the economic landscape. Passenger load factor improved 0.4 points.

IATA market growths

Year to December 31, 2019	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	3.6%	85.2	0.4 pts
North America	2.8%	84.9	0.8 pts
Latin America	2.9%	82.6	1.0 pts
Africa	4.7%	71.7	0.3 pts
Middle East	0.1%	76.2	1.4 pts
Asia Pacific	4.5%	81.9	0.4 pts
Total market	3.4%	82.6	0.7 pts

Source: IATA Air Passenger Market Analysis

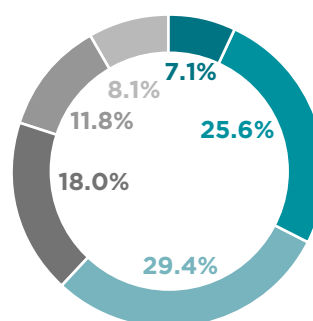
IAG capacity

In 2019, all of IAG's airlines grew capacity, with total Group capacity up 4.0 per cent.

The increase mainly reflects additional frequencies and increased aircraft gauge on longhaul routes and the full-year impact of network changes in 2018 by British Airways, Aer Lingus and Iberia, as well as growth in LEVEL. New routes were added at Aer Lingus, connecting Dublin with Minneapolis; at British Airways, with new routes such as London Heathrow to Charleston, Pittsburgh, Islamabad and Osaka; and Iberia, with a new service from Madrid to Guayaquil. Vueling's capacity grew through additional domestic frequencies, with expansion in the Balearic and Canary Islands. IAG's shorthaul network also saw increases from the new LEVEL base in Amsterdam.

IAG passenger load factor was higher, once again, than any prior year since the creation of IAG, reaching 84.6 points, up 1.3 points from 2018 and higher than the IATA average.

IAG Network by region (measured in ASKs)



- Domestic
- Europe (excluding Domestic)
- North America
- Latin America and Caribbean
- Africa, Middle East and South Asia
- Asia Pacific

Market segments

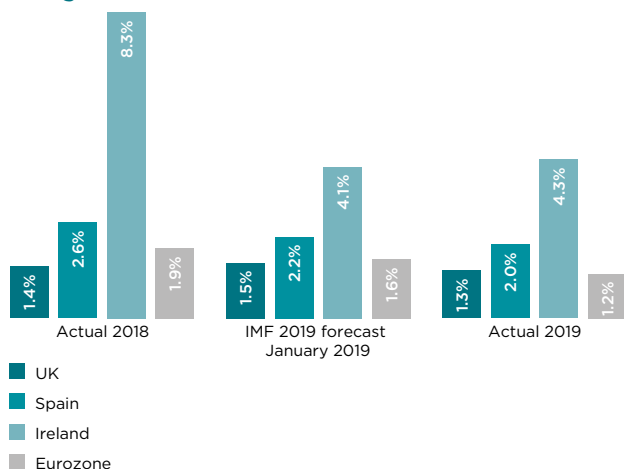
IAG capacity

Year to December 31, 2019	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	7.3%	87.2	2.2 pts
Europe	1.7%	83.6	0.4 pts
North America	1.4%	84.1	1.8 pts
Latin America and Caribbean	13.3%	86.4	1.7 pts
Africa, Middle East and South Asia	1.0%	83.0	0.6 pts
Asia Pacific	3.7%	85.8	1.1 pts
Total network	4.0%	84.6	1.3 pts

Europe

Eurozone GDP growth for the year was 1.2 per cent, lower than expected by the IMF at the beginning of the year, and 0.7 points lower than in 2018. As was the case for the UK, GDP growth decelerated through the year, although to a lower extent than in the UK. Like the UK, Eurozone consumer confidence and unemployment remained at multi-year lows.

GDP growth



Together, IAG's European and Domestic markets continue to represent the Group's largest region. Growth comes from both capacity and frequency increases as well as new routes.

Capacity in IAG's Domestic markets was higher by 7.3 per cent, mostly from increases in Vueling and Iberia. Vueling launched a number of new routes, including connections between several cities in mainland Spain with the Canary Islands. Capacity at Iberia was increased through increases in frequencies as well as new routes connecting Melilla with Seville, Granada and Almeria. Passenger load factor in IAG's domestic markets increased by 2.2 points despite the strong increase in capacity.

Passenger unit revenues (passenger revenue per ASK) at constant currency ('ccy') in the Domestic markets were up at British Airways, Iberia and Vueling.

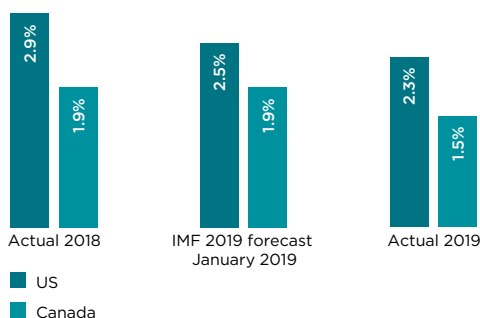
The Group's capacity in Europe was increased 1.7 per cent year on year. LEVEL's operations in Vienna started in July 2018 and therefore 2019 included the full year impact of routes from its base into London, Barcelona and Paris, among others. British Airways launched new routes from London Gatwick to Milan, Bilbao and Almeria as well as new services connecting London City with Munich and London Heathrow with Valencia, among others. Iberia's capacity grew mainly from frequency increases and Vueling launched services from Paris to Mallorca, Copenhagen, Porto and Alicante, among others. Load factor for the Group's European market was up 0.4 points.

The Group's passenger unit revenue performance at ccy in its European market was weaker driven by Vueling, British Airways and Aer Lingus. Iberia's passenger unit revenue performance was flat on a slight capacity increase.

North America

US GDP growth was 2.3 per cent, only slightly lower than expected by the IMF at the beginning of the year and 0.6 points lower than in 2018. Growth accelerated in Q1 2019, reflecting an upturn in government spending, private inventory investment and in exports, then slowed in Q2 2019 and Q3 2019. The unemployment rate continued to decline, hitting 3.5 per cent in Q4 2019, the lowest rate since 1970.

GDP growth



IAG's North American market accounts for almost 30 per cent of the Group's Available seat kilometres ('ASKs'). Capacity was increased in Iberia, Aer Lingus and LEVEL, with a slight decrease at British Airways, mainly reflecting the pilot's strike. British Airways launched new routes, connecting London Heathrow with Pittsburgh and Charleston and Aer Lingus started operations from Dublin to Minneapolis. Capacity was also increased in Aer Lingus through higher frequencies on several routes, such as Dublin to San Francisco, Seattle and Philadelphia. LEVEL launched a new route in 2019, connecting Barcelona with New York, and increased capacity on its services from Barcelona to Boston and San Francisco. The region's capacity increase also reflects the full year impact of routes launched during 2018. Seat factor for the region was among the best for the Group.

North America passenger unit revenues at ccy were up against last year. Aer Lingus passenger unit revenues were up strongly on a capacity increase of 6.1 per cent. British Airways passenger unit revenues were slightly better, on slightly lower capacity. In 2019, LEVEL's expansion again had a slightly dilutive impact on the Group's passenger unit revenues. Iberia's passenger unit revenues in North America decreased, with a 5.7 per cent capacity increase.

Latin America and Caribbean

Latin America GDP was significantly lower than the IMF expected at the beginning of year, particularly notable for Brazil and Mexico compared to expectations. At a country level, there was a slowdown in growth compared to 2018 in all countries, with Ecuador slipping into recession and both Venezuela and Argentina remaining in recession.

IAG's capacity in Latin America and Caribbean was increased by 13.3 per cent, with the impact of the first full year of Paris operations at LEVEL. Iberia launched a new route, connecting Madrid with Guayaquil, and increased frequencies on its routes from Madrid to San Salvador, Guatemala City, Bogotá and Lima. British Airways capacity was increased through additional capacity from densification of its London Gatwick Boeing 777 fleet and from additional frequencies added on its London Gatwick to Cancún route. Passenger load factor in this region improved and continued to be the highest for the Group, 3.8 points higher than the industry average.

Latin America and Caribbean passenger unit revenues at ccy were down significantly against 2018, partly due to capacity increases and a difficult economic and political landscape.

Africa, Middle East and South Asia (AMESA)

AMESA capacity was increased 1.0 per cent in 2019 primarily from new routes at British Airways. The increase in capacity was mainly due to new routes launched by British Airways, including Dammam via Bahrain and to Islamabad, and increased frequencies in routes from London Heathrow to Mumbai and from London Heathrow and London Gatwick to Marrakech. Iberia increased capacity through higher frequencies on its routes from Madrid to Dakar, Casablanca and Marrakech. Vueling increased capacity on its routes from Barcelona to Algiers, Tangier, Marrakech, Tel Aviv, Beirut and Banjul. Passenger load factor was higher than the previous year once again and was also higher than the industry average.

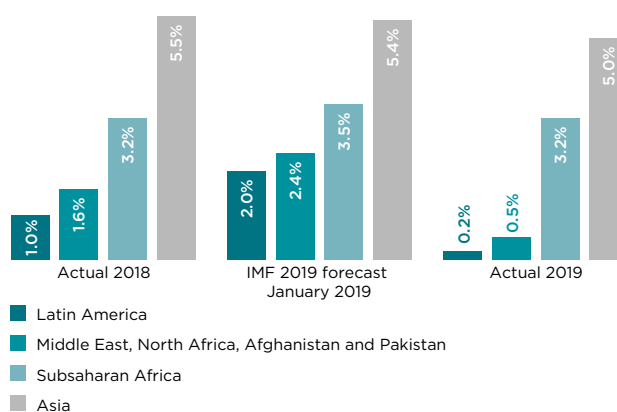
Africa, Middle East and South Asia passenger unit revenue performance at ccy was better in 2019, with improvements in British Airways and Iberia and a lower performance at Vueling driven by a capacity increase of 12.4 per cent.

Asia Pacific

In Asia Pacific, the Group's capacity was up against last year. Iberia increased capacity significantly by 21.9 per cent, mainly coming from added frequencies on its Madrid-Tokyo route. British Airways increased capacity through a new route connecting London Heathrow with Osaka. Passenger load factor was up 1.1 points on a capacity increase of 3.7 per cent.

Asia Pacific passenger unit revenues at ccy were up against last year. Industry capacity continued to grow over the year following the increases in 2018, but did so at a slower pace, impacted by the economic landscape and challenges coming from US-China trade tensions.

GDP growth



Basis of preparation

The Group has adopted the new accounting standard IFRS 16 'Leases' from January 1, 2019 and has used the modified retrospective transition approach and has not restated comparatives. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the Balance sheet, obligations to make future payments under leases, previously classified as operating leases, are recognised as debt with the associated right of use (ROU) assets. In the Income statement, the operating lease costs are replaced with depreciation (within operating expenditure) and lease interest expense (within non-operating expenditure). For further information see note 33 of the Group financial statements.

The following review is against a pro forma basis for 2018, which provides a consistent basis for comparison with 2019 results, except where otherwise indicated. Pro forma results for 2018 are the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 33 of the Group financial statements) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date. For further information see the Alternative performance measures section.

The current year and comparative figures in this report have been prepared on a pre-exceptional and pro forma basis unless otherwise stated.

Revenue

€ million	2019	Higher/(lower)	
		Year over year at ccy	Per ASK at ccy
Passenger revenue	22,468	3.5%	(0.5)%
Cargo revenue	1,117	(7.2)%	
Other revenue	1,921	11.3%	
Total revenue	25,506	3.5%	

Passenger revenue

Passenger revenue for the Group rose 5.0 per cent versus the prior year, with 1.5 points of positive currency impact, while capacity was increased by 4.0 per cent. At constant currency, passenger unit revenue decreased 0.5 per cent from lower yields (passenger revenue/revenue passenger kilometre), down 2.0 per cent, but with an increase in passenger load factor of 1.3 points. At the airline level, passenger unit revenue at ccy increased in British Airways and Vueling, was flat in Aer Lingus and decreased in Iberia.

The Group carried over 118 million passengers, an increase of 4.7 per cent from last year, with higher passenger load factor across the Group. The Group's Net Promoter Score for 2019 was 25.8 per cent, an improvement of 9.5 points versus last year's figure. This came from better regularity, as well as continued product and service improvements. Vueling made improvements to disruption handling and resilience, which made a significant difference for customers in light of the significant Air Traffic Control ('ATC') disruption again in 2019. Net Promoter Score improved at British Airways, Iberia and Vueling, and was flat at Aer Lingus, in the context of increased punctuality challenges at Dublin Airport.

Cargo revenue

2019 was a difficult year for global airfreight, with industry-wide volumes down 3.3 per cent versus 2018. The reduction in demand reflected US-China trade tensions and weaker manufacturing in Europe, notably in Germany. IAG Cargo's performance was better than the market overall, reflecting its strategy to focus on premium products. IAG volumes were down 2.4 per cent, with yield down 4.9 per cent at constant currency, leading to a decrease in Cargo revenue of 7.2 per cent at constant currency. Premium products, including Constant Climate and Critical, performed better than general freight, with a growth in the Constant Fresh perishable movements, particularly out of Latin America and Africa. Industry sectors such as automotive parts were significantly down. IAG Cargo launched a new temperature-controlled facility in Madrid, which gained Good Distribution Practice certification in February. The new facility has been welcomed by customers and has provided new revenue potential for the Spanish hub.

Other revenue

Other revenue rose 14.1 per cent, 11.3 per cent at constant currency. Revenues grew at Iberia's third party maintenance (MRO) business, assisted by greater engine overhaul activity. BA Holidays continued to grow, benefitting from marketing and a focus on IT improvements, resulting in higher conversions into bookings. Other revenue was also boosted by IAG Loyalty, which increased the sale of Avios points to its partners.

Total revenue

Total revenue for the Group rose 5.1 per cent and was up 3.5 per cent at ccy.

Non-fuel unit costs

At constant currency, total non-fuel unit costs decreased 0.1 per cent. Airline non-fuel unit costs (adjusted by the costs associated with generating 'Other revenue', representing 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), was down 0.9 per cent. Airline non-fuel unit costs improved at a Group level from cost-saving initiatives and efficient growth, with Vueling's investment in resilience and disruption handling reducing passenger assistance costs linked to continuing Air Traffic Control issues in Europe.

Expenditure before exceptional items

Employee costs

Employee costs increased 3.1 per cent before exceptional items for the year. At constant currency, employee unit costs improved 1.4 per cent primarily linked to management initiatives, productivity improvements, the impact of strikes at British Airways on bonus payments and the final quarter of year-on-year benefit from the NAPS pension closure at British Airways in March 2018. This was partially offset by pay increases at all airlines, generally linked to price inflation.

In 2018 British Airways closed its New Airways Pension Scheme (NAPS) to future accrual and British Airways Retirement Plan (BARP) to future contributions from March 31, 2018. The schemes have been replaced by a flexible defined contribution scheme, the British Airways Pension Plan (BAPP). The changes resulted in a reduction in the NAPS IAS 19 defined benefit liability of €872 million, transitional arrangement cash costs of €192 million (recognised as an exceptional in the prior year) and a reduction in current service cost.

Overall, the average number of employees rose by 2.0 per cent for the Group bringing the average workforce to 66,034. Productivity, measured as Available Seat Kilometre ('ASKs') per manpower equivalent, increased 1.9 per cent with improvements at British Airways, Iberia, Vueling and Aer Lingus.

Employee costs

€ million	Higher/(lower)	
	Year over year at ccy	Per ASK at ccy
Employee costs	4,962	2.6%
		(1.4)%

Productivity

	Higher/(lower)	
	Year over year	
Productivity	5,115	1.9%
Average manpower equivalent	66,034	2.0%

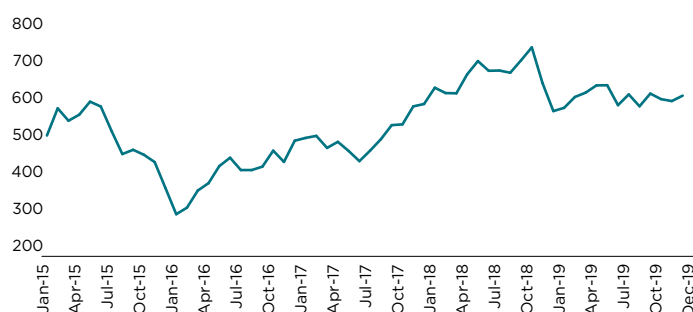
Fuel, oil and emissions costs

Fuel, oil and emissions costs rose by 14.0 per cent in 2019, primarily due to hedging profits in 2018 not repeated in 2019, partially offset by a weaker US dollar and operational efficiencies. The Group hedges its fuel purchases in advance, typically gradually building its cover over three years. This hedging programme smooths the effects of rising (or falling) prices and 2018 benefitted particularly from prices locked in at lower rates in previous years. The Group also gained fuel efficiencies from new generation aircraft and fuel consumption was further reduced by improved operational procedures implemented across the airlines. At ccy and on a unit basis, fuel costs were 5.7 per cent higher.

Fuel, oil and emissions costs

€ million	Higher/(lower)	
	Year over year at ccy	Per ASK at ccy
Fuel, oil costs and emissions charges	6,021	10.0%
		5.7%

Jet Fuel price trend (\$/mt)



Supplier costs

Total supplier costs for the year increased 5.1 per cent with 0.9 points of adverse currency impact. At ccy and on a unit basis, supplier costs rose 0.2 per cent.

Supplier costs

€ million	2019	Higher/(lower)	
		Year over year at ccy (proforma)	Year over year at ccy (statutory)
Supplier costs per ASK at ccy		0.2%	
Handling, catering and other operating costs	2,972	7.4%	7.1%
Landing fees and en-route charges	2,221	0.8%	0.8%
Engineering and other aircraft costs	2,092	8.5%	10.2%
Property, IT and other costs	811	1.9%	(12.5)%
Selling costs	1,038	(2.8)%	(2.8)%
Currency differences	(7)	nm	nm

British Airways' supplier unit costs at ccy were up due to investment in customer (catering and lounges), incremental BA Holidays costs (impacting Handling, catering and other operating costs) and inflation, partially offset by one-off compensation received in relation to an IT failure in 2017, aircraft delivery delays and engine issues and from cost saving initiatives. Iberia supplier unit costs at ccy were up from increased Engineering and other aircraft costs related to its third-party MRO business, with a corresponding increase in other revenue, partially offset by lower selling costs due to direct channel growth and continued cost saving initiatives. Vueling supplier unit costs at ccy improved significantly from lower disruption costs in line with improved operational performance as well as the introduction of an action plan identifying saving opportunities from the demand slowdown. This was partially offset by investment in operational resilience for the business, aimed at mitigating the impact of ATC disruption. Aer Lingus supplier unit costs at ccy were up from increased maintenance and handling costs, partially offset by continued cost saving initiatives and efficient growth.

Supplier costs

By supplier cost category:

Handling, catering and other operating costs rose 8.7 per cent, excluding currency up 7.4 per cent. More than half of this increase was linked to higher capacity, with 4.7 per cent additional passengers carried in the year and higher activity at BA Holidays, with the corresponding increase in Other revenue. Costs also rose from the impact of disruption caused by the pilots strike at British Airways and price increases in supplier contracts. The Group continued its focus on improving the customer proposition by investing in lounges, catering and service delivery.

Landing fees and en-route charges were higher by 1.7 per cent, excluding currency up 0.8 per cent. Costs rose primarily from higher activity, with flying hours up 3.0 per cent and sectors flown up 2.8 per cent, offset by reductions of en-route charges at Vueling and Aer Lingus, and London Gatwick rebates at British Airways.

Engineering and other aircraft costs increased 12.7 per cent, excluding currency up 8.5 per cent. Increases were driven by increased flying hours, up 3.0 per cent, contractual price escalation on maintenance contracts, additional component costs at Aer Lingus and higher costs associated with Iberia's third-party maintenance business. Cost increases were partly offset by negotiated improvements in 'pay-as-you-go' contracts and compensation received from manufacturers linked to aircraft availability issues.

Property, IT and other costs were up 2.8 per cent, excluding currency up 1.9 per cent. The increase is due to higher capacity, with lower costs on a unit basis. The improvement reflects the impact of one-off supplier compensation received from the impact of the IT failure in 2017 at British Airways. This was partially offset by investing in resilience and IT infrastructure and from inflation increases on rent and rates.

Selling costs decreased 0.8 per cent, excluding currency down 2.8 per cent. Selling costs benefited from reduced commissions, linked to growth of the new distribution model, together with benefits from the mix of selling channels, with an increase in direct sales. British Airways benefited from an initiative to reduce credit card costs. Iberia achieved efficiencies from targeted marketing spend, which was partially offset by British Airways' investment in its centenary year and new uniform development.

Ownership costs

The Group's ownership costs were up 5.8 per cent, excluding currency up 5.4 per cent. The increase reflects additional depreciation on new aircraft, as well as depreciation on densification and connectivity investments and from the New York JFK terminal project. The increase in ownership costs was partially offset by a reduction in engine overhauls in line with retirement of the Boeing 747 fleet at British Airways. New aircraft are contributing to lower carbon emissions and reduced fuel costs.

€ million	2019	Year over year at ccy (proforma)	Year over year at ccy (statutory)
Per ASK at ccy		1.4%	
Ownership costs	2,111	5.4%	(1.9)%

		Higher/(lower)
Number of fleet	2019	Year over year
Shorthaul	394	3.7%
Longhaul	204	5.7%
	598	4.4%

Aircraft deliveries	2019	2018
Airbus A320 family	32	28
Airbus A330	3	6
Airbus A350	8	2
Boeing 787	-	5
Embraer E190	2	1
Total	45	42

Exchange impact before exceptional items

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 Avios. 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 generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. Overall, in 2019 the Group operating profit before exceptional items benefitted from €67 million of positive foreign exchange impacts.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euro.

	2019		
€ million	Translation impact	Transaction impact	Total exchange impact
Favourable/(adverse)			
Total exchange impact on revenue	68	325	393
Total exchange impact on operating expenditures	(58)	(268)	(326)
Total exchange impact on operating profit	10	57	67

The exchange rates for the Group were as follows:

	2019	2018	Higher/ (lower)
Translation - Balance sheet			
€ to £	1.18	1.11	6.3%
Translation - Income statement (weighted average)			
€ to £	1.13	1.13	-
Transaction (weighted average)			
€ to £	1.13	1.13	-
\$ to €	1.12	1.18	(5.1)%
\$ to £	1.27	1.33	(4.5)%

Operating profit before exceptional items

In summary, the Group's operating profit before exceptional items for the year was €3,285 million, a €200 million decrease from last year (on a statutory basis after exceptional items a decrease of €1,065 million mainly due to the exceptional pension credit in 2018 and exceptional pension expense in 2019). The Group's operating margin was lower by 1.5 points to 12.9 per cent. These results reflect the industrial action at British Airways and disruption at London Heathrow in the summer, which had an adverse impact of approximately €170 million. In the second half of the year, weakness and disruption faced by the Group's low-cost segments had a further adverse impact of approximately €45 million.

Operating profit and loss performance of operating companies

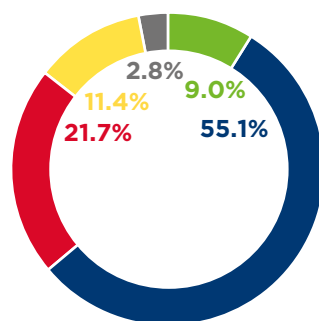
	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²
ASKs	186,170	0.9%	0.9%	30,255	4.2%	4.2%	73,354	7.6%	7.6%	38,432	2.7%	2.7%
Seat factor (per cent)	83.6	1.1pts	1.1pts	81.8	0.8pts	0.8pts	87.2	1.7pts	1.7pts	86.9	1.5pts	1.5pts
Passenger revenue	11,899	2.9%	2.9%	2,060	6.1%	6.1%	4,053	7.3%	7.3%	2,437	5.2%	5.2%
Cargo revenue	711	(7.6)%	(7.6)%	54	0.6%	0.6%	291	5.8%	5.8%	-	-	-
Other revenue	680	7.6%	7.6%	11	(16.8)%	(16.8)%	1,301	16.2%	16.2%	18	(14.8)%	(14.8)%
Total revenue	13,290	2.5%	2.5%	2,125	5.8%	5.8%	5,645	9.2%	9.2%	2,455	5.0%	5.0%
Fuel, oil costs and emissions charges	3,237	10.6%	10.6%	460	20.6%	20.6%	1,202	17.6%	17.6%	548	12.1%	12.1%
Employee costs	2,529	(0.2)%	(0.2)%	405	8.8%	8.8%	1,164	6.7%	6.7%	301	8.2%	8.2%
Supplier costs	4,497	2.0%	(0.7)%	854	5.9%	11.9%	2,392	10.5%	10.6%	1,116	3.3%	1.5%
EBITDA	3,027	(2.1)%	1.8%	406	(9.6)%	(17.3)%	887	(0.5)%	(0.9)%	490	0.0%	4.0%
Ownership costs	1,106	3.7%	8.5%	130	(5.5)%	(30.1)%	390	8.8%	(14.8)%	250	10.6%	(7.7)%
Operating profit before exceptional items	1,921	(5.1)%	(1.6)%	276	(11.4)%	(9.5)%	497	(6.7)%	13.8%	240	(9.3)%	19.7%
<i>Operating margin</i>	<i>14.5%</i>	<i>(1.1)pts</i>	<i>(0.6)pts</i>	<i>13.0%</i>	<i>(2.5)pts</i>	<i>(2.2)pts</i>	<i>8.8%</i>	<i>(1.5)pts</i>	<i>0.4pts</i>	<i>9.8%</i>	<i>(1.5)pts</i>	<i>1.4pts</i>
Pence/€ cents												
Passenger yield per RPK	7.65	0.6%	0.6%	8.32	0.8%	0.8%	6.33	(2.3)%	(2.3)%	7.30	0.7%	0.7%
Passenger revenue per ASK	6.39	2.0%	2.0%	6.81	1.8%	1.8%	5.52	(0.3)%	(0.3)%	6.34	2.4%	2.4%
Total revenue per ASK	7.14	1.6%	1.6%	7.02	1.5%	1.5%	7.69	1.5%	1.5%	6.39	2.3%	2.3%
Fuel cost per ASK	1.74	9.6%	9.6%	1.52	15.6%	15.6%	1.64	9.3%	9.3%	1.43	9.2%	9.2%
Non-fuel costs per ASK	4.37	0.6%	(0.3)%	4.59	1.2%	0.8%	5.38	1.4%	(1.2)%	4.34	2.5%	(1.5)%
Total cost per ASK	6.11	3.0%	2.3%	6.11	4.5%	4.2%	7.02	3.2%	1.1%	5.76	4.1%	0.9%

1 Proforma

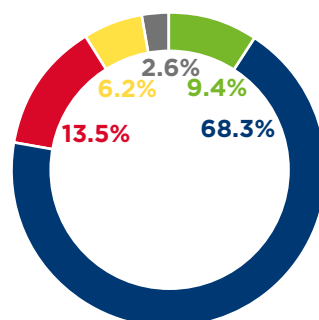
2 Statutory

Financial performance by Brand

Capacity



Operating profit before exceptionals



BRITISH AIRWAYS

British Airways' operating profit was £1,921 million, excluding exceptional items, down £104 million over the prior year on a capacity increase of 0.9 per cent.

Passenger unit revenues were up for the year, with higher yields, from strong performance in the North American premium sector, and an increase in load factor.

Non-fuel unit costs were up for the year, due to the growth of BA Holidays. Excluding the impact of BA Holidays, non-fuel unit costs decreased, driven by management initiatives and supplier compensation partly offset by customer investment and contractual price increases.

Overall, British Airways' operating margin declined 1.1 points to 14.5 per cent.

IBERIA

Iberia's operating profit before exceptional items was €497 million, down by €36 million versus last year, achieving an operating margin of 8.8 per cent. Capacity for the year was up 7.6 per cent, with a slight reduction in passenger unit revenue from lower yields partially offset by higher passenger load factor.

Iberia's total unit cost performance was up but improved at constant currency. Higher costs were mainly from CPI related price increases and higher maintenance works performed by Iberia's third-party MRO business, as well as higher fuel costs. This was partially offset by decreases in selling costs from direct channel growth and other marketing cost saving initiatives. Employee unit costs continued to improve, with strong increases in productivity through efficiency initiatives.

In 2019, Iberia's Other revenue also increased by 16.2 per cent, primarily from its MRO business.

Aer Lingus

Aer Lingus' operating profit was €276 million, a decrease of €35 million over last year. Capacity increased 4.2 per cent from the addition of a new route connecting Dublin and Minneapolis and increases in capacity to San Francisco, Seattle and Philadelphia.

Aer Lingus' operating margin was 2.5 points lower at 13.0 per cent. Passenger unit revenues were up, with strong longhaul performance and positive retail performance, despite challenging European market conditions.

Aer Lingus non-fuel unit costs were up, primarily driven by increased maintenance and handling costs as well as pay inflation increases, partially offset by continued cost saving initiatives and efficient growth. Fuel unit costs were up versus last year, reflecting higher market fuel prices, with favourable hedge positions having unwound during the year.

vueling

Vueling's operating profit was €240 million, a decrease of €24 million. Its operating margin of 9.8 per cent was 1.5 points down versus last year.

Vueling adjusted its capacity to offset demand slowdown, however the impact of incidents in Barcelona and strikes impacted revenues. A new disruption protection plan was put in place, contributing to higher costs but offset by Vueling's action plan to identify saving opportunities to cope with demand slowdown. Further cost increases came from a higher fuel bill and inflation-linked price increases in supplier costs.

Vueling invested in an ATC protection plan to safeguard its operations from the impact of future disruption in line with its NEXT strategy and in order to reduce possible future disruption related costs, such as compensation, and impact to revenues.

Exceptional items

For a full list of exceptional items, refer to note 4 of the Financial statements. Below is a summary of the significant exceptional items recorded.

Following British Airways reaching a settlement agreement with the Trustee Directors of its APS pension scheme, the Group recognised an exceptional non-cash net operating charge of €672 million, reflecting the associated increased IAS 19 defined benefit liability of APS. The settlement, approved by the High Court in November 2019, puts an end to a legal dispute over pension increases, which started in 2013.

In 2018 British Airways closed its NAPS pension scheme to future accrual and its BARP pension scheme to future contributions, replacing them with a new defined contribution scheme. The changes led to an exceptional net credit of €678 million. British Airways also reflected the cost of equalising the effects of Guaranteed Minimum Pensions, leading to €94 million charge to employee costs and had restructuring costs of €136 million.

Non-operating costs and taxation

Net non-operating costs after exceptional items were €338 million, down from €521 million last year. The translation of non-hedged balance sheet items and movement on US dollar denominated aircraft debt and hedging resulted in a net credit. This was partially offset by higher finance costs due to accelerated bond redemption and interest accrued on bonds issued in 2019.

Taxation

The substantial majority of the Group's activities are taxed where the main operations are based, UK, Spain and Ireland, with corporation tax rates during 2019 of 19 per cent, 25 per cent and 12.5 per cent respectively. The Group's effective tax rate for the year before exceptional items was 19 per cent (2018: 18 per cent) and the income statement tax charge was €560 million (2018: €542 million).

There is no associated Income statement tax credit linked to the 2019 exceptional item, as the value of the accounting surplus is net of 35 per cent tax at source.

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €2,387 million, down 1.4 per cent. The decrease reflects a lower operating profit from the effect of the pilot strike at British Airways and from significantly higher fuel costs, partially offset by continued cost saving initiatives and capacity adjustments in the face of slower demand. Adjusted earnings per share before exceptional items is a key performance indicator and increased by 1.7 per cent in the year, reflecting the lower operating profit, offset by a lower share base, following the share buyback programme in 2018 and convertible bond redemption in 2019.

Profit after tax and exceptional items was €1,715 million (2018 pro forma: €2,838 million, 2018 statutory: €2,897 million), down 39.6 per cent, due to the exceptional pension charge in 2019 versus an exceptional net gain in 2018.

Dividends

The Board is proposing a final dividend to shareholders of 17.0 euro cents per share, which brings the full year dividend to 31.5 euro cents per share. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on July 6, 2020 to shareholders on the register on July 3, 2020.

Dividend policy statement

In determining the level of dividend in any year, the Board considers several factors, including:

- Earnings of the Group;
- Ongoing cash requirements and prospects of the Group and its operating companies;
- Levels of distributable reserves by operating company and efficiency of upstreaming options;
- Dividend coverage; and
- Its intention to distribute regular returns to its shareholders in the medium and long-term.

The Company received distributions from each of the four main airlines in 2019. Distributions from British Airways may trigger additional pension contributions if higher than pre-agreed thresholds and in 2019 an increased threshold of 50 per cent of after-tax profit was agreed until September 2022; see note 30 of the Financial statements.

The Company's distributable reserves position was strong, with €5.2 billion available at December 31, 2019 (2018: €5.7 billion).

Liquidity and capital risk management

IAG'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 sustainable returns to shareholders. In November 2018, S+P and Moody's assigned IAG with a long-term investment grade credit rating with stable outlook.

The Group monitors capital using net debt to EBITDA and liquidity. In 2019, the Group's net debt to EBITDA ratio increased to 1.4 from 1.2 times, well within the Group's target ceiling of 1.8 times. EBITDA was slightly lower, with the reduction in operating profit partially offset by lower non-operating expenditure. Net debt increased by €1.1 billion, mainly due to higher capital expenditure as the Group continues to invest in the customer experience and in new, fuel-efficient aircraft.

In 2019 the Group financed 41 of the new aircraft delivered during the year, using a range of aircraft-specific financing instruments, including an EETC bond issue by British Airways of \$806 million, which were combined with Japanese Operating Leases with Call Options ("JOLCO") as in previous years, bringing the total financing raised to \$1,120 million. The Group redeemed outstanding convertible bonds of €500 million and in July issued its first unsecured bonds for an aggregate principal amount of €1 billion, split into two tranches of €500 million due in 2023 and 2027.

Pensions and restructuring reflect payments made to the British Airways APS and NAPS pension plan schemes and restructuring payments for British Airways' and Iberia's transformation plans. Deficit payments to the APS plan ceased effective from January 1, 2019, following an out-of-court settlement which put an end to litigation regarding pension increases that had started in 2013. The full triennial valuation for the NAPS plan, based on the position at March 31, 2018, was agreed during the year, with deficit payments set at €532 million per annum (equivalent to the €354 million plus a cash sweep of up to €177 million under the previous plan), an overfunding protection mechanism and an increased dividend mitigation threshold, whereby, up to September 2022, if British Airways pays dividends in excess of 50 per cent of after-tax profits (previously 35 per cent) additional pension contributions will be made, or a guarantee provided.

Tax cash flows were €224 million lower than in 2018 principally reflecting the early receipt in Spain of a refund for a previous tax deposit, and the receipt in the UK of a one-off repayment following the reassessment of Avios' deferred revenue upon adoption of IFRS 15 'Revenue recognition'.

Shareholder returns reflect cash payments for dividends, buyback programmes and special dividends. In 2018 a buyback programme of €500 million was completed. In 2019 the Group paid a special dividend of €695 million, in addition to normal dividends equivalent to 25 per cent of pre-exceptional profit after tax.

Cash flow

€ million	2019	2018 (statutory)	Movement
Operating profit before exceptional items	3,285	3,230	55
Depreciation, amortisation and impairment	2,111	1,254	857
Pensions	(865)	(843)	(22)
Payments related to restructuring	(180)	(220)	40
Movement in working capital	(70)	(64)	(6)
Other operating movements	279	334	(55)
Interest received	42	37	5
Interest paid	(481)	(149)	(332)
Tax paid	(119)	(343)	224
Cash flow from operating activities	4,002	3,236	766
Acquisition of PPE and intangible assets	(3,465)	(2,802)	(663)
Sale of PPE and intangible assets	911	574	337
Other investing movements	(1)	(251)	250
Cash flow from investing activities	(2,555)	(2,479)	(76)
Proceeds from long-term borrowings	2,286	1,078	1,208
Repayments of borrowings and lease liabilities	(2,237)	(1,099)	(1,138)
Net cash flows from financing activities before shareholder returns	49	(21)	70
Levered free cash flow for the year	1,496	736	760
Shareholder returns	(1,308)	(1,077)	(231)
Cash inflow/(outflow) for the year	188	(341)	529
Opening cash and interest-bearing deposits	6,274	6,676	(402)
Net foreign exchange differences	221	(61)	282
Closing cash and interest-bearing deposits	6,683	6,274	409

Taking these factors into consideration, the Group's cash inflow for the year was €188 million and after net foreign exchange differences, the increase in cash net of exchange was €409 million. Each operating company holds adequate levels of cash with balances approximately 20 per cent of revenues or higher, sufficient to meet obligations as they fall due.

€ million	2019	2018	Higher/ (lower)
British Airways	3,055	2,780	275
Iberia	1,121	1,191	(70)
Aer Lingus	580	891	(311)
Vueling	820	564	256
IAG and other Group companies	1,107	848	259
Cash and deposits	6,683	6,274	409

The implementation of IFRS 16, whilst not changing cash, altered where certain items appear on the cash flow statement, notably resulting in higher depreciation, higher interest paid and higher repayment of borrowings. On a like-for-like basis, depreciation was up approximately €115 million, interest paid unchanged and repayment of borrowings up €471 million, mainly linked to the repayment of the IAG 2020 convertible bond.

Net debt (and Adjusted net debt for 2018)

€ million	2019	2018 (statutory)	Higher / (lower)
Debt	7,509	7,331	178
Cash and cash equivalents and interest-bearing deposits	(6,274)	(6,676)	402
Net debt at January 1	1,235	655	580
Adoption of IFRS 16 January 1, 2019	5,195	-	5,195
Net debt at January 1 after adoption of IFRS 16	6,430	655	5,775
(Increase)/decrease in cash net of exchange	(409)	402	(811)
Net cash outflow from repayments of borrowings and lease liabilities	(2,237)	(1,099)	(1,138)
Net cash inflow from new borrowings	2,286	1,078	1,208
New leases	1,199	-	1,199
(Increase)/decrease in net debt from regular financing	1,248	(21)	1,269
Exchange and other non-cash movements	302	199	103
Net debt at December 31	7,571	1,235	6,336
Capitalised aircraft lease costs	-	7,120	(7,120)
Adjusted net debt at December 31	7,571	8,355	(784)

The Group's net debt position after the adoption of IFRS 16 increased by €1.1 billion over the year from €6,430 million at January 1, 2019 to €7,571 million at the end of the year, mainly due to increased capital expenditure as the Group invested in new fuel-efficient fleet.

Capital commitments

Capital expenditure authorised and contracted for amounted to €12,830 million (2018: €10,831 million) for the Group. Most of this is in US dollars and includes commitments until 2025 for 79 aircraft from the Airbus A320 family, 12 Boeing 787s, 22 Boeing 777s, 33 Airbus A350s, and one Airbus A330.

Overall, the Group maintains flexibility in its fleet plans with the ability to defer, to exercise options and to negotiate different renewal terms. IAG does not have any other off-balance sheet financing arrangements.

ANNUAL CORPORATE GOVERNANCE REPORT

The 2019 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 2/2018, of June 12, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2019 Financial Statements, is 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.

Independent limited assurance report on the Consolidated Statement of
Non-Financial Information for the year ended December 31, 2019

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND
SUBSIDIARIES

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL INFORMATION

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

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Statement of Non-Financial Information (hereinafter NFIS) for the year ended December 31, 2019, of International Consolidated Airlines Group, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Management Report of the Group.

The content of the NFIS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section "Table of contents", included in the accompanying NFIS.

Directors' Responsibility

The Directors of the Group are responsible for the approval and content of the NFIS included in the Consolidated Management Report of International Consolidated Airlines Group, S.A. The NFIS has been prepared in accordance with the contents established in prevailing mercantile regulations and following Sustainability Reporting Standards selected criteria of the Global Reporting Initiative (GRI standards), as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of an NFIS that is free from material misstatement, whether due to fraud or error.

The Directors of International Consolidated Airlines Group, S.A. are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants 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.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) 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 provisions.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about 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. Our work has been performed in accordance with the requirements established in prevailing 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 on assurance engagements on the Non-Financial Statement issued by the Spanish Institute of Chartered Accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are less extent in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFIS, reviewing the process for gathering and validating the information included in the NFIS, and applying certain analytical procedures and sampling review tests as described below:

- ▶ Meeting with Group personnel to gain understanding of the business model, policies and management approaches applied, and of the main risks related to these matters, and obtaining the necessary information for our external review.
- ▶ Analysing the scope, relevance and integrity of the content included in the 2019 NFIS based on the materiality analysis made by the Group and described in section "General Information" of the NFIS, considering the content required by prevailing mercantile regulations.
- ▶ Analysing the processes for gathering and validating the data included in the 2019 NFIS.
- ▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFIS.
- ▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFIS and its correct compilation from the data sources.
- ▶ Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter has come to our attention that would lead us to believe that the 2019 NFIS of the Group for the year ended December 31, 2019 has not been prepared, in all material respects, in accordance with the contents established in prevailing mercantile regulations and following the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the NFIS.

Use and distribution

This report has been prepared to comply with prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.



Antonio Capella Elizalde

March 3, 2020

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.

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Appendix

35 Table of contents

Sections extracted from the Management Report for reference:

38 Business model

40 Risk management and principal risk factors

Business model

Brief description of the Group's business model, including its business environment, organisation and structure

IAG combines leading airlines in Ireland, the UK and Spain, enabling them to enhance their presence in the aviation market while retaining their individual brand's operations.

The airlines each target different customer markets and geographies, providing choice across the full spectrum of customer needs and travel occasions.

The airlines' customers benefit from a larger combined network for both passengers and cargo and greater ability to invest in new products and services through improved financial robustness. IAG is the parent company of the Group, exerting vertical and horizontal influence over its portfolio of companies. IAG is supported by its Management Committee which is made up of CEOs from across the operating companies and IAG senior management. The portfolio sits on a common integrated platform driving efficiency and simplicity while allowing each operating company to achieve its individual performance targets and maintain its unique identity.

Market presence

Refer to **Business model section on page 38**.

Objectives and strategies

Our vision is to be the world's leading airline group, maximising sustainable value creation for our shareholders and customers.

Our strategic priorities are:

- Strengthening a portfolio of world-class brands and operations;
- Growing global leadership positions; and
- Enhancing the common integrated platform.

We achieve our priorities through:

- Unrivalled customer proposition;
- Value accretive and sustainable growth; and
- Efficiency and innovation.

Main factors and trends that affect the Company's future evolution

Refer to **Risk management and principal risk factors section on page 40**.

General

Reference in the report to the national, European or international reporting framework used to select KPIs

To ensure we disclose relevant and meaningful data about our sustainability performance, we align our reporting with relevant and emerging disclosure standards. This includes compliance with our obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain. Our secondary reference point is the Sustainability Reporting Standards from the Global Reporting Initiative (GRI). We align our reporting with the Airlines Reporting Handbook, which we worked with the International Air Transport Association (IATA) to develop.

IAG's sustainability reporting is also based on an assessment of the most material impacts of IAG operations on the environment. Our most recent assessment was in 2017, when we worked with key stakeholders to identify these impacts in a materiality exercise facilitated by the charitable trust, Business in the Community. The process included workshops, interviews with key stakeholders, benchmarking against external materiality frameworks and the production of our own materiality matrix.

Sixteen material issues were identified. These issues align with the issues identified by IATA and GRI for the airline sector. The issues identified are still material. We will repeat a materiality assessment in 2020.

Water consumption and biodiversity are currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

This Consolidated Statement of Non-Financial Information discloses the information required by Law 11/2018.

Key material issues

Environment	Workforce and community	Governance, integrity and competitiveness
- Climate change¹ - Carbon pricing - Energy use - Waste - Noise - Air quality	- Diversity and equality - Community engagement and charitable support - Local economic impacts - Employee satisfaction - Talent management	- Supply chain management - Compliance with legislation and regulation - Customer satisfaction - Innovation, research and development - Financial performance²

¹ Including GHG emissions, fleet modernisation, fuel efficiency and sustainable aviation fuels.

² Short-term investor returns and long-term sustainability.

Data governance

The scope of our environmental performance data includes all our airlines and cargo operations. The workforce and supply chain metrics are full scope unless otherwise stated within the respective commentary section.

There are some caveats for environmental metrics. Some specific data from LEVEL is excluded but this is not considered material, as LEVEL accounts for less than two per cent of our Scope 1 emissions. Similarly, IAG Loyalty and IAG GBS functions are not in scope of our environmental metrics and form less than one per cent of material environmental impacts.

Emissions metrics are calculated using UK and Spanish government greenhouse gas conversion factors for company reporting and International Energy Agency (IEA) national electricity emissions factors. Methods of calculating other metrics are indicated in the respective commentary sections.

Metrics in this Consolidated Statement of Non-Financial Information have been verified to limited assurance aligned with ISAE 3000 (Revised) standards across each IAG operating company and across the Group. Scope 1 emissions data for 2018 and earlier has also been third-party verified for compliance with the European Union Emissions Trading Scheme (EU ETS), which covers flights within the European Economic Area, and for the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) which covers international flights between CORSIA-eligible countries.

If the Company issues a separate non-financial information report, it must be expressly stated that said information is part of the Management Report

The Consolidated Statement of Non-Financial Information is part of the Group's Management Report.

Management approach

A description of the policies implemented by the Company associated with social and employee-related matters

At the end of 2019, 72,268 people were employed across the Group in 83 countries, an increase of 1.6 per cent in the year. Employees across the Group play a vital role in delivering the service experience that customers expect, whether on the ground or in the air. They bring a diverse range of talent and perspectives that contribute to the values and cultures of our operating 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. Our operating companies have responsibility for the policies and procedures relating to their employees, including the identification and assessment of risks and the implementation of appropriate controls and measures.

At the Group level, IAG 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 Management Committee of IAG. IAG also 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.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

Due to the diverse nature of our businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level and each is responsible for determining the specific courses that are mandatory 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 corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates, covering around 95 per cent of the Group's total workforce. There were two full meetings of the EWC in 2019. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG sustainability representatives presented details of the FlightPath [net zero](#) plan to the EWC in 2019.

Employee satisfaction is an important matter for all operating companies within the Group. Each company has its own established methods of measuring employee satisfaction.

Talent management is also important across the Group, and this is primarily managed within the operating companies. At the Group level we are focused on the IAG Management Committee and their direct reports and we have a good track record of retaining and promoting talent into these roles. We are currently working to align the talent management framework across the Group.

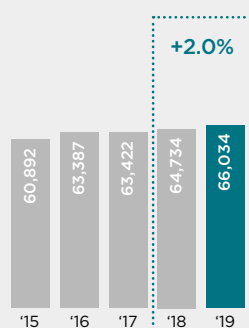
Across all the markets we serve, our growth continues to lead to improved local employment opportunities and local economic benefits for our supply chain partners. These economic benefits extend to the airports we serve and their related supply chains, partners and tenants.

A description of the main risks associated with social and employee-related matters

Refer to **Risk management and principal risk factors** section on page 40.

Results and KPIs

Total number of employees and distribution by country, gender, age and job category



Employment (average manpower equivalent)

Description

Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average manpower equivalent is the mean of the manpower equivalent captured quarterly to reflect seasonality.

Commentary

Our manpower equivalent increased by 2.0% whilst our ASKs grew by 4.0%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base.



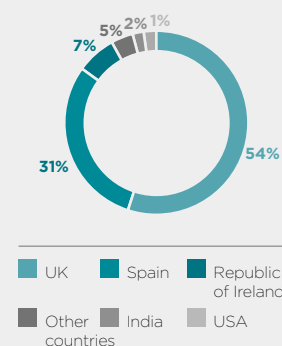
Headcount (number of people)

Description

Headcount is the actual number of people employed across the Group (employees) as at December 31, 2019.

Commentary

This metric was first reported in 2018. Overall headcount grew over the year by 1.6%.



Employees by country (number of people)

Description

This metric depicts the distribution of the Group's employees according to the country where they are based.

Commentary

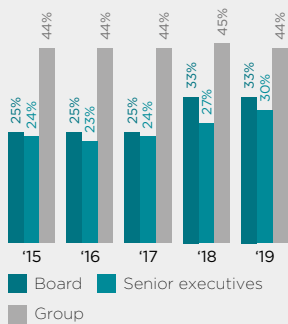
This metric was reported for the first time in 2018.

There were no significant changes in 2019.

In 2019 IAG had employees based in 83 countries, with 95% based in the European Economic Area (EEA).

Results and KPIs continued

Total number of employees and distribution by country, gender, age and job category



Gender diversity
(% women at Board, senior executive, and Group level)

Description

The share of women as a proportion of all staff at specific levels of seniority across the Group.

We have published objectives for 33% women on the Board by 2020 and 33% women across the Group's senior executive levels by 2025.

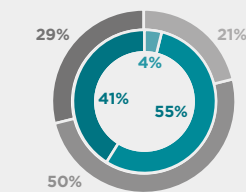
Senior executive levels include IAG and operating company Management Committee members, directors and other senior/executive positions reporting into them.

Commentary

There were 198 senior executives as at December 31, 2019.

We achieved our 2020 Board target in 2018 and have maintained this level of diversity since.

We continue to increase our proportion of women in senior executive levels, reaching 30% by the end of 2019.



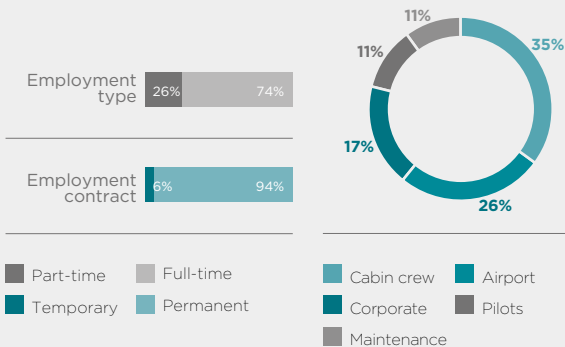
Age diversity
(% of staff in each age band)

Description

The proportion of employees in each age band, for both managerial and non-managerial employees.

Our on the ground (airport, corporate and maintenance categories) managerial population includes all roles equivalent to a manager across the Group.

Our in the air (pilots and cabin crew) managerial population includes all roles equivalent to Captains and Cabin Service Managers.



Composition
(% headcount by employment type, contract and employee categories)

Description

Per cent headcount by employment type, contract and employee categories.

The composition is a breakdown of headcount as at December 31, 2019.

The definitions of full-time and part-time vary across the Group.

A temporary employment contract has a defined end date.

Our employee category breakdown portrays the distribution of the major groups within our workforce "in the air" - Pilots and Cabin Crew - and "on the ground" - Airport, Corporate and Maintenance.

Commentary

This metric was reported for the first time in 2018.

There were no significant changes in 2019.

Total number of employment contracts and its distribution by type, annual average of permanent, temporary and part-time contracts distributed by gender, age and job category

	Permanent	Temporary	Full-time	Part-time
Annual average number of contracts	68,104	5,195	54,918	18,381

Age bands	Employment contract		Employment type	
	Permanent	Temporary	Full-time	Part-time
<30	16%	59%	22%	11%
30-50	52%	38%	50%	52%
>50	32%	3%	28%	37%

Gender	Employment contract		Employment type	
	Permanent	Temporary	Full-time	Part-time
Men	54%	50%	60%	36%
Women	46%	50%	40%	64%

Employee categories	Employment contract		Employment type	
	Permanent	Temporary	Full-time	Part-time
Cabin crew	40%	68%	33%	69%
Pilots	12%	1%	13%	8%
Airport	20%	10%	19%	17%
Corporate	19%	18%	24%	5%
Maintenance	9%	3%	11%	1%

Description

The numbers for each employment contract and type are based on an average of four values, each captured at the end of each quarter during the year.

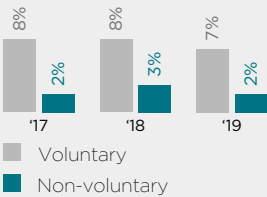
Commentary

This metric was reported for the first time in 2019.

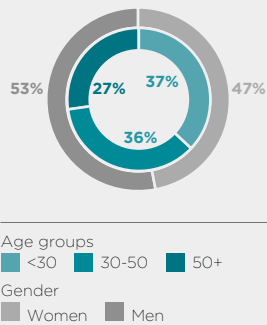
Results and KPIs continued

Total number of dismissals and distribution by gender, age and job category

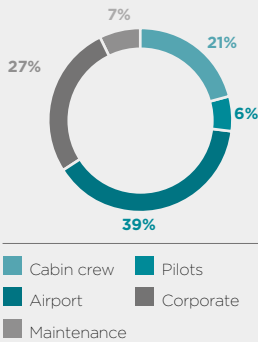
% voluntary and non-voluntary turnover



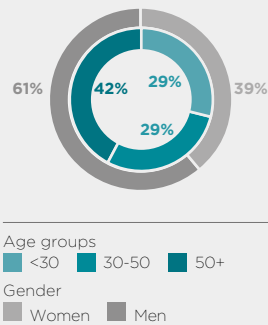
Overall turnover by gender and age band



Non-voluntary turnover by employee category



Non-voluntary turnover by gender and age band



Workforce turnover

(% voluntary and non-voluntary turnover)

Description

Workforce turnover is 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).

Commentary

In 2019, the overall annual turnover was 9% - a total of 6,206 employees, of which 1,372 were non-voluntary leavers.

Average remuneration broken down by gender, age and job category – salary gap

Remuneration by seniority level (€)

Seniority level	Men	Women	Salary gap
Senior executives	276,900	233,449	15.7%
Other management	81,431	59,676	26.7%
All other employees	46,658	37,346	20.0%
Total workforce	47,597	37,963	20.2%

Remuneration by age band (€)

Age band	Men	Women	Salary gap
<30	31,200	28,868	7.5%
30-50	48,330	40,601	16.0%
>50	55,839	55,147	1.2%
Total workforce	47,597	37,963	20.2%

Remuneration and salary gap (euros)

Description

The average (median) remuneration broken down by gender, age and seniority level.

The elements in scope for the reported figures include basic salary, shift pay, allowances and employer pension contributions, taxable benefits and annual incentives.

This includes most employees who left or joined the Company during the reporting period (part-time pay adjusted to full-time equivalent). Some exclusions apply (e.g. those employed for less than 20% of the year, employees impacted by special leave).

“Senior executives” includes operating companies management committee members, directors and other senior/executive positions but excludes IAG Management Committee (reported separately).

“Other management” includes all other management roles (excluding pilots and cabin crew managerial roles which are included within “All other employees”).

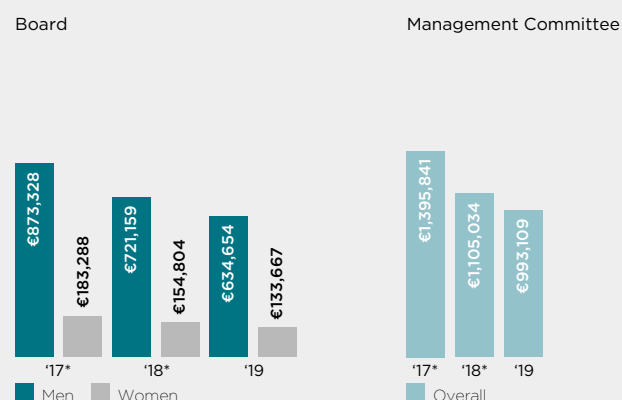
Salary gap refers to the difference between men’s and women’s median earnings (based on total pay) across the organisation, expressed as a percentage of men’s earnings

Commentary

This metric is being reported for the first time in 2019.

Approximately 4% of the headcount are not in scope for remuneration. This primarily comprises employees at LEVEL and overseas workforce from other operating companies.

Average remuneration of Board members and directors, including variable remuneration, allowances, professional indemnity, contributions to pension and welfare systems and any other parts of the remuneration broken down by gender



* Restated.

Description

For 2019, there was only one male Executive Director who was on the Board for the whole year. His remuneration is made up of basic salary, taxable benefits (company car and private health), employer pension contributions, annual incentive, and long-term incentive. Including only members who were on the Board for the whole of 2019, the Board also had eight non-executive directors, comprising five men and three women. Non-executive directors’ remuneration is made up of basic fees and travel benefits.

The Management Committee data excludes the Executive Director who is a Board member. Including only Management Committee members who were in employment for the whole of 2019, the Management Committee consisted of six men and two women. Their remuneration is made up of the same elements as for the Executive Director. For 2018, only people who were in service for the whole year are included; the differences being that there were nine non-executive directors (consisting of six men and three women) and ten Management Committee members (consisting of eight men and two women).

The figures for 2018 and 2017 have been restated. We are now using the 2019 methodology as per the Remuneration Report filed with the Spanish National Securities Market Commission (CNMV): a year ago we used the methodology as per the UK Directors’ Remuneration Report.

Commentary

The average remuneration for men on the Board is considerably higher than the average for women because the remuneration of executive directors is much greater than that of non-executive directors and the fee for the Chairman is much higher than that of other non-executive directors. The posts of executive director and Chairman are held by men.

Comparing 2019 with 2018, the average remuneration for men and women has fallen because of the fall in the annual incentive payout. This affects the Executive Director on the Board, and all members of the Management Committee.

As there are only two women on the Management Committee the average remuneration by gender has not been shown for reasons of confidentiality.

Work organisation

Working hours organisation; measures to promote work-life balance and co-parenting responsibilities

Refer to answer to Implementation of policies to allow employees to disconnect from work.

Implementation of policies to allow employees to disconnect from work

Promoting work-life balance - across the Group, there are a number of policies and initiatives designed to promote a healthy work-life balance. For example, British Airways promotes a healthy work-life balance through policies on flexible working, job share, maternity, adoption, paternity and shared parental leave. They also support many types of informal flexible working, such as working from home, flexible start and finish times, dependent on job role, designed to support colleagues in managing their home and work life. Colleagues are offered lots of information and guidance on creating and managing a healthy work-life balance through a digital colleague portal, and there are active online platforms for working parents and carers to share ideas and to offer support to one another. During 2020, British Airways will share new plans on the benefits of dynamic working with leaders and managers.

Number of employees with disabilities



Employees with disabilities (%)

Description

The percentage of headcount with disabilities 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 drop is due to a change in scope. The 2018 figure was based on British Airways and Iberia only, whereas this year Vueling and other smaller operating companies were included.

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



Absenteeism (%)

Description

The absenteeism rate measures the proportion of absences relative to total maximum hours in the period, expressed as a percentage.

For the purpose of this metric, only unplanned or unauthorised absences (employees missing part 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 (absence without leave or permission).

Commentary

This metric is being reported for the first time in 2019.

The Group's overall absence rate of 4.8% is understood to be around the average amongst airlines globally. It reflects the strict regulatory guidance for operating crew who are prevented from flying with certain conditions (e.g. cough and cold symptoms) which is not applicable to other sectors. As our 'in the air' employees represent 46% of the total workforce, this has a material impact.

In 2019, 4,347,592 hours of absence were recorded. A small percentage of overseas employees of the Group operating companies are not in scope.

Health and safety

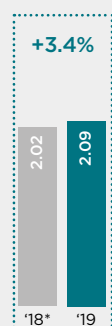
Occupational health and safety conditions

Health and safety is fundamental to our business, whether in the air or on the ground. It is our highest priority. We are committed to operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. This commitment applies equally to our employees, customers and all others affected by our activities.

We have robust governance in place led by the safety committees in each of our operating companies. IAG's Safety Committee, chaired by the Group CEO, monitors all matters relating to the operational safety of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

Our 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.

Accident rates, especially frequency and severity, as well as occupational illnesses, broken down by gender



* Restated.



Lost Time Injury (LTI) frequency rate (LTI per 100,000 hours worked)

Description

A lost time injury (LTI) is a non-fatal injury arising out of, or in the course of, work which will lead to a loss of productive work time.

Commentary

The unit is LTI per 100,000 hours worked, using actual hours worked. The 2018 LTI frequency rate has been restated at year end due to improved method of tracking hours worked.

The LTI frequency rate for men was 2.03 whilst the rate for women was 2.19. During 2019, 1,864 LTIs were recorded.

LTI severity rate (average days lost per LTI)

Description

This measures the impact of occupational accidents as reflected in time off work by the affected workers.

Commentary

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.

The LTI severity rate for men was 23.03 whilst the rate for women was 22.09.

No. of fatalities (number)

Description

Work-related fatalities. Fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business (e.g. company or contracted bus or vehicle) (GRI 403 guidance), except for employees in Spain, as the inclusion of these is a legal requirement.

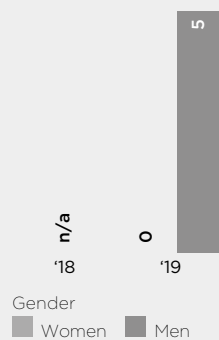
Commentary

There were no fatalities in 2019.

Health and safety continued

Labour relations

Accident rates, especially frequency and severity, as well as occupational illnesses, broken down by gender



Occupational illnesses (number)

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.

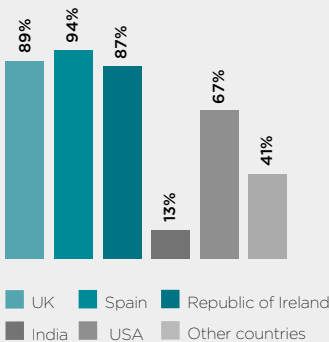
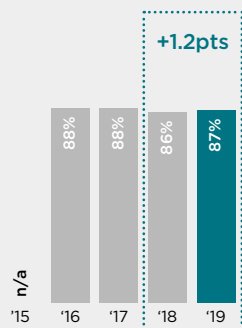
Occupational illnesses in scope for the UK follow Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) standards and can be found at <https://www.hse.gov.uk/riddor/reportable-incidents.htm>.

Occupational illnesses in scope for Spain are published in the Royal Decree 1299/2006.

Commentary

This metric is being reported for the first time in 2019.

Social dialogue organisation, including procedures to inform and consult with employees and to negotiate with them



Social dialogue and trade unions (% covered by collective bargaining agreements)

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

There were no significant changes in 2019.

Refer to **Risk management and principal risk factors** section on page 40.

Percentage of employees covered by collective agreements, by country

Refer to **charts above**.

Results of collective agreements, especially in the field of health and safety

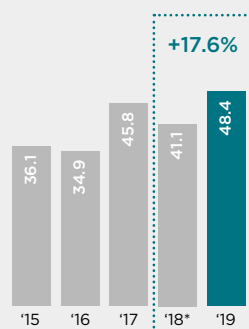
Employee relations are an important factor in improving and maintaining workforce engagement. Most Group employees have the right to representation through a collective bargaining agreement. Our operating companies have well-established mechanisms for negotiation and dialogue with the unions who represent their members. This includes regular review of matters relating to the health and safety of the workforce.

Training

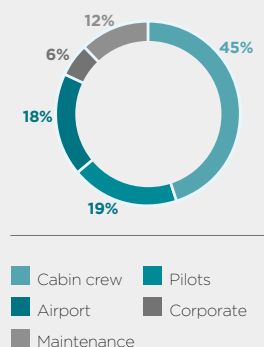
Training policies implemented

Refer to answer to **A description of the policies implemented by the Company associated with social and employee-related matters.**

Number of hours of training by professional category



* Restated.



Average hours of training (average employee training hours per year and training hours by employee category)

Description

Calculated by translating training data for operating companies per full-time equivalent (FTE) into training hours per Group Average Manpower Equivalent (AME). All mandatory and non-mandatory training is in scope.

Breakdown of total training hours by employee category.

Commentary

2018 data was restated. An improvement in data capture during 2019 resulted in re-applying that methodology to 2018.

There was an increase in average hours of training per employee in 2019 explained by the additional number of pilot hours of training during the year. This was due to the introduction of new aircraft types, which in turn meant more conversion courses to train existing and new pilots (employee category with the highest year-on-year headcount increase).

In 2019, 3,193,961 training hours were recorded.

Accessibility

Universal accessibility of people with disabilities

Across the Group we comply with all relevant legislation regarding accessibility for disabled employees and customers in our buildings and operations. We also work with a variety of external organisations, such as the Business Disability Forum in the UK, to help inform and support our efforts and strategy.

British Airways is particularly active on this issue. In 2019, it reviewed and updated commitments to the Government's Disability Confident Scheme, which demonstrates its commitment to recruit, develop and retain people with disabilities. Having achieved Level 2 of the Scheme, it will be working with resourcing and occupational health teams on streamlining a reasonable adjustment process for new colleagues. A specialist Accessibility team in British Airways' call centre was also introduced to help and support customers with additional needs with booking and pre-travel queries. In 2019, it became the first UK airline to be awarded an Autism Friendly award by the National Autism Society in recognition of its work.

Equality

Measures taken to promote equal treatment and equal opportunities for women and men; equality plans; measures taken to promote employment; protocols against sexual harassment and on the basis of gender; integration and universal accessibility for people with disabilities; the Company's policy against any type of discrimination and, when applicable, the diversity management policy

The progression of women into leadership roles is important to IAG and we have set a target to reach 33 per cent women across our senior executive levels (top 200 staff) by 2025. We will monitor and report on our progress, including the management pipeline across the Group. We have put in place an extensive programme of action to help deliver this.

Some key 2019 achievements included:

- 30 per cent women across senior executive levels by the end of year, up from 24 per cent in 2017.
- Recruitment activity across the Group continued to focus on roles where women are underrepresented including pilots, engineering and technology.
- British Airways and IAG Loyalty reported their 2018 gender pay gap data in April 2019. Detailed reports are available at: <https://gender-pay-gap.service.gov.uk/>.
- Launched a cross-Group female mentoring programme supported by Women Ahead. For the second year, eleven British Airways mentors and mentees joined the 30% Club cross-company mentoring programme.
- International Women's Day was marked with British Airways welcoming 100 young women to its Global Learning Academy to inspire more girls to become commercial airline pilots.
- At Iberia, the "Quiero Ser" (I Want to Be) programme, part of the Diversity and Inclusion Plan, gave young girls once again the opportunity to meet female aviation professionals in person. This programme launched in 2018 to lend greater visibility to female talent and to promote careers in aviation for women at all levels and in all company areas.
- Aer Lingus partnered up with the Irish Girl Guides to create the brand new 'Aviation Badge'. The badge aims to engage girls from a young age with all things aviation, by building interest for future study in STEM subjects and encouraging them to consider future aviation careers.

At British Airways, within the UK, around 16 per cent of our employees have declared a Black, Asian and Minority Ethnic (BAME) background. We recognise that, as in many companies, there are fewer people from a BAME background in more senior roles and this is something we are working to address. In 2019, British Airways joined 80 other organisations in making a public commitment to the Business in the Community (BITC) Race at Work Charter in tackling barriers to BAME recruitment and career progression.

Management approach

A description of the policies implemented by the Company associated with environmental matters

Sustainability governance

IAG's sustainability strategy sets the context and ambition for our sustainability programmes, which are co-ordinated at Group level. It covers our Group policies and objectives, governance structure, risk management, strategy and targets on climate change and noise, sustainability performance indicators, communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy.

The IAG Management Committee provides the forum for review, challenge and setting strategic direction of these programmes. Further oversight and direction are provided by the IAG Board and the IAG Audit and Compliance Committee. The below diagram depicts how sustainability is governed across the Group.

Sustainability overview

Sustainability governance structure



Management approach continued

Sustainability strategy

Sustainability underpins our business strategy and is fundamental to our long-term growth. We have set our vision to be the world’s leading airline group on sustainability and are committed to minimising our environmental impact. We are also committed to delivering best practice

solutions and demonstrating thought leadership to drive global improvements in the aviation industry’s sustainability performance.

We have aligned our sustainability strategy to IAG’s strategic priorities, as indicated in the diagram below.



We measure our progress against our vision to be the leading airline group on sustainability against five strategic aims.

1. Clear and ambitious targets relating to our most material issues.
2. Low-carbon transition pathway embedded in business strategy.
3. Management incentives aligned to delivering low-carbon transition plan.
4. Leadership in carbon disclosures.
5. Accelerating progress in sustainable aviation fuels, future aircraft and low carbon technologies.

In 2019 we further embedded our consideration of sustainability issues into core business processes: IAG three-year business plans, one-year financial plans, enterprise risk management, procurement and financial approvals now address climate and sustainability impacts.

We also committed to developing management incentives aligned to our climate targets, to improve the alignment of our business strategy and decarbonisation pathway. We will implement these incentives in 2020.

A description of the main risks associated with environmental matters linked to the Company’s operations, including, when relevant and proportional, its commercial relationships, products or services that may cause negative impacts in this area

Overview

The IAG Sustainability team is responsible for identifying and monitoring sustainability and climate-related risks and challenges. These are reviewed by the Enterprise Risk Management (ERM) team and reported at least annually to the IAG Management Committee and the IAG Audit and Compliance Committee. The Sustainability team considers risks over medium-term (two to five years) and long-term (five to 30 years) timescales as part of their risk management processes.

IAG is subject to both risks and opportunities related to sustainability, which are assessed in line with the IAG ERM methodology and are assessed for likelihood and impact considered over different time horizons. The four categories of likelihood are “remote”, “possible”, “probable” and “likely”, and the four categories of impacts are “manageable”, “moderate”, “serious” and “critical”.

Other risks relating to people and employee relations and safety and security are described within the business and operational risks of our ERM framework.

We have identified and assessed longer-term sustainability and climate-related risks and opportunities for IAG through our ERM process, materiality review and applying scenario analysis techniques as set out by the Task Force on Climate-Related Financial Disclosures (TCFD) process. We were one of the early signatories to the TCFD, an initiative led by the Financial Stability Board which complements the Carbon Disclosure Project (CDP) framework and sets guidelines for how to review the resilience of our business strategies in the context of climate change.

Scenario analysis

In 2018, we followed the TCFD process for scenario analysis and analysed the implications of climate change on our business in 2030. 2030 was selected as a nearer-term timeframe en route to 2050. The analysis exercise included an initial qualitative assessment of potential IAG responses in terms of business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans. We considered two scenarios:

- a two-degree temperature rise scenario, consistent with the aims of the Paris Agreement; and
- a four-degree temperature rise scenario, as an alternative high-emission scenario.

We identified that IAG would incur additional operating costs under both a two-degree and four-degree scenario.

Under a two-degree scenario, most of this increase would result from carbon prices or climate-related policy interventions. Under a four-degree scenario, IAG was more likely to face increased costs from operational disruption as a result of extreme weather events becoming more frequent. Key outcomes of this scenario analysis were:

- raising climate change awareness internally and further integrating it into the business planning process;
- driving engagement with the Hangar 51 accelerator programme; and
- identifying and disclosing several new climate-related challenges.

We will review the results of scenario analysis in line with the latest recommendations and guidance and intend to repeat it when relevant.

In 2019, we completed further analysis of climate-related risks and opportunities.

Refer to **the Risk management and principal risk factors section on page 40 for details on Sustainable aviation risks.**

Management approach continued

Climate transition risks and opportunities

Description and potential impact

Emergence of global patchwork of uncoordinated national and regional climate policies – regulation

Risk: use of inappropriate tax instruments may lead to competitive distortion including potential carbon leakage and result in increased compliance costs while failing to effectively address aviation emissions.

Climate regulation – regional application

Risk: CORSIA has been agreed internationally however the risk remains of regional regulatory duplication and/or inconsistent application of agreed Monitoring Reporting and Verification (MRV) requirements and eligible offsets which could create inequitable costs and competitive distortion.

Sustainable aviation fuels – regulation

Risk: EU and Spanish proposals to mandate a proportion of Sustainable Aviation Fuels (SAF) would incentivise production but could force airlines to purchase SAF at a price premium compared with conventional fuels creating competitive distortion and may lead to production of less sustainable fuels. IAG believes sustainable fuel mandates, if applied, should only be at a global level.

Consumer behaviour

Risk: trends in ethical and sustainability concerns being a factor in consumer choices may mean some consumers choose to fly less frequently.

Opportunity: to differentiate our brands by showing leadership, innovation and action to mitigate climate impacts.

Sustainable aviation fuels

Opportunity: commercial and environmental opportunity to source cost-effective sustainable fuel and reduce our CO₂ emissions thereby reducing compliance costs for CORSIA and the European Union Emissions Trading Scheme (EU ETS).

Higher carbon price and strong policy incentives

Risk: higher cost of carbon adds to our operating cost.

Opportunity: support stronger business case for investment in low carbon technologies which would accelerate decarbonisation progress.

How we manage it

- Managed by allocating resource to engage with governments, trade associations, IATA and ICAO to lobby for and help deliver a single effective global carbon pricing solution for aviation via CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). Regular updates on progress are provided to the IAG Management Committee and IAG Board

- Supporting implementation of CORSIA through IATA and ICAO and engaging other airlines to ensure CORSIA is adopted successfully
- Supporting development of robust rules for CORSIA on Monitoring, Reporting and Verification (MRV), and Emissions Unit Criteria
- Lobbying for universal adoption of CORSIA

- Lobbying to prevent mandates that create competitive distortion, both directly and through industry organisations, at EU and UK levels
- Supporting policy incentives that help deliver SAF at prices competitive with conventional fuels through new technologies reaching scale and becoming cost competitive

- Set vision to be the world's leading airline group on sustainability with ambitious goals on net emissions and carbon efficiency
- Using all the tools at our disposal: modern aircraft, efficient technology, best operational practice and sustainable fuels, as well as influencing global policy and driving industry-wide action, to minimise our carbon footprint

- Effective communication of our practices to customers and suppliers

- Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the global, EU and UK levels
- British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate sustainable aviation fuel development

- IAG supports ambitious climate targets and effective global regulation and strong policies to meet global climate goals
- Continued investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency
- Effective procurement strategy for carbon credits to protect against price volatility
- Innovation and collaboration on future fuels and carbon technologies through our Hangar 51 accelerator programme

Management approach continued

Climate physical risks and opportunities

Description and potential impact

Extreme weather impact on operating costs

Risk: for example, increased frequency of high winds, fog events, storms, turbulence, sustained extreme heat events or stronger jet stream would increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs.

Drought-induced water scarcity at outstations could also increase fuel costs with increased potable water carriage.

Destinations becoming unattractive for visitors

Risk: for example, extreme weather events and physical impacts of climate change such as flooding, drought, forest fires, heat waves, algae blooms, coral bleaching, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.

Opportunity: climate change could make certain destinations more attractive or accessible to visitors, for example a longer summer season.

How we manage it

- IAG climate strategy and our support for strong global action to tackle climate change
- Partnerships to mitigate operational disruption. For example, working with the UK National Air Traffic Service (NATS) and other air navigation service providers, a "Linear Holding" system called XMAN was launched at London Gatwick airport in 2019. If arriving aircraft are delayed by more than seven minutes, this system ensures they are slowed down, reducing stack holding and fuel burn and therefore CO₂ emissions
- Ongoing lobbying and engagement in projects and initiatives designed to reduce the industry's impact on climate change
- Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes
- Strategy to ensure aircraft and crew flexibility means we are prepared and able to respond to shifting demand patterns

Other sustainability risks and opportunities

Description and potential impact

Operational noise restrictions and charges

Risk: airport operators and regulators apply operational noise restrictions and charging regimes which may restrict our ability to operate especially in the night period and/or may introduce additional cost.

Supply chain CSR compliance

Risk: potential breach of sustainability, corporate social responsibility or anti-bribery compliance by an IAG supplier or third party resulting in financial, legal, environmental, social and/or reputational impacts.

Environment regulation compliance

Risk: an inadvertent breach of compliance requirements with associated reputational damage and fines.

Potential target for direct action protests

Risk: direct action and civil disobedience protests could disrupt flight operations and/or restrict staff and passenger access.

How we manage it

- Investing in new quieter aircraft
- 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 challenges
- Integrity, sanctions and CSR screenings for new suppliers, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct, supplier compliance audits
- Internal governance including training and workshops to identify challenges and mitigation
- Management IT systems for suppliers and higher-risk third parties
- Adopting Group-wide an Environmental Management System, the IATA IEnvA programme
- Reviewing and strengthening sustainability governance processes including embedding sustainability into business plans, financial plans, and business cases
- Internal governance, training and assigning ownership for environmental compliance obligations
- Engaging with carbon market advisors to understand and mitigate compliance challenges and identify future opportunities
- Close liaison with government agencies, airport operators and commercial organisations to assess challenges
- Contingency planning

Results

Environmental management

Information on the current and foreseeable impact of the Company's activities on the environment and, when applicable, on health and safety

See answer to **A description of the policies implemented by the Company associated with environmental matters.**

Environmental assessment and certification procedure

We have continued to progress our environmental management with the adoption of the International Aviation Transport Association (IATA) Environmental Assessment (IEnvA) management system. IEnvA is the airline industry version of ISO14001 (the international standard for environmental management systems) tailored specifically for airlines and is fully compatible with the International Organisation for Standardisation (ISO). British Airways achieved Stage 1 certification in 2019 and all other Group airlines are progressing on Stage 1 certification in 2020.

Resources devoted to environmental risk prevention

We are also allocating significant resource to environmental risk prevention and management. This includes investment of over €2 million euros over five years in Honeywell GoDirect Flight Efficiency software, and over \$400 million dollars (€360 million) over 20 years in sustainable aviation fuels infrastructure development and offtake agreements.

See answer to **Inclusion of social, gender equality and environmental matters in the Company's purchasing policy.**

Implementation of the precautionary principle

See answer to **A description of the policies implemented by the Company associated with environmental matters.**

Amount of provisions and warranties for environmental risks

We do not take out any specific insurance to cover our environment risk but we do purchase forward carbon credits to cover our future liabilities.

Pollution

Measures to prevent, reduce or repair emissions

While our focus remains on climate change, we are committed to addressing a range of other sustainability issues. These include local environmental impacts which may affect the quality of life for communities where we operate. For example, minimising the noise impact of our aircraft remains an important focus of our sustainability programme, as well as the impact of these aircraft on air quality.

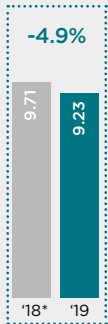
IAG continues to make progress in reducing aircraft noise over time. Between 2015 and 2019, we reduced the average noise per landing/take-off cycle by ten per cent, meaning that we met our 2020 noise target one year early. All our aircraft meet ICAO Chapter 4 standards for noise and over half now meet the more rigorous ICAO Chapter 14 standards.

In 2019 we continued to invest in quieter aircraft, as part of our fleet modernisation programme. For example, Vueling and Aer Lingus grew their fleet of Airbus A320neos and Airbus A321neos, which have noise levels 50 per cent lower than Airbus A320ceos and Airbus A321ceos that they replace, respectively.

We continue to focus on best operational practices to reduce our local noise impacts. One of these is to carry out continuous descent operations (CDO). Eighty per cent of Vueling's UK flights over the course of 2019 were CDOs, and the Company ran a bi-monthly staff awareness campaign to promote CDOs across their network. Aer Lingus and British Airways also performed strongly in the Heathrow "Fly Quiet and Green" league table of 50 airlines which use Heathrow airport: Aer Lingus has consistently ranked in the top five performing airlines since the ranking began in 2017 and British Airways shorthaul operations topped the league table in the first half of 2019.

All our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible. In 2019, we continued to engage with stakeholders including community groups, regulators and industry partners at our hub airports to share operational insights and participate in research and operational trials.

In 2020 IAG will set new Group-wide noise targets to help support and drive further progress.



* Restated.

NO_x per landing/take-off cycle (kilogrammes NO_x per landing/take-off cycle)

Description

This metric calculates the average emissions of the air pollutant nitrogen oxide (NO_x) as aircraft take off and land. The calculation considers the engine certifications and aircraft types of the fleet, using information from the ICAO emissions database.

The calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

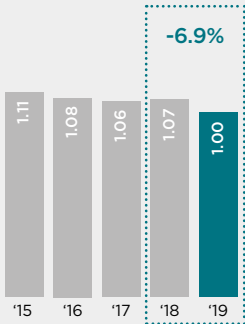
We monitor this performance as it is important that we minimise our impacts on local air quality.

Commentary

2018 was the first year we reported this metric.

The 2018 value has been restated due to the inclusion of aircraft which retired before the end of the year, and the resolution of a NO_x calculation error.

The 2019 improvement is driven by our ongoing programme of fleet modernisation.



Noise per landing/take-off cycle (Quota Count per landing/take-off cycle)

Description

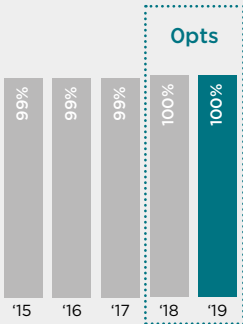
This metric calculates the average noise per flight considering arrival and departure noise for each aircraft type. UK Government Quota Count (QC) values are used to create a relative categorisation based on certified noise levels. For example, for a single flight, a Boeing 747 would have a score of 6.0 while an Airbus A320 would have a score of 1.0.

The calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

Commentary

A key driver of the 2019 improvement was the use of A320neos on shorthaul routes.

Trends in noise per cycle can fluctuate due to new aircraft, retirements, use of leased aircraft, the balance of shorthaul versus longhaul routes and changes to engine certification.



ICAO Chapter 4 noise standard (% compliance)

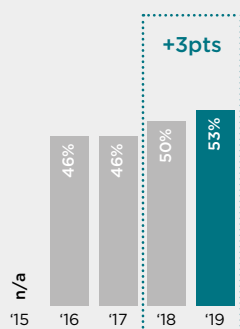
Description

ICAO Chapter 4 and Chapter 14 standards relate to noise from aircraft. The certification compares aircraft against standardised limits that are a combination of lateral, approach, and flyover noise levels. The ICAO Chapter 4 technology standard for aircraft noise applies to new aircraft certified from January 1, 2006 and Chapter 14 applies to new aircraft certified from January 1, 2017.

This calculation is based on the IAG fleet position at the end of 2019, excluding leased aircraft.

Commentary

99.8% of our aircraft are now compliant with ICAO Chapter 4 standards.



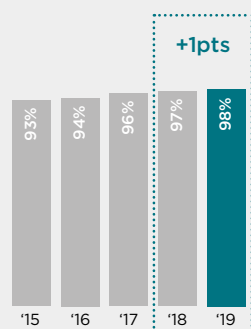
ICAO Chapter 14 noise standard (% compliance)

Description

See previous chart.

Commentary

Over half our aircraft are now compliant with ICAO Chapter 14 standards.



ICAO CAEP 4 NO_x standard (% compliance)

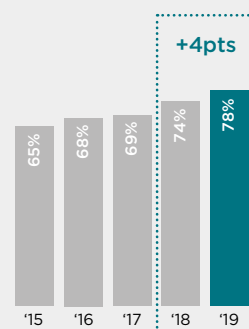
Description

ICAO CAEP standards are for NO_x emissions from aircraft engines. The CAEP 4 standards apply to engines manufactured from January 1, 2004. The standards have become increasingly stringent: CAEP 8 certified engines must emit less than half the NO_x of engines certified to the original CAEP 2 standard.

The compliance calculation is based on the IAG fleet position at the end of 2019, excluding leased aircraft.

Commentary

Almost all of our aircraft are now compliant with ICAO CAEP 4 standards.



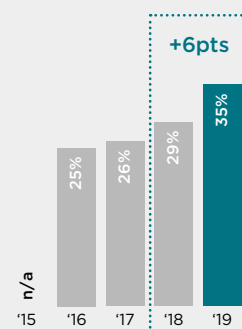
ICAO CAEP 6 NO_x standard (% compliance)

Description

CAEP 6 standards apply to engines manufactured from January 1, 2008.

Commentary

Over three quarters of our aircraft are now compliant with ICAO CAEP 6 standards.



ICAO CAEP 8 NO_x standard (% compliance)

Description

CAEP 8 standards apply to engines manufactured from January 1, 2014.

Commentary

Over a third of our aircraft are now compliant with ICAO CAEP 8 standards.

Pollution continued



Continuous Descent Operations (CDOs)
(% compliance at UK airports)

Description

Continuous descent operations (CDOs) help to minimise noise pollution. Compliant aircraft employ a smooth approach angle when landing, allowing aircraft to fly higher for longer, compared with stepped approaches to airports. This can help reduce fuel consumption as well as noise for those living under approach flightpaths. CDO scores are calculated based on the share of flights employing this approach at UK airports, using data supplied by the National Air Traffic Services (NATS). Data above is for all IAG airlines excluding LEVEL, with 2013 as the baseline year.

Commentary

The 2019 IAG value of 91.6% is above the average for all airlines operating in the UK, which is 88.2%.

Our aim is to have all of our airlines achieve over an 80% average across UK airports. The breakdown for 2019 is as follows:

- British Airways – 94.2%
- Aer Lingus – 77.8%
- Iberia/Iberia Express – 78.9%
- Vueling – 82.0%

Circular economy and waste prevention and management

Measures related to prevention, recycling, reuse and other form of waste recovery and disposal

We continue to make progress in recycling and reducing plastic, glass, metal cans, paper and food waste. In 2019, IAG initiatives reduced over 160 tonnes of single-use plastic waste. A new cross airline waste reduction group was also established which involved representatives from all airlines.

Waste reduction initiatives include:

- At the IAG and British Airways Head Office, over 1.5 million single-use plastic items have been removed since 2018;
- British Airways and Iberia replaced plastic swizzle sticks with sustainable bamboo versions, saving 47.5 tonnes of plastic a year;
- Iberia saved 68.5 tonnes of plastic with different plastic reduction measures such as replacing the bags on pillows and blankets with paper bands;
- Aer Lingus reduced plastics on 24 per cent of their Bia and Boutique onboard products;
- Vueling has replaced plastic cups on shorthaul flights with biodegradable alternatives;
- British Airways' new World Traveller Plus amenity kit was designed with sustainability in mind, using material from recycled plastic bottles;
- Iberia is in the EU LIFE+ Zero Cabin Waste programme, which aims to recycle 80 per cent of the cabin waste generated on board, including food waste and plastics. Waste per flight has dropped by 15 per cent since the beginning of this project; and
- LEVEL is using an app to monitor and reduce unnecessary water onboard.

In 2019, British Airways' waste per shorthaul passenger dropped 26% while waste per longhaul passenger dropped 10%, due to the expanded use of waste treatment options and recyclable material onboard. Iberia waste per flight dropped by 7% due to LIFE+ Zero Cabin Waste project initiatives.

We will continue to take steps to reduce and manage waste. From 2020, British Airways will have a target to reduce single-use plastics by 900 tonnes per annum over the next five years. IAG will also explore Group-wide waste targets.

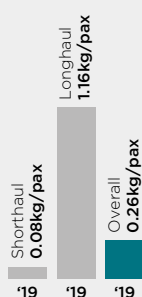
Sustainable use of resources

Actions to avoid food waste

Refer to **measures related to prevention, recycling, reuse and other form of waste recovery and disposal.**

Water consumption and water supply in accordance with local limitations

Water consumption is currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.



Average aircraft cabin waste (kilogrammes per passenger) (kg/pax)

Description

Onboard catering waste generated per passenger, net of recycling, and split between shorthaul and longhaul operations. Some operating companies reported total cabin waste due to limited data availability.

Passenger numbers are based on inbound passengers at base airports e.g. Heathrow, Madrid, Barcelona, Dublin.

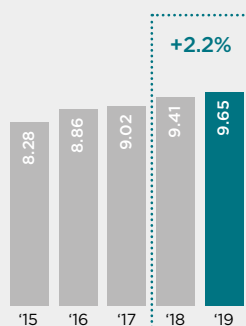
Shorthaul and longhaul flights are defined here by distance – for example, UK to Europe as shorthaul.

Commentary

2019 is the first year we are reporting a Group average. We expect to report Group year-on-year trends from 2020.

There are large differences between the waste per passenger metric for individual operating companies due to differences in business model, onboard product, the availability of local waste treatment options, and national waste-related regulations.

Raw material consumption and measures to improve use efficiency



Jet fuel (million tonnes fuel)

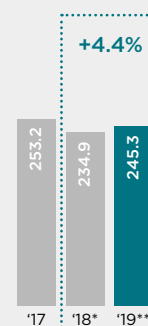
Description

Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.

Commentary

Jet fuel use increased by 2.2% due to business activity, emissions intensity reduced by 1.8%.

Direct and indirect energy consumption



* Restated.

** Expanded scope.

Electricity (kWh)

Description

Consumption of electricity across main facilities in millions of kilowatt hours.

This includes usage in main offices, hub airports and maintenance facilities.

Commentary

In 2019 we expanded the scope of our reporting to include overseas offices and ground power to aircraft.

The 2018 value has been restated based on the latest verified data. The previously reported value was based on the best available data but used provisional figures for the final months of the year. The reverified British Airways numbers showed a lower total kWh.

Sustainable use of resources continued

Measures to improve energy efficiency
Operational efficiency

Operational efficiency means changing the way we fly and operate our aircraft, reducing CO₂ by saving fuel. Small improvements can make a big difference, and there are many ways to reduce fuel consumption without negatively affecting passenger experiences or flight schedules.

Fuel efficiency initiatives saved 77,386 tonnes of CO₂e in 2019. Examples of 2019 initiatives include optimised engine washes, reducing the use of Auxiliary Power Units (APUs), reduced time for landing light deployment, reduced engine taxi in and out, continuous descents operations, lighter main wheels and reducing weight onboard. Vueling ran an awareness campaign with flight crew about how operational best practices can reduce CO₂. As part of meeting Group efficiency targets to 2020 and 2025, an expanded programme of initiatives is planned for 2020.

IAG also has a strategic commitment to fuel efficiency. Since 2018 we have been using the GoDirect Flight Efficiency software, developed by Honeywell, in British Airways, Iberia, Vueling and Aer Lingus. This tool enables detailed analysis of fuel use trends to identify savings. In 2019 we launched the Group-wide portal of this tool to enable benchmarking across the Group.

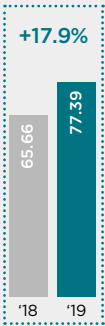
Fleet modernisation

Fleet modernisation means investing in new aircraft and engines as well as upgrading existing aircraft. IAG's fleet modernisation programme will play a major role in reducing our emissions intensity per passenger from 89.8 gCO₂/pkm in 2019 to 87.3 gCO₂/pkm in 2020 and then to 80 gCO₂/pkm in 2025. As a result of our fleet modernisation programme, the age of our fleet is expected to drop from 11.4 years in 2019 to 10.2 years by 2022.

In 2019 we continued to invest in modernising our fleet. Key examples are:

- Across the Group 45 new aircraft were delivered and 18 older aircraft stood down;
- Iberia introduced four new Airbus A350s into the fleet
- Vueling now has the youngest fleet in Southern Europe;
- Aer Lingus added three new Airbus A321neoLRs into its fleet, which showed an average of 23 per cent fuel saving compared with the Boeing 757s replaced;
- British Airways retired three Boeing 747 aircraft and will completely phase out these aircraft by 2024;
- We continued to undertake engine upgrades and weight-saving initiatives; and
- Hangar 51 increased activity focussed on start-ups pioneering low-carbon flight, including electric aircraft development. This activity focused on partnering with, and bringing investment to, new low-carbon technology companies.

IAG fleet planning teams also factor the current and future price of carbon emissions into relevant fleet planning decisions.



Reduction in GHG emissions from initiatives
(thousand tonnes CO₂e)

Description

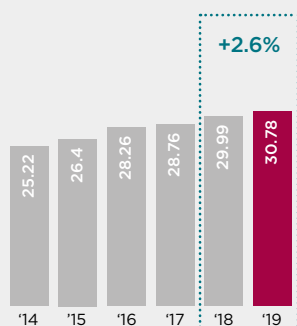
Reductions in emissions as a result of emissions reductions initiatives, excluding externally-driven changes applicable to all airlines e.g. airspace changes. See examples in the Operational efficiency case study.

Commentary

In 2019 we increased the volume of savings achieved through GHG-reduction initiatives, and an expanded programme of initiatives is planned for 2020.

Climate change

Climate change performance



Scope 1 emissions (million tonnes CO₂e)

Description

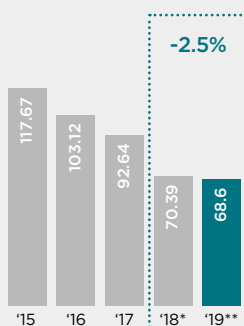
Scope 1 emissions are direct emissions associated with our operations including use of jet fuel, diesel, petrol, natural gas, and halons. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines.

These emissions are primarily CO₂ but other GHGs such as methane and nitrogen oxide are also reported as part of our CO₂-equivalent metric.

Commentary

99.8% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.

While 2019 Scope 1 emissions increased by 2.6% due to growth in business activity, emissions intensity reduced by 1.8%.



* Restated.
** Expanded scope.

Scope 2 emissions (location-based) (thousand tonnes CO₂e)

Description

Scope 2 emissions are emissions associated with electricity use.

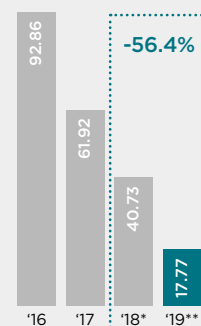
The location-based metric is calculated by multiplying kWh of electricity by the International Energy Agency (IEA) national electricity emissions factors in each country or region of operation.

Commentary

The 2019 increase is due to an expanded scope of reporting, to include electricity use from overseas offices and ground power to aircraft.

If the 2019 scope was the same as in 2018, reported emissions would have dropped by 27%.

2018 Scope 2 emissions have been restated based on the latest verified data. The previously reported values were based on the best available data but used provisional figures for the final months of the year. The reverified British Airways numbers showed a lower total kWh and higher share of renewables.



* Restated.
** Expanded scope.

Scope 2 emissions (market-based) (thousand tonnes CO₂e)

Description

Scope 2 emissions are emissions associated with electricity use.

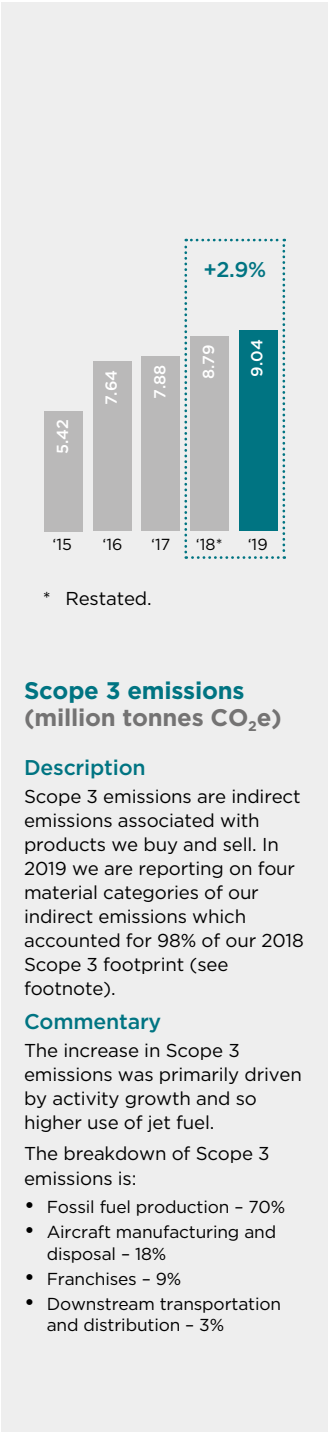
The market-based method is calculated by multiplying kWh by the specific CO₂/kWh of the electricity purchased from suppliers. Where renewable certificates are not available, electricity use is multiplied by the IEA national electricity emissions factors for each country or region of operation.

Commentary

Market-based Scope 2 emissions are net of renewables and dropped significantly in 2019 due to increased procurement of renewable electricity at Iberia and Vueling and the airports where we operate.

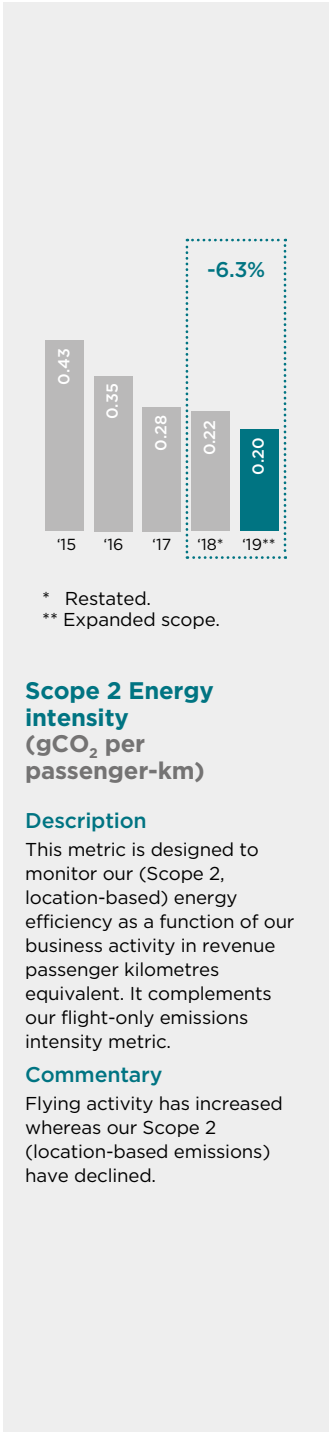
2018 Scope 2 market-based emissions have been restated. See previous commentary.

Climate change continued

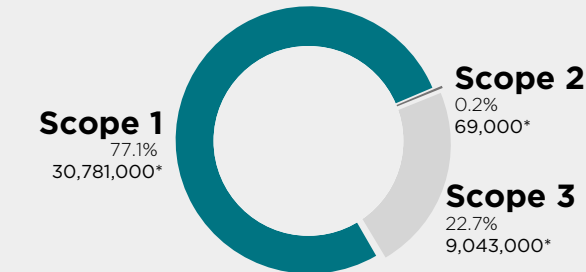


Footnote:
The four categories of Scope 3 emissions are defined and calculated as follows:

- 1 Fossil fuel production represents the lifecycle emissions from producing and transporting the fuels that we consume - calculated using conversion factors from the UK Government.
- 2 Aircraft manufacturing and disposal represents emissions from making and disposing of aircraft at the end of their usable life - calculated using a standardised factor from the EU.
- 3 Franchises represent emissions from aircraft that are franchises to IAG - calculated based on emissions from fuel use.
- 4 Downstream transportation and distribution represents emissions from subcontracted air and ground fleets, including for carrying freight - calculated based on the emissions from fuel use.



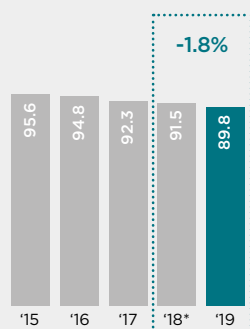
GHG emissions by scope, in CO₂-equivalent



Relevant aspects regarding greenhouse gas emissions

Overview and targets
Climate change is our most material sustainability issue. IAG's main impact on climate change is via the jet fuel consumed by our aircraft. In 2019, the greenhouse gases (GHGs) produced from this activity contribute 98.8 per cent of our Scope 1 emissions and 77.1 per cent of our Scope 1, 2 and 3 emissions. We also have an impact via our ground operations – for example the use of ground vehicles – and from the energy used in terminals, hangers, offices, lounges and other buildings.

We are committed to minimising our CO₂ impacts and non-CO₂ impacts on the climate. Our Scope 1 activities in 2019 emitted 30.47 million tonnes (MT) of carbon dioxide, 0.02 MT of methane, and 0.29 MT of nitrogen oxide, measured in units of CO₂ equivalent. Given that CO₂ is over 99 per cent of this impact, reducing CO₂ is our primary focus.



* Restated.

Flight-only emissions intensity (grammes of CO₂/pkm)

Description

Grammes of CO₂ per passenger kilometre is a standard industry measure of flight fuel efficiency.

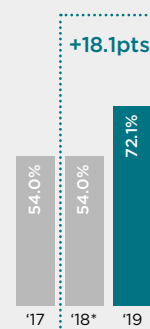
This value is calculated by taking annual jet fuel use and dividing by passenger-km travelled, using a conversion factor to account for the weight of cargo.

Commentary

The 2019 improvement is driven by the strong performance of Airbus A320s and A350s, Boeing 787s, and higher load factors.

The 2018 value has been restated based on the latest verified data.

Between 2011 and 2019, our average annual improvement in grammes of CO₂/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%.



* Restated.

% Renewable electricity (% of kWh)

Description

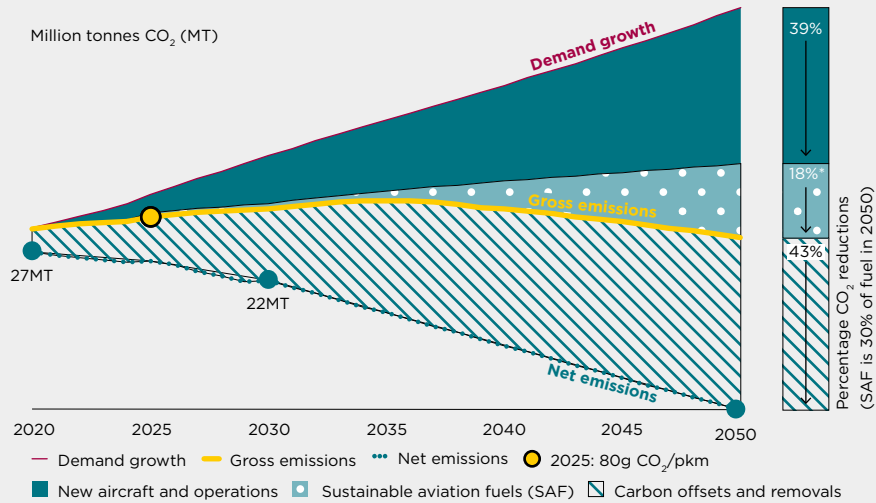
Our electricity use is measured in kilowatt hours (kWh). This metric represents the share of electricity generated by renewable sources such as solar power and wind. It includes the volume procured from renewable electricity suppliers.

In cases where no information was available on electricity sources, the source of electricity is assumed to be the national grid.

Commentary

The 2019 increase is driven by procurement of renewables in Vueling and Iberia and at UK airports where we operate.

Climate change continued



Measures to adapt to climate change

Refer to answer to **A description of the main risks associated with environmental matters linked to the Company's operations, including, when relevant and proportional, its commercial relationships, products or services that may cause negative impacts in this area.**

Voluntary medium- to long-term greenhouse gas emission reduction targets and resources

IAG is committed to IATA industry targets, which are:

- 1.5 per cent per annum fuel efficiency improvement until 2020; we have averaged 1.6 per cent per annum between 2011-2019;
- Carbon-neutral growth from 2020 onwards; and
- 50 per cent reduction in net CO₂ emissions by 2050, versus a 2005 baseline.

We have been working towards a fuel efficiency target of 87.3 grammes of CO₂ per passenger-km (gCO₂/pkm) by 2020. This represents a 10 per cent reduction from 97.5g CO₂/pkm in 2014.

In October 2019, IAG committed to a new set of climate targets and became the first airline group worldwide to commit to net zero emissions of greenhouse gases by 2050. This Flightpath **net zero** programme covers our Scope 1 and 2 CO₂ emissions. "Net zero" means that by 2050 any CO₂ which IAG operations emit in a year will be balanced by an equivalent amount of CO₂ reduction. This is in line with UN science requirements to keep global average temperatures below a 1.5 degree Celsius rise.

As part of the Flightpath **net zero** programme, we set new short-, medium- and long-term targets at Group level:

- 10 per cent improvement in fuel efficiency between 2020 and 2025, equating to 80 gCO₂/pkm in 2025;
- 20 per cent reduction in net CO₂ emissions by 2030, equating to 22 million tonnes (MT) of CO₂ in 2030;
- Net zero CO₂ emissions by 2050; and
- Net zero CO₂ emissions for British Airways UK domestic flights from 2020.

In addition, in December 2019 we became one of 185 companies worldwide to sign the Business Ambition for 1.5°C pledge from the UN Global Compact and Science-Based Targets initiative (SBTi). As part of this pledge, we committed to climate targets and decarbonisation pathways which are consistent with keeping global temperatures below a 1.5 degree Celsius rise. In 2020 we intend to support efforts to develop guidance on decarbonisation pathways for aviation.

We rely on four areas to achieve our Flightpath **net zero** 2050 programme: operational efficiency, fleet modernisation, sustainable aviation fuels, and structured schemes to deliver carbon reductions in other sectors. We have created a detailed carbon reduction roadmap to quantify the impact of each aspect of our plan and this is shown above. Compared with a scenario of growth at today's efficiency, 39 per cent of reductions in 2050 will come from new aircraft and operations, and 43 per cent from market-based measures and carbon-removal projects such as carbon capture, utilisation and storage (CCUS) technology. We expect 30 per cent of IAG fuel in 2050 will be from sustainable aviation fuels.

We will regularly review this roadmap to account for policy and technology changes and new insight. In 2020 we expect to update the roadmap to account for IAG business changes and any relevant insights from national, regional and global carbon reduction roadmaps.

Sustainable aviation fuels

Sustainable aviation fuels (SAF) are made from materials which have previously absorbed carbon e.g. waste from plastics and food items. These fuels are chemically almost identical to jet fuel made from fossil fuels but over their recent lifecycle emit 70 to 100 per cent less CO₂. SAFs will play a key role in enabling IAG to reduce our impact on climate change.

We remain at the forefront of SAF development and of influencing domestic, regional and international policy to support these fuels. We have committed to invest \$400 million (£360 million) in SAF over 20 years from 2017. In August 2019, the British Airways' partnership with Velocys and Shell submitted a planning application for Europe's first household-waste-to-jet-fuel plant in Immingham, England. Construction of the plant is due to start in 2021 and the plant will be operational in 2024. It is expected to produce over 32,000 tonnes of sustainable jet fuel per year.

IAG continues to work with several technology developers to establish a range of SAF supply options for the future. We participate in academic boards and public-private partnerships to support new technologies and innovation. We are also exploring options to use carbon capture, utilisation and storage (CCUS) technology as part of our Velocys project in the near term.

We also support wider innovation on SAF. In 2019, British Airways ran a Future of Fuels competition, open to academics at UK universities. The winners were announced in May and awarded a £25,000 grant to further their research, along with presenting their winning proposal at the industry-leading IATA Alternative Fuels Symposium and ATAG Global Sustainable Aviation Summit.

IAG contributes to the Fuels Task Group at the UN International Civil Aviation Organisation (ICAO), which is helping to shape new legislation for SAF as part of the upcoming CORSIA scheme. We are working on new government policy options for recycled fuels – i.e. nonbiogenic, like plastics which cannot be recycled – which we believe have great potential to offer additional CO₂ reductions. We are also calling for the UK Government to set up a dedicated cross-government body to provide policy support to accelerate UK SAF development.

Carbon fund, offsets and removals

Carbon reductions can be achieved through market-based measures and offsets, such as:

- Contributing to emission reductions in Europe through the European Emissions Trading Scheme (ETS);
- Through the global CORSIA scheme, preparing to purchase verified carbon reduction units to offset our emissions growth;
- Voluntarily purchasing offsets for emissions from specific groups of flights, events and staff activities;
- Offering customers the option to fund carbon reduction projects to make their flights carbon neutral; and
- Investing in technology to capture carbon dioxide out of the air and store it underground – not yet implemented by IAG but being explored.

IAG reduced its net emissions by 3.2 million tonnes of CO₂ in 2019, largely through participation in the EU ETS. All British Airways' UK domestic flights will be net zero carbon from 2020 onwards; a volume of around 400,000 tonnes achieved through emission reductions under the EU ETS and carbon reductions from investment in projects supporting forest protection and renewable energy.

The British Airways Carbon Fund continues to offer passengers the option to voluntarily invest in community energy efficiency projects in the UK and Africa. Our partnership with charity Pure Leapfrog completed nine projects in 2019 including the installation of solar panels and high-efficiency lighting, peat restoration and renewable energy.

In 2019, IAG continued to build support for smart market-based measures to reduce emissions. Representatives worked with IATA and ICAO to help finalise the rules governing the CORSIA scheme, the treatment of SAF and the rules for airlines and carbon offsetting programmes relating to eligible carbon offsets. We continue to work with IATA, trade associations and national governments to call for effective carbon regulation and effective regulatory reforms.

In 2019, IAG selected two carbon offset and removal start-ups to work with as part of our Hangar 51 innovation accelerator programme. Mosaic Materials has created a material to absorb CO₂ emissions from the atmosphere. ClimateTrade uses blockchain technology to track carbon offset projects. These partnerships have improved our understanding of how we can incorporate these technologies into our business.

In 2020 we plan to expand our voluntary carbon reduction programmes and continue to support smart market-based measures to reduce emissions. We expect the price of carbon per tonne to rise over time and we are liaising with the UK Government on options for the treatment of aviation after the UK exits the EU.

Biodiversity

Measures to preserve or restore biodiversity

Biodiversity is currently not assessed as material for IAG based on the small scale of impacts in this area and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

Management approach

Description of the policies implemented by the Company associated with human rights matters

All directors and employees are expected to act with integrity and in accordance with the laws of the countries they operate in. Resources are available across the Group for employees to get advice, report grievances or any alleged or actual wrongdoing.

IAG and its operating companies have policies in place setting out the general guidelines that govern the conduct of directors and employees of the Group when carrying out their duties in their business and professional relationships. Various training and communications activities are carried out for directors, employees and third parties to support awareness of the principles that govern the conduct of the Group and its employees. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

Refer to answer to **Non-financial KPIs associated with corruption and bribery matters.**

A description of the main risks associated with human rights matters

Human Trafficking is of real concern in the airline industry.

Transporting over 118 million passengers per year and with tens of thousands of suppliers, Group Slavery and Human Trafficking is relevant to IAG. We have no known cases of human rights violations within our organisation and we are increasing our screening of our suppliers to ensure that this is also the case in their organisations. We work closely with governments and the airports in which we operate to ensure that any suspected trafficking on our flights are reported and dealt with appropriately. We train our staff to recognise the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected.

In 2019, we published our third Group Slavery and Human Trafficking Statement. This statement is made under section 54, part 5 of The Modern Slavery Act 2015 (MSA) and outlines the steps taken by IAG to prevent modern slavery within the Group and ensure it does not take place in our business and supply chains. We ask our suppliers to adhere to this statement. Modern slavery clauses feature in all new supplier contracts as well as those coming up for renewal.

IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

In addition, British Airways, Aer Lingus and Vueling carry out training for pilots and cabin crew on identifying and responding to human trafficking. Guidance and procedures for flight crews and cabin crews are also included in the Aer Lingus and Vueling Operations Manuals.

Due diligence procedures

Implementation of human rights due diligence procedures; measures to prevent and manage potential human rights abuses and, when applicable, measures to mitigate, manage and repair potential human rights violations

Refer to answer to **A description of the main risks associated with human rights matters.**

Reported cases of human rights violations

Refer to answer to **A description of the main risks associated with human rights matters.**

Promotion and compliance with ILO's (International Labour Organization) provisions related to freedom of association and collective bargaining; the elimination of work discrimination, forced or compulsory labour and the effective abolition of child labour

Over 95 per cent of our employees are based in European countries which comply with the conventions of the 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.

Management approach

A description of the policies implemented by the Company associated with corruption and bribery matters

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our Group policies which are available to all directors and employees. Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks. In 2019, 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.

Anti-bribery and corruption training is mandatory for all IAG operating companies and takes the form of either e-learning or classroom sessions. Individual training requirements are set by each operating company and are determined by factors such as the level and responsibilities of an employee. In 2019, a new anti-bribery and corruption e-learning course was rolled out across the Group.

The programme's risk-based third-party due diligence includes screenings, external reports, interviews and site visits depending on the level of risk that a third-party presents. In 2019 a new third-party management tool for higher-risk third-parties was implemented, together with updated Group-wide Know Your Counterparty procedures. 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.

A description of the main risks associated with corruption and bribery matters

Refer to answer to **Risk management and principal risk factors section on page 40.**

Non-financial KPIs associated with corruption and bribery matters

There are Speak Up channels provided by Safecall and Ethicspoint available throughout the Group, where concerns can be raised on a confidential basis. 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; responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements. The annual review is co-ordinated by the Head of Group Audit.

In 2019, a total of 282 Speak Up reports were received compared with 201 in 2018. These reports concerned issues relating to Employment Matters (62%), Dishonest Behaviour/Reputation (23%), Health & Safety (14%) and Regulatory Matters (1%). All reports were followed up and investigated where appropriate.

Information related to corruption and bribery

Measures to prevent corruption and bribery

Refer to answer to **Non-financial KPIs associated with corruption and bribery matters.**

Measures to prevent money laundering

IAG has various 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.

Contributions to not-for-profit organisations

Community giving is a key way that IAG operating companies contribute to their wider communities. These efforts are often longstanding and continue to support a variety of causes. Here are some key 2019 achievements:

- Across the Group, over €4.2 million was raised for charitable causes;
- The British Airways "Flying Start" global charity programme, in partnership with Comic Relief, raised over £3.4 million in 2019 and has raised over £24 million since 2010. Customer collections and fundraising have helped over 800,000 people in some of the world's poorest communities;
- British Airways continued its commitment to international humanitarian response and launched a new partnership with the British Red Cross focusing on support for UK community preparedness and crisis response work;
- Aer Lingus staff continued their commitment to "Make a Difference" Day, where they volunteered one day's annual leave to help their local communities. In 2019, the eighth year of this programme, 140 employees from across all departments transformed the outdoor grounds of St Monica's School in Dublin, benefiting 150 pupils;
- Since 2013, Iberia has been collecting customer donations through the Iberia website for UNICEF children's vaccination programmes. Over €1 million has been raised so far, which has paid for the vaccinations for more than a million children in Chad, Angola and Cuba. €110k was raised in 2019; and
- Since 2016, Vueling has collected €950k in donations for Save the Children, being the second-largest sponsor of this NGO in Spain. €194k was raised in 2019.

Management approach

A description of the policies implemented by the Company associated with society matters

The UN has identified 17 Sustainable Development Goals (SDGs) for all sectors to work towards as part of a 2030 Agenda for Sustainable Development. The aim of this agenda is to “end poverty, protect the planet and improve the lives and prospects of everyone, everywhere”.

We draw links to nine SDGs which align with those identified by IATA and UK trade association Sustainable Aviation. Four priority SDGs – **5, 7, 8 and 13** – were identified by IAG as part of our materiality assessment and are indicated in grey. How our initiatives align with and support these goals is also indicated.

How IAG activities align with the SDGs

Goal 3: Good health and wellbeing Initiatives on: - Operational efficiency - Fleet modernisation - Noise - Air quality - Health and safety - Modern slavery - Accessibility	Goal 4: Quality education Initiatives on: - Work experience programmes - Modern slavery	Goal 5: Gender equality Initiatives on: - Work experience programmes - Workforce diversity - Modern slavery
Goal 7: Affordable and clean energy Initiatives on: - Climate change - Sustainable aviation fuels (SAF)	Goal 8: Decent work and economic growth Initiatives/metrics on: - Work experience programmes - Revenue per tonne CO₂	Goal 9: Industry, innovation and infrastructure Initiatives on: - SAF - Fleet modernisation - Hangar 51 - Carbon capture, utilisation and storage (CCUS)
Goal 11: Sustainable cities and communities Initiatives on: - Noise - Air quality - Community giving - Accessibility	Goal 12: Responsible consumption and production Initiatives on: - Waste - Supply chain	Goal 13: Climate action Initiatives on: - Climate change - Operational efficiency - Sustainable aviation fuels - Carbon offsets and removals

A description of the main risks associated with society matters linked to the Company's operations

Refer to **Risk management and principal risk factors** section on page 40.

Commitment to sustainable development

Impact of the Company's activity on employment and local development

IAG sees work experience as a valuable way of engaging young people with our business and preparing them for potential careers in aviation.

British Airways launched the Flying Experience Days across the summer holidays as a way to engage more young people with a career in the flight deck, in partnership with The Air League Trust. Trial flights were offered to 200 students (of which 25 per cent were girls) at Booker Gliding Club and Airfield in High Wycombe in either a glider or motor-powered aircraft, as well as other activities that are focused around becoming a pilot. As a result of the Flight Experience Day, the share of students set on becoming a pilot rose from 68 to 95 per cent.

In the August summer holidays, British Airways invited 45 former Inspire Work Experience students to undergo a training programme that looks at developing their presenting skills and building confidence; as well as techniques for representing British Airways at external events. There are now 145 Inspire Student Ambassadors in the programme. The award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry and develop their employability skills.

Similarly, the Aer Lingus Transition Year Programme has been developed to provide second-level transition year students with a structured 'behind the scenes' glimpse into the daily operations in Dublin and the various potential career paths available within the airline.

Impact of the Company's activity on local populations and territories

While our focus remains on climate change, we are committed to addressing a range of other sustainability issues. These include local environmental impacts which may affect the quality of life for communities where we operate. For example, minimising the noise impact of our aircraft remains an important focus of our sustainability programme, as well as the impact of these aircraft on air quality.

Refer to answer to **Measures to prevent, reduce or repair emission**.

Company's relations with local communities, agents and dialogue channels; partnerships and sponsorship actions

Refer to **answer above**.

Sustainable supply chain

Inclusion of social, gender equality and environmental matters in the Company's purchasing policy

On behalf of IAG and its operating companies, IAG Global Business Services (GBS) works with approximately 27,000 suppliers. We aim to do business and build relationships with suppliers who share our Group values: acting with honesty and integrity in all business dealings, reducing our supply chain environmental footprint, improving safety, and strengthening contributions to building better societies, locally and globally.

From 2019, our Supplier Code of Conduct, which lays out expectations for suppliers working with all IAG operating companies, has been included as part of our supplier onboarding process. This means all new suppliers are asked to sign up to and acknowledge the Code before we establish any trading relationship and helps ensure that established standards are accepted and followed by all our supply chain partners.

We have built on our sustainable supply chain strategy throughout 2019 and have screened an additional 13,000 existing suppliers in the Group. This includes third-party assessments of legal, social, environmental and financial risk.

As part of our Procurement Sustainability Programme, we have built a Corporate Social Responsibility (CSR) audit plan and are increasing the number of audits carried out each year, focusing on those suppliers located in countries where there may be human rights or environmental concerns. These audits are carried out by trusted third-party inspectors with CSR expertise, who are aligned with the world-class Sedex Members Ethical Trade Audit (SMETA) methodology.

In 2019, the number of on-site supplier audits was tripled compared with the same period in 2018. Audits carried out with our business partners did not show any significant violations. However, the findings that potentially deviated from our supplier standards are being reviewed to determine what, if any, corrective actions are required.

We also have collaboration projects with key suppliers to encourage sustainability innovation and identify ways to reduce emissions. Examples include shifting the transport of jet fuel from road to rail, and the Catering 2020 Project, which resulted in sourcing suppliers from a 5-to-7 mile radius of each London hub therefore reducing transport emissions.

In 2020, we will continue to invest in the development of our Procurement Sustainability Programme. This means we will focus on supply chain sustainability, assessment, performance and control by implementing new tools, continuing to increase the number of CSR audits, and introducing supplier self-assessment and projects that recognise sustainability contributions.

Key performance indicators (KPIs)

To date, approximately 18,400 suppliers – 68% – have been vetted, compared with a total of 5,500 in 2018.

Total number of suppliers	Suppliers third-party screened	Suppliers to be reviewed
27,033	18,369	8,664

We will continue screening our supply base and increase the number of third-party vetted suppliers over the coming year. However, the level of scrutiny will start to diminish as smaller suppliers, who have minimal financial and CSR data, typically fall into the 8,664 still to be assessed, and these smaller suppliers often have a lower risk to the business.

Risk type	Measurement	Typical issues	Meaning of a high score
Environment	Trucost	Environmental damage resulting from company's business activities caused by pollution; greenhouse gases, water waste, air, land and water pollutants, and natural resource use. The score is based on industry sector and location, which can be country, region, or global.	The potential percentage of turnover at risk, should a company be liable for environmental damage resulting from business activities. Components of the score are compared to peers on a yearly basis.
CSR	Risk rating	Risk exposure to environmental, social and governance issues. Combines a company's own potential ESG risk with the ESG risk of the countries and sectors in which the company has been exposed.	High- to very high-risk exposure. Combines environmental, social and governance risk.
Compliance	Compass	Predicts the likelihood a supplier will violate payment processing regulations, regional or international laws, or commit fraud. Based on merchant risk and fraud history.	High risk of non-compliant or illegal activity. It is based on the probability that a prospective supplier will commit a violation in the next 24 months. Scores are used to make informed decisions when considering onboarding new suppliers, and/or identifying areas for closer inspection.

Attention given to the social and environmental responsibility of subcontractors and suppliers

Refer to **answer above**.

Supervision and audit systems and their results

Refer to **answer above**.

Consumer relationship management

Measures to protect consumers' health and safety

Refer to **Health and Safety - Occupational health and safety conditions**.

Complaint systems and claims

IAG airline customers are able to provide feedback and details of complaints in multiple ways, including via our websites, by mail, or by phoning our customer contact centres. The types of customer complaint received vary significantly but typically relate to delays and cancellations, baggage, journey experience and bookings and reservations. To handle customer complaints our airlines have dedicated customer relations teams who are specially trained to deliver excellent customer service and resolve issues quickly and in a satisfactory manner.

In 2019, across the IAG airlines, on average 3.2 complaints were received per 1,000 flown passengers.

Public subsidies received

As part of the EU Emissions Trading Scheme (ETS), airlines in the Group receive part of their emission allowances at zero cost and purchase the remainder in the ETS market. The value of the allowances at zero cost represents the substantial majority of amounts included as public subsidies, which for the Group amounted to €94 million in 2019; ETS allowances were valued at the December 31, 2019 carbon market price. The 2018 information did not include emission allowances and has not been restated.

Tax information

Profits obtained per-country, taxes paid on profits

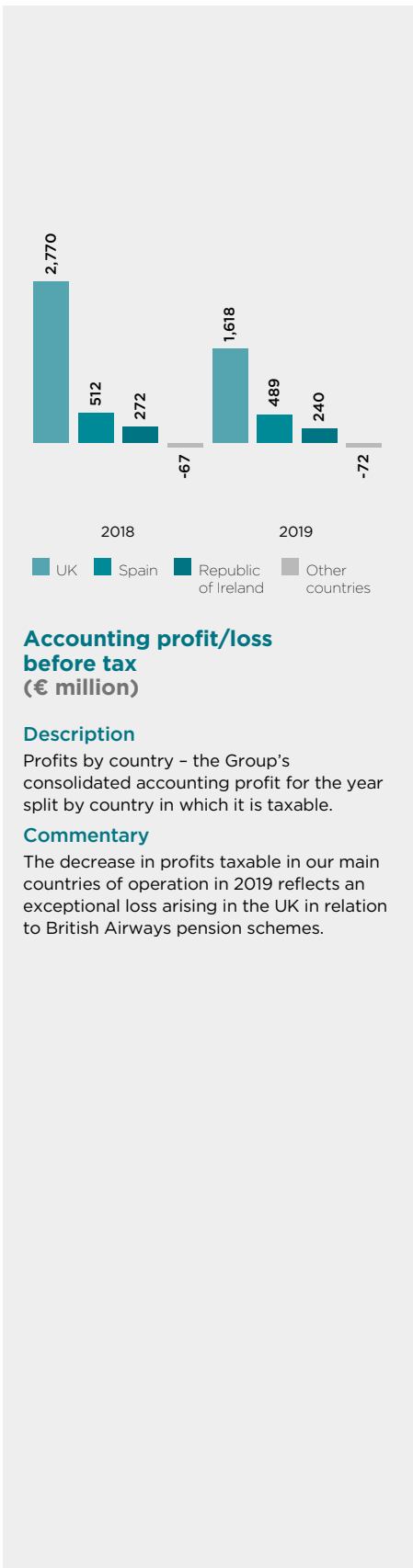


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Footnotes:

1 Internal framework: qualitative description

2 Internal framework: see the methodology used in the corresponding pages

* Water consumption and biodiversity are currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

Sections extracted from the Management Report

Our business model is built to maximise choice and value creation

Our vision is to be the world’s leading airline group, maximising sustainable value creation for our shareholders and customers.

What we do

IAG combines leading airlines in Ireland, the UK and Spain, with key non-airline businesses, enabling them to enhance their presence in the aviation market while retaining their individual brand identities.

The airlines each target specific customer markets and geographies, providing choice across the full spectrum of customer needs and travel occasions.

The airlines’ customers benefit from a larger combined network for both passengers and cargo and greater ability to invest in new products and services through improved financial robustness.

Our vision is to be the leading airline group on sustainability. We are committed to reducing our carbon footprint and to reach the goal of net zero CO₂ emissions by 2050 across all of the IAG businesses.

How we’re organised

IAG is the parent company of the Group, exerting both direct and functional influence over its portfolio of companies. IAG is supported by its Management Committee which is made up of CEOs from across the operating companies and IAG senior management. The portfolio sits on a common integrated platform driving efficiency and simplicity while allowing each operating company to achieve its individual performance targets and maintain its unique identity.

Our resources

A portfolio of world-class brands and operations

The Group portfolio consists of unique operating companies, from full service longhaul to low-cost shorthaul carriers, each targeting specific customer needs and geographies.



Global leadership positions

598
fleet

279
destinations

779
routes

4
joint businesses

A common integrated platform

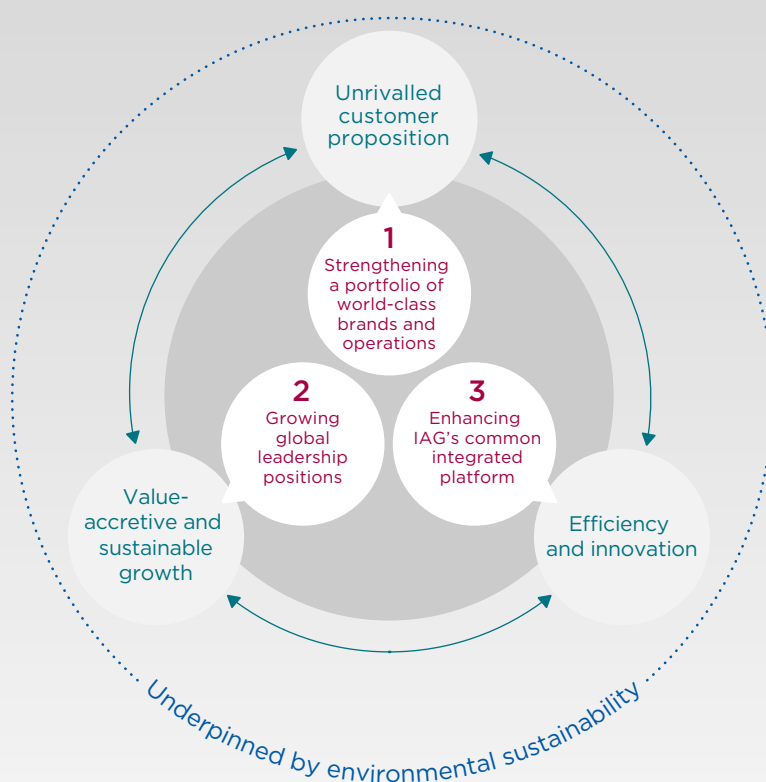
IAG’s common integrated platform allows the Group to exploit revenue and cost synergies that the operating companies could not achieve alone.



How we create value

Unrivalled customer propositions

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



Value accretive and sustainable growth

- Pursue value accretive organic and inorganic growth options to reinforce existing or pursue new global leadership positions
- Attract and develop the best people in the industry
- Set the industry standard for environmental stewardship, safety and security

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
- Drive incremental value with external business-to-business services

The value we deliver

Shareholders

31.5 € cents

Final dividend 17.0€ cents and total returns to shareholders since 2015 of €4.4 billion.

Customers

25.8

Net Promoter Score
+9.5pts vly

Employees

66,034

Manpower equivalent
+2.0% vly

7%

Workforce voluntary turnover
-1.0% vly

30%

Female senior executives

Community and environment

89.8g CO₂/pkm

Carbon efficiency
-1.8% vly

**Commitment
to net zero CO₂
emissions by 2050**

Sustaining the risk management culture

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. The Board has oversight of the Group's operations to ensure that internal controls are in place and operate effectively. Management is responsible for the execution of the agreed plans.

The Group has an Enterprise Risk Management (ERM) policy which has been approved by the Board. This policy sets the framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks facing the Group, including emerging risks. This process is led by the Management Committee and best practices are shared across the Group.

Risk owners are responsible for identifying and managing risks in their area of responsibility within the key underlying business processes. All risks are assessed for likelihood and impact against the Group Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans. Every risk has clear Management Committee oversight.

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends, regulations or business disruptors that could impact the Group's business strategy and plans. These emerging risks are monitored within the overall risk framework until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact can be made, and appropriate mitigations can be put in place.

IAG considers risks to the strategic business plan over the short-term up to two years, medium-term from three to five years and in the longer-term beyond five years.

Risk management professionals ensure that the framework is embedded across the Group. They maintain risk maps for each operating company and at the Group level, and ensure consistency over the risk management process.

Risk maps are reviewed by each operating company's management committee, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Each operating company's management committee confirms to its operating company board as to the identification, quantification and management of risks within its operating company as a whole annually.

The management committee of each operating company escalates risks that have a Group impact or require Group consideration in line with the Group ERM framework.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. 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 Board of Directors discusses risk at a number of meetings in addition to the risk map review, including a review of the assessment of IAG's performance against its risk appetite.

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalises how performance is monitored either on a Group-wide basis or within major projects. These statements were reviewed for relevance and appropriateness of tolerances at the year end and it was confirmed to the Board that the Group continued to operate within each of the risk appetite statements.

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. IAG remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government regulation, external events causing operational disruption including civil

unrest, adverse weather or pandemic, fuel price and foreign exchange volatility and changes in the competitive landscape.

Risks are grouped into four categories: strategic, business and operational, financial including tax, 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.

The list is not intended to be exhaustive.

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and consumers. IAG has a high appetite for continued deregulation and consolidation. The Group seeks to mitigate the risk from government intervention or changes to the regulations that can have a significant impact on operations.

In general, the Group's strategic risks were stable during the year with competitor capacity being monitored and assessed within the Group. IAG continues to support deregulation, manage its supplier base and explore opportunities for consolidation.

Business and operational risks

The safety and security of customers and employees is a fundamental value. The Group balances the resources devoted to building resilience into operations and the impact of disruption on customers. The Group airlines are still highly exposed to the significant level of Air Traffic Control (ATC) airspace restrictions in Europe, requiring additional resilience to be built into the networks.

Strike action impacted British Airways, Iberia and Vueling operations this year. IAG continues to engage with the trade unions representing our workforces to agree collective bargaining agreements and minimise disruption.

The cyber threat environment remains challenging for all organisations including the airline industry. The Group continues to prioritise investment in the security controls framework, to mitigate and control these risks.

The political and economic environment remained volatile across the year, with the risk of demand impact from changes in trade relationships which could drive the imposition of tariffs, increasing costs.

Financial risks

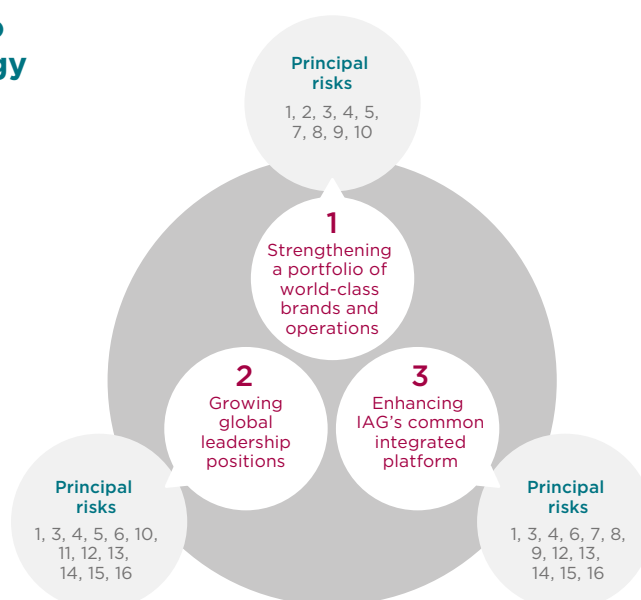
IAG balances the relatively high business and operational risks inherent in its business through adopting a low appetite for financial risk. This conservative approach involves maintaining adequate cash balances and substantial committed financing facilities. There are clear hedging policies for fuel price and currency risk exposure which explicitly consider appetite for fluctuations in cash and profitability resulting from market movements.

However, the Group is also careful to understand its hedging positions compared to competitors to ensure that it is not commercially disadvantaged by being over-hedged in a favourable market.

Compliance and regulatory

The Group has no tolerance for breaches of legal or regulatory requirements.

Link to strategy



See our Business model and strategic priorities sections

See our Sustainability section

Key: Risk trend

↑ Increase

↔ Stable

↓ Decrease

Strategic

1. Airports, infrastructure and critical third parties



Status The Group has been impacted by ongoing issues with Rolls-Royce Trent engines in the year, as well as the impact of the new aircraft delivery delays from Airbus. 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. In October 2016, the UK Government confirmed a third runway expansion proposal at London Heathrow and IAG continues to promote an efficient, cost-effective, ready-to-use and fit-for-purpose solution. The Group is also dependent on the timely delivery of appropriate facilities by the Dublin Airport Authority.

Risk description	Strategic relevance	Mitigations
IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and support the delivery of the Group sustainability programme.	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.	The Group mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.	Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.	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.
IAG is dependent on resilience within the operations of ATC services to ensure that our flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity.	The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.
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.	An uncontrolled increase in the planned cost of expansion could result in increased landing charges.	There is active supplier management including contingency plans and the Group also enters into long-term contracts with fuel suppliers.
	Airport charges represent a significant operating cost to the airlines and have an impact on operations.	

Strategic continued

2. Brand reputation



1

Status 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. Customer product improvements were launched throughout the year and there was an ongoing focus on systems underpinning the customer journey.

Risk description	Strategic relevance	Mitigations
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.	The Group's brands are well positioned in their respective markets and have significant commercial value. Customers will choose to fly because of the brand proposition. Any change in engagement could impact the financial performance of the Group.	- All IAG airlines are considered within the brand portfolio review. - Brand initiatives for each operating company have been identified and are aligned to the Strategic Business plan. - Product investment to enhance the customer experience supports the brand propositions. - All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
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.	IAG will continue to strengthen its customer propositions to ensure competitiveness in its chosen priority customer demand spaces. The Group is clear on the key levers to improve brand perception and satisfaction and has specific initiatives in place to achieve leadership for each of its operating company brands.	- 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.

3. Competition, consolidation and government regulation



1

2

3

Status The Group announced plans in 2019 to acquire Air Europa, subject to regulatory approvals. In May 2019, Chile's Supreme Court rejected an appeal for the proposed South American joint business between IAG and LATAM. IAG and LATAM subsequently confirmed the termination of plans to develop a joint business agreement. LATAM has announced its intention to leave the **one**world alliance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).

Risk description	Strategic relevance	Mitigations
Competitor capacity growth in excess of demand growth could materially impact margins.	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.	- The IAG Management Committee devotes one weekly meeting per month to strategic issues. - The Board of Directors discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. - The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.
Any failure of a joint business or a joint business partner could adversely impact our business operations and financial performance.	Regulation of the airline industry covers many of our 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.	- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. - The Group maintains rigorous cost control and targeted investment to remain competitive. - The Group has the flexibility to react to market opportunities. - 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 government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.
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.		

4. Digital disruption



Status The Group's focus on the customer experience, together with the Group's exploitation of technology, reduces the impact digital disruptors can have.

In the year, IAG Loyalty launched its Global Loyalty Platform first phase.

Risk description	Strategic relevance	Mitigations
Technology disruptors may use tools to position themselves between our brands and our customers.	Competitors and new entrants to the travel market may use technology more effectively and disrupt the Group's business model.	- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels - The Hangar 51 programme continues to create early engagement and leverages new opportunities with start-ups and technology disruptors

5. Sustainable aviation

NEW



Status Aviation represents 2.4 per cent of carbon emissions. IAG is the first airline group to commit to a target of net zero carbon emissions by 2050, including adding management targets. There is an emerging trend of aviation "eco taxes" in Europe and governments are also targeting net zero emissions by 2050 including the UK and France.

Risk description	Strategic relevance	Mitigations
Increasing global concern about climate change and the impact of carbon affect Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.	IAG is committed to be 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.	- IAG Climate Change strategy to meet target of net zero carbon emissions by 2050. - British Airways plans to offset UK domestic flight carbon emissions from 2020. - Fleet replacement plan introducing aircraft into the fleet that are up to 40 per cent more carbon efficient. - IAG investment in sustainable aviation fuels of \$400 million in the next 20 years, including British Airways' partnership with Velocys. - Management incentives under development to align to IAG's new targets. - Partnering with Mosaic Materials to explore carbon capture technology. - Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.
New taxes and increasing price of carbon costs impact on demand for air travel. Customers may choose to reduce the amount they fly.		

Business and operational

6. Cyber attack and data security



Status The risks from cyber threats remain high and the regulatory regimes associated with those risks are becoming more complex. In addition to privacy legislation such as GDPR, some Group airlines are subject to the requirements of the National Information Security Directive (NISD) with varied approaches taken by the different member states as they apply those requirements.

In relation to the theft of customer data in 2018, on July 4, 2019, the UK Information Commissioner's Office (ICO) notified British Airways that it proposed to impose a penalty. British Airways continues to make representations and as at the date of this report, the ICO had not issued a final penalty notice. See note 31.

Risk description	Strategic relevance	Mitigations
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 hackers.	The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hackers are capable of and are motivated 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.	- The Group has a Board approved Cyber Strategy that drives investment and operational planning. This is regularly reviewed by the IAG Board, IAG Management Committee and the IAG Tech leadership. - 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. - A cyber risk management framework reviews the risk 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. - Threat Intelligence is used to analyse cyber risks to the Group. - Data Protection Officers are in place where required in all operating companies.
If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.		

7. Event causing significant network disruption



1
3

Status The significant level of ATC airspace restrictions imposed in Europe impacted the Group airlines' operational performance. Many events remain outside of the Group's control such as civil unrest seen in cities served by the Group's airlines, terrorism, adverse weather or pandemic.

Risk description	Strategic relevance	Mitigations
An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel.	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 our airlines' operational capability and brand strength.	- Management has business continuity plans to mitigate this risk to the extent feasible with focus on operational resilience and customer and colleague safety and recovery. - Additional resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.

8. IT systems and IT infrastructure



1
3

Status The Group is increasing resilience by implementing agreed plans which include investing in new technology, data centres and a robust operating platform. The Group has recognised the importance of technology across the business and has brought all of its digital and IT resources together under a new team, IAG Tech, which reports into the new Chief Information Officer on the IAG Management Committee.

Risk description	Strategic relevance	Mitigations
The failure of a critical system may cause significant disruption to the operation and lost revenue.	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.	- 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 refresh of 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.

9. People, culture and employee relations



1
3

Status IAG is a major employer with 72,268 employees worldwide. IAG invests in high-quality talent to support and grow its businesses, with a strong focus on customer and financial performance.

Across the Group, collective bargaining is in place with various unions. IAG airline operations were disrupted by strike action in 2019. British Airways pilots represented by the BALPA union took strike action in September and Iberia ground handling staff took strike action on dates across July through to September. Agreement has now been reached with the British Airways pilots represented by BALPA and a pre-agreement reached with the Ground Handling unions in Iberia.

Risk description	Strategic relevance	Mitigations
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.	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.	- Collective bargaining takes place on a regular basis with the operating companies' human resources specialists with a strong skillset in industrial relations. - Operating companies' People Strategies. - Succession planning within and across operating companies. - IAG Tech refresh of professional development framework. - Operating companies' engagement surveys. - IAG Code of Conduct.
The failure to attract, motivate or develop our people to deliver service and brand excellence.	If our people are not engaged or they do not display the required leadership behaviours then we cannot evolve or grow our business at the pace that we would like to.	

10. Political and economic environment



Status Wider macro-economic trends are being monitored such as tensions between the US and China, US and Iran, currency devaluation in Argentina and the changing political landscape. Following the referendum decision in 2016, the UK left the EU on January 31, 2020 under the terms of the Withdrawal Agreement. The completion of the agreement preserves current aviation arrangements until the end of the transition period in December 2020. The UK/EU political declaration envisages that the future relationship would be set out in a comprehensive air transport agreement. The EU Council's negotiating mandate of February 3, 2020 summary sets out the aspiration to agree a reciprocal partnership in aviation.

See the Regulatory environments section.

Risk description	Strategic relevance	Mitigations
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.	IAG remains sensitive to political and economic conditions in the markets globally.	- The Board of Directors and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. - Reviews are used to drive the Group's financial performance through the management of capacity, together with cost control, including management of capital expenditure and the reduction of operation and financial leverage. External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board of Directors and IAG Management Committee as part of business performance monitoring. - The Group's engagement with national regulators under the auspices of the EU Basic Air Connectivity Regulation. All the relevant national authorities (Austria, France, Ireland and Spain) confirmed that the Group's individual airlines would comply with the relevant EU ownership rules if the relevant remedial plans were implemented. - The Group has an established Brexit Working Group represented by all Group businesses to understand, plan and mitigate risks that could impact operations, including mechanisms to permit flights between the UK and the EU and how to ensure that arrangements are in place for the mutual recognition of safety certification, approvals and security regimes.
Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group, including Brexit.		

11. Safety or security incident



Status See the Safety Committee report.

Risk description	Strategic relevance	Mitigations
A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brands, operations and financial performance.	The safety and security of our customers and employees are fundamental values for the Group.	- 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. - Incident centres respond in a structured way in the event of a safety or security incident.

Financial

12. Debt funding



Status The Group continues to have good access to a range of financing solutions.

Risk description	Strategic relevance	Mitigations
Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.	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 and financial institutions' appetite for secured aircraft financing.	- The IAG Management Committee regularly reviews the Group's financial position and financing strategy. - The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.

13. Financial risk



2 3

Status In 2019, events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange. 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 is set out in note 25 to the Group financial statements.

Risk description	Strategic relevance	Mitigations
Failure to manage and respond to volatility in the price of oil and petroleum products.	Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets.
Failure to manage currency risk on revenue, purchases and borrowings in foreign currencies or identify devaluation risk of cash held in currencies other than the airlines' local currencies of euro and sterling.	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies and the devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.	- All airlines hedge in line with the IAG hedging policy with Group Treasury oversight. - The IAG Management Committee regularly reviews its fuel and currency positions. - The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching and actively managing the surplus or shortfall through treasury hedging operations.
Failure to manage interest rate risk.	Interest rate risk arises on floating rate debt and floating rate leases.	Commercial policy review of routes when there are delays in the repatriation of cash coupled with the risk of devaluation.
Failure of financial counterparties may result in financial losses.	The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term.

14. Tax



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 9 of the Group financial statements.

Risk description	Strategic relevance	Mitigations
The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media or other representative bodies.	Payment of tax is a legal obligation. Tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates. Tax issues could be a potential source of reputational damage.	- 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 with oversight from the IAG Tax Department. - Tax risk is overseen by the Board through the Audit and Compliance Committee.

Compliance and regulatory

15. Group governance structure



2 3

Status The UK's exit from the EU on January 31, 2020 may have certain implications for the regulatory environment in which the Group operates, including the structure of the Group. See section 10 for more details.

Risk description	Strategic relevance	Mitigations
The governance structure the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's route and operating licences. IAG could face a challenge to its ownership and control structure.	Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences and therefore comply with aviation regulations, the airline must be majority owned and effectively controlled by EU members and/or member states under the Group structure, British Airways remains a UK carrier.	IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

16. Non-compliance with key regulation and laws



2 3

Status A new Group-wide Code of Conduct was launched in 2019, supported by employee e-learning and additional management training.

Risk description	Strategic relevance	Mitigations
The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.	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.	- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. - 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 training. - Data Protection Officers are in place where required in all operating companies.

Long-term viability assessment

Key trends defining the industry, emerging risks and risks that are longer-term in nature (including changes in regulation and infrastructure developments that impact our operations) are considered by the IAG Management Committee as part of the annual Strategic Business planning process. The Board also conducts an annual strategy session where these longer-term considerations are assessed, opportunities are identified and action agreed.

More detail see the Investment case section.

When considering the viability of the Group, the directors evaluated the impact of severe but plausible downside scenarios (as described below) on the three year Group Business Plan and assessed the likely effectiveness of the mitigations that management reasonably believes would be available over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing. In addition, the directors reviewed the results of reverse stress testing, which demonstrated the level of margin decline (before mitigations) that would result in the Group using all available cash balances. The directors therefore believe that the Group could withstand further stresses beyond those modelled under the severe but plausible assumptions.

IAG has assessed the longer-term sustainability and climate related risks, applying scenario analysis techniques as set out by the Task Force on Climate related Financial Disclosures (TCFD) process. For more details of the Group's sustainability risks and opportunities, see Sustainability section.

Scenarios modelled

No.	Title	Link to principal risks
1	A multi-year global economic downturn impacting all regions starting with margin decline from the first year. This scenario assumes a downturn that stressed all of the Group airlines with the greatest margin decline experienced by any of them during the Global Financial Crisis. This scenario was considered to be the most impactful scenario that could threaten the Group.	3, 10, 12, 13
2	A fuel price shock resulting in sustained fuel price increase in a weak economic environment, across the duration of the Group Strategic three-year plan, with a material increase above the fuel price assumption within the plan.	13
3	A fuel price increase combined with different and multiple disruptive events within the Group airlines, occurring across the three-year period impacting their results. As none of these individual events would materially threaten the viability of the Group, the combined impact of these and the consequent impact to the Group Strategic plan and targets has been evaluated.	1, 2, 3, 7, 8, 9, 10, 12, 13

Viability Statement

The directors have assessed the viability of the Group over three years to December 2022 considering the external environment, 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 in line with the Group Business Plan strategic planning period and recognises the pace of change in the competitive landscape and the Group's flexibility to adjust fleet plans to market conditions.

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 2022.

FORMULATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2019

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 27, 2020 the consolidated financial statements and the consolidated management report of the company for the year to December 31, 2019, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 27, 2020:

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Margaret Ewing

Francisco Javier Ferrán Larraz

Stephen William Lawrence Gunning

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban