



LEADING SUSTAINABLE AVIATION

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“We’ve always led the industry in addressing climate change. Launching Flightpath *net zero*, our commitment to net zero CO₂ emissions by 2050, puts environmental sustainability firmly at the heart of our business and reaffirms our leadership in this critical area.”

Willie Walsh
Chief Executive Officer

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		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.iagroup.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.iagroup.com).

A year of maintaining and strengthening our business

IAG continues to deliver in a changing industry...

Total revenue (€m)³

+€1,248 million vly

2019	✈ 25,506
2018	✈ 24,258

Operating profit before exceptional items (€m)^{1,2}

-€200 million vly

2019	✈ 3,285
2018	✈ 3,485

...investing in the future of our customers, people and airlines...

Net Promoter Score

25.8

+9.5 pts vly

Commitment to net zero CO₂ emissions by 2050

...while continuing to achieve sustainable returns to shareholders

Return on Invested Capital^{1,2}

14.7%

-2.2 pts vly

Adjusted EPS²

116.8€c

+1.9€c vly

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. A reconciliation of the pro forma financial information to the Group's statutory results is included in the Alternative performance measures section.

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.
For definitions see Glossary.

Building on our commitment to sustainable growth

“A warm welcome to our annual report for 2019, a year in which we sustained our financial performance, prepared for significant transition in the Group’s leadership and took a strong lead in tackling climate change.”



For IAG, 2019 was a year of continued progress and a time of significant change.

Willie Walsh is stepping down as our Chief Executive in March, and will leave the Company in June as part of a careful process of transition in the IAG management team.

Willie has played a formidable role in shaping the Group since British Airways and Iberia merged in 2011 – the architect of our unique business model and our acquisition strategy, bringing real discipline to IAG’s finances, and advocating powerfully for change in our industry. I thank him wholeheartedly for his fantastic leadership.

Luis Gallego will replace Willie, having overseen a profound transformation of Iberia as the airline’s CEO since 2014. The Board is confident he is the right person to lead us in our next stage of development.

His appointment is part of a series of leadership changes, including the appointment of a new Chief Financial Officer, and new CEOs at both Iberia and Vueling. The fact that these posts have been filled by internal candidates, after exhaustive succession planning, is proof of the depth of talent we have in IAG.

In 2019 our airlines carried 118 million passengers, up by 4.7 per cent. But, despite our revenues growing to €25.5 billion, operating profits before exceptional items declined by 5.7 per cent versus 2018 pro forma, to €3.3 billion.

Nevertheless, we remain financially strong. In November we updated investors on our medium-term financial goals, maintaining our ambitious targets on return on invested capital and operating margins for the next three years. We expect lower capacity growth in that period and have adjusted EPS growth accordingly. The market has responded very positively to these numbers.

In December 2019, the International Air Transport Association forecast that the global industry will increase net profits to US\$29.3 billion in 2020. However, the spread of COVID-19 will affect global demand during the year, but it’s too early to estimate its full impact on global profitability.

We believe consolidation in Europe will continue and our model means that we are ready to seize the right opportunities at the right time, as we did in November when we announced Iberia’s agreement to buy Air Europa for €1 billion, a deal which, once approved, will add a sixth, cost-effective airline to the Group.

As Brexit negotiations proceed, we are confident the EU and the UK will sign a comprehensive air transport agreement in the months ahead, safeguarding the huge consumer and employment benefits of an open aviation market. Our ownership and control plans have been accepted by regulators in Spain, France, Ireland and Austria.

For 10 years we’ve led our industry in tackling climate change, and last year we became the first airline group to commit to achieving net zero carbon emissions by 2050, backed by a comprehensive action programme and stretching, but achievable, targets. Environmental, social and governance issues have risen to the top of the agenda for all our stakeholders, including investors. They now see sustainability as a test of a company’s value, as well as its values.

From day one we saw it as our vocation to reward shareholders as soon as our finances permitted. Since 2015 we have returned €4.4 billion in dividends and share buybacks, and are determined to maintain that record.

It’s been another extraordinary year for IAG, made possible by the tremendous contribution people across the Group make each day.

It is a time of change for us, but also continuity. I believe we can all look ahead with great confidence and excitement.

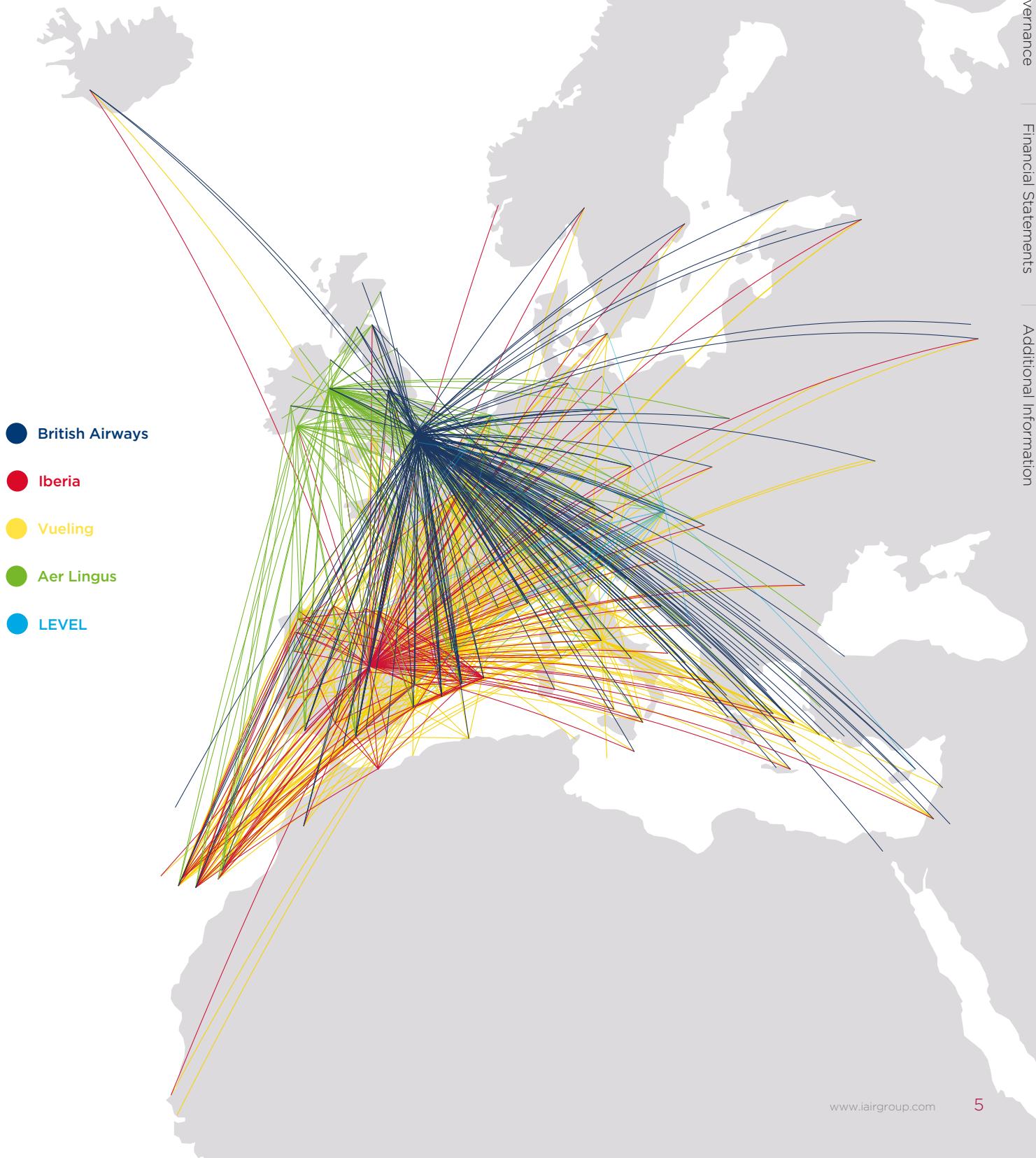
Antonio Vázquez
Chairman

Our business around the world

IAG combines leading airlines in the UK, Spain and Ireland, enabling them to enhance their presence in their target market while retaining their individual brands and operations. The airlines' customers benefit from a larger combined network for both passengers and cargo, and its scale enables an ability to invest more efficiently in new products and services.

Our longhaul operations



Passengers**118million**
+4.7% vly**Destinations****279**
+11 vly**Aircraft****598**
+25 vly**Cargo tonnes kilometres****5,577million**
-2.4% vly**Our shorthaul operations**

Demonstrating the continued strength and flexibility of our business model



Willie Walsh
Group Chief Executive

“Although our results for 2019 were down slightly, they are still very impressive and are proof that we remain firmly among the leaders in our industry.”

In many ways 2019 was a bittersweet year for International Airlines Group but one where, once again, we proved the underlying strength of our business model and our flexibility to respond to market conditions and challenges within the Group.

Our results showed a 5.7 per cent decline in our operating profits to €3.3 billion, which came despite our revenues climbing to €25.5 billion.

A number of external factors contributed to that result, including a sharp increase in our fuel bill to €6 billion and continuing volatility in the oil price throughout the year which we were able to partly offset through our hedging policies. The general economic environment was also softer, but we responded well, modifying our capacity where necessary to match underlying demand.

2019 was also the second-worst year on record for air traffic control disruption in Europe, following an even worse situation the year before. Our airlines coped well with this situation, especially Vueling which was particularly exposed to ATC strikes in France.

Some problems were internal. The strike by British Airways pilots in September had an impact on our operations, our customers and finances. Nobody wants to see industrial action especially with a highly valued group like our pilots and I am glad the situation has been resolved.

These are strong results and ones we will be able to look back on in a few years as very impressive. It confirms our view that we continue to make good progress and remain firmly placed among the leaders of a much-improved industry.

Air Europa

We were really delighted that Iberia's €1 billion acquisition of Air Europa was agreed during the year, subject to regulatory approvals. This will be a transformational deal for the two airlines and for IAG. Above all it will allow us to transform Madrid, turning it into a genuine global hub. It's already a powerful hub for Latin America, but our aim is to further extend its reach into Africa and Asia.

I think this opportunity to transform Madrid explains why the deal has been so well received in Spain - by trade unions, politicians, the airport itself and the travel industry.

But for me it also demonstrates that people now really understand how IAG works.

When we make acquisitions we can point to a solid track record of achievement. We can demonstrate what we have done with Vueling, for instance. We can show what we have achieved for Aer Lingus and for Dublin by turning that airport into an exciting and expanding transatlantic hub, with huge benefits for consumers and the Irish economy. People now know we honour our commitments, and often far exceed them.

We expect to receive approval for the deal in the second half of 2020. Our plan is to maintain the Air Europa brand initially, giving ourselves time to decide how best to integrate our operations in Spain, where we will eventually have five brands, including Iberia, Iberia Express, Vueling and LEVEL. Although we think Spain is both a diverse and big enough market to support a multi-brand strategy, we need to really understand what the brands mean in different segments of the market.

We continue to keep our eyes open for other consolidation opportunities in Europe. One of our key strengths is the fact that we have a dedicated team working on the Air Europa integration and plenty of extra capacity to scan the market for further opportunities.

Although we see no immediate prospects right now, it's clear that 2020 will be a challenging year in Europe, even before we take account of the impact of COVID-19. Economic growth continues to soften, although not to the point where recession is likely, and some airlines will fail. That is never nice to see, but it does provide us with the opportunity to grow into gaps in the market left by carriers that disappear.

Climate change

Once again we took an industry-leading position on climate change, becoming the first airline group to commit to net zero carbon emissions by 2050, through our Flightpath [net zero](#) programme unveiled in October.

This is a vitally important initiative for IAG and our industry. I am convinced we can achieve that goal and am pleased that we have a 30-year programme, backed by tough targets, that is based on the hard science of keeping rises in global temperatures to below 1.5 degrees Celsius. Ten years ago the industry pledged to halve CO₂ emissions, but the science makes it clear we must go much faster.

Powerful new aviation technologies are on our side, as we demonstrated during the year on a promotional flight by one of British Airways' new Airbus A350s from London to Toronto. It allowed us to compare fuel burn in this new aircraft with a Boeing 747 carrying an identical payload. It was reduced by a huge 38 per cent, with the same reduction in emissions. This represents a real step-change in technology.

Net promoter scores

I talked extensively about our use of Net Promoter Scores (NPS) within our airlines last year and this was one of the big positives in 2019. The NPS provides a fantastically sensitive tool to weigh up and balance financial and customer investment decisions, providing a mass of highly granular data. I'm glad to say all our airlines saw their scores climb during the year.

The increase was particularly strong at Vueling as the team responded to the ATC disruption last summer in an exceptional manner, adjusting the network, providing additional standby aircraft, and using data analytics to predict disruption and its effects more accurately from patterns they'd seen in 2018. As a result customer satisfaction rose significantly.

British Airways also performed strongly. The NPS was affected by the pilot strike, but recovered quickly. We have seen a great example of how the scores help us to track customer reactions with British Airways' Euro Traveller product, where we introduced buy-on-board a few years ago in our economy cabin. Customers were not happy at first, but, much as we expected, there has been a shift in opinion and scores are now higher than before we made the change.

We measure reactions in all our cabins and, where we see things going wrong, move very quickly to make changes. We have now set new targets for 2020 and 2021 and there are very clear investment plans in place for all the airlines to either maintain NPS at high levels or to improve further.

Operational highlights

British Airways celebrated its centenary during the year and it was great to see the airline proudly trace its roots right back to 1919 when, under the name Air Transport and Travel, it launched its inaugural flight – with just one passenger on board – between London and Paris.

A highlight of the year was the introduction of the Airbus A350 fitted with our new Club Suite product, which customers love. The airline is investing heavily in this product but retrofitting it to our existing longhaul fleet will take time and we will have the challenge of having two products – one new, one old – on our aircraft for a while.

Iberia is prospering following some five years of work to transform its brand, operations, culture and financial performance. People often talk to me about how Iberia is so different to ten or even five years ago. They can really see the difference. The product is great, and the service is excellent. It's a fantastic achievement.

Vueling has done an excellent job in dealing with the disruption I mentioned earlier and has also had to overcome a softening in key markets, particularly Italy and France. It has done this well.

Aer Lingus continues to focus on expanding its transatlantic services, helped by the introduction of the long-range version of the Airbus A321. This aircraft is a game-changer. It allows Aer Lingus to target cities on the eastern side of North America where there is unlikely to be demand for a direct service with a larger aircraft. Replacing one Airbus A330 with two Airbus A321LRs also allows the airline to operate multiple frequencies, opening up better connecting opportunities. A service to Minneapolis, St. Paul was launched in 2019. However, the planned service to Montreal was postponed because of delays to aircraft deliveries. Aer Lingus also continues to compete effectively with Ryanair on shorthaul routes, providing an efficient and profitable feed for flights across the Atlantic.

LEVEL – our low-cost longhaul brand – had a mixed year. Its popular Barcelona to Buenos Aires service was performing exceptionally well, ahead of the devaluation of the Argentinian peso. With a very strong point of sale in Argentina and with continuing strong demand locally, the financial performance was, nevertheless, hit hard as the currency declined by between 50 and 60 per cent. Opening a second longhaul base in Paris also proved more difficult than expected, although things improved in the second half. We were delighted to appoint Fernando Candela as LEVEL's new CEO, during the year. He has achieved great things at Iberia Express and we are sure he will do the same in this new role.

Our cargo operations had a very difficult year as world trade faltered and as the trade war between China and the US intensified. There is still a disconnect between supply and demand, made worse by the growing number of airlines making hold space available for freight on wide body passenger aircraft. This year will be tough too, and, given China's vital role in the global supply chain, is likely to be exacerbated by COVID-19. I see an opportunity here. When production returns to normal there will be many looking to move cargo quickly, and airfreight will play a central role in that.

It was an exceptional year for IAG Loyalty, but to me the most important development was the chance to explore new ways to look at its role within the Group. While its main business is loyalty, it is data-driven and we see a huge opportunity to turn it into a centre of excellence for data, for the benefit of all our airlines.

Digital transformation

It's vital we strengthen and transform our digital infrastructure and we were very fortunate to recruit John Gibbs as our new Chief Information Officer on the Management Committee.

Our airlines still rely on a range of embedded legacy systems that need to be completely overhauled to take full advantage of digital technology. John can lead us in making sure our systems are fit for the future. We are heavily investing in this effort but it's a complex task.

A new leadership team

I'm delighted that Luis Gallego is replacing me as CEO of the Group. For several years I have seen him as a natural successor in this role and I know he will do a superb job. At Iberia he has demonstrated he is a world-class leader of this or, indeed, any industry. His style is different from mine, but I am sure the transition will be smooth.



Flightpath net zero

IAG has led aviation action on climate change for over a decade. Now, we are stepping up our commitment with a package of new measures to reduce our carbon footprint and a long-term goal to reach net zero CO₂ emissions by 2050.

We commit to net zero CO₂ emissions by 2050

We are under no illusions, the challenge ahead is great. Aviation brings great benefits and 80 per cent of emissions are for journeys over 1,500km where there are no reasonable alternatives to flying.

As an industry, we are currently reliant on fossil fuels and the low-carbon solutions for aviation are more complex than for many other sectors. But we believe our ambitious goal is achievable.

With Flightpath [net zero](#), we are putting environmental sustainability at the heart of our business, ready to meet the task ahead.

We are also using our influence to encourage industry partners to play their part and calling on governments to create the policies and incentives that will ensure we collectively meet our global climate goals.

His move creates a domino effect, meaning an extensive transition in IAG's leadership team. Javier Sánchez-Prieto returns to Iberia as CEO from Vueling, with Marco Sansavini moving from Iberia to replace him. This follows the appointment last year of Steve Gunning as IAG's Chief Financial Officer to replace Enrique Dupuy de Lôme, who stood down at our Annual General Meeting in June. Recently we also announced that Adam Daniels will become the new CEO of IAG Loyalty, following Drew Crawley's decision to pursue a new challenge outside the business.

These internal moves have been planned with great care over a long period, during which time we also searched the external market to assess other potential candidates.

It's great to have a mix of internal and external candidates, but really pleasing that we can fill these positions with tried and tested talent from within our own ranks. I'd say one of the things about IAG that makes me most proud is that people in the business feel there is real scope to progress in their careers.

Outlook

Our updated medium-term financial targets for the next three years, released to the market last November, demonstrate our great confidence in the future. Almost all our goals are unchanged, including those on Return on Invested Capital and operating margin.

We did moderate our expectations on capacity growth, but that was to send a clear message. In the past we have often talked about our ability to quickly manage capacity down if and when demand drops off. Here we are saying that we also have the flexibility to increase capacity rapidly

should the economy improve faster than expected, or if opportunities to grow into gaps in the market do emerge. Our overall capacity flexibility will help us to face the new challenge of COVID-19 which is affecting many businesses, including airlines.

Despite this, we remain as confident and ambitious as ever.

It's been a tremendous privilege to lead IAG. I have enjoyed working at the front line of this amazing industry and I will miss the fantastic colleagues I have been lucky enough to work with across the business.

But I believe our business is in very good shape and I leave it in the hands of an experienced and very capable leadership team who are ready to take IAG on the next stage of its development.

Willie Walsh
Chief Executive Officer



First airline group worldwide to commit to achieve net zero carbon emissions by 2050



In line with United Nations' objective to limit global warming to 1.5 degrees Celsius



Contributing to UK government's goal of a net zero carbon economy by 2050



Establishing management incentives aligned to our climate targets

British Airways target

New targets:

From 2020

10% reduction in CO₂ per passenger kilometre

By 2025

20% reduction in net CO₂

By 2030

Net zero CO₂

By 2050



British Airways will offset carbon emissions for all its UK domestic flights, making them net zero carbon

IAG Group targets

Management Committee

The IAG Management Committee led by Willie Walsh is responsible for the overall direction and strategy of the Group, the delivery of synergies and coordination of central functions.

 For further information visit the IAG website



Willie Walsh
Group Chief Executive

Steve Gunning
Chief Financial Officer

Alistair Hartley
Director of Strategy

Julia Simpson
Chief of Staff

Chris Haynes
General Counsel

John Gibbs
Chief Information Officer

Alex Cruz
Chairman and Chief Executive
Officer of British Airways

Luis Gallego Martín
Chairman and Chief Executive
Officer of Iberia
Chief Executive of IAG designate

Javier Sánchez-Prieto
Chairman and Chief Executive
Officer of Vueling
*Chairman and Chief Executive Officer
of Iberia designate*

Sean Doyle
Chief Executive Officer of Aer Lingus

Andrew Crawley
Chairman and Chief Executive
Officer of IAG Loyalty

Lynne Embleton
Chairman and Chief Executive
Officer of IAG Cargo

Q&A with Group Chief Executive Willie Walsh



As he steps down as CEO, Willie Walsh answers some key questions to explain why he believes IAG is so well-placed to continue leading the airline industry.

Q: Why is IAG in a stronger position than some of its global peers?

A: I think it's because of the talent, focus and clarity we have within the business. The airline industry is better today than it has ever been and we believe we are the strongest because we try harder, have a better track record and are determined to succeed and excel like no one else is. We are a great company in a great industry.

Q: What will Air Europa bring to the Group?

A: Air Europa is going to be a transformational acquisition for IAG in Spain. It will enable us to truly transform Madrid into a hub airport. It has a great reputation as a hub for Latin America already. But we want to make it a true global hub, expanding not just in Latin America but into Africa and Asia as well. This deal will help us do that.

Q: Can IAG really achieve net zero carbon emissions by 2050?

A: I'm absolutely convinced we can and, let's be honest, we must. Back in 2009, the airline industry committed to reducing net emissions by 50 per cent. But the scientific evidence now demands we move faster. We have always shown leadership on this issue. We have committed to this challenging target because we think we can do it and believe we can lead the industry in achieving it too.

Q: What has driven the Group's improved customer satisfaction scores (NPS)?

A: Our Group NPS figures have improved thanks mostly to a great performance by Vueling, responding to very difficult air traffic control challenges. 2019 was the second-worst year on record for ATC disruption in Europe. Despite that, Vueling responded far better, learning from an even worse situation in 2018. NPS improvements at British Airways also played a big part, but I'm very pleased that satisfaction scores for all our airlines are rising.

Q: You have appointed a new Group Chief Information Officer at a more senior level. What are his priorities?

A: John Gibbs has come in as the new CIO and is a member of the Management Committee. He has a great track record as a leader in technology, particularly in the area of change. His role is to make sure we continue to transform our IT platform, so that we can take full advantage of digital technology for the benefit of our customers.

Q: What do you feel has been your greatest achievement at IAG?

A: The thing I'm most proud about is that my successor comes from within the Group. I've always seen it as one of my responsibilities as CEO to make sure we have talented people within the business, capable of stepping into any roles that become vacant. We have done a great deal of succession planning in recent years. So it's great for me to see Luis Gallego – someone who I truly admire, and who has already demonstrated superb leadership – taking on the role. I have no doubt he will be a great leader for IAG.

Our unique value proposition

Our unique structure unlocks growth and innovation to generate industry-leading shareholder returns.

Unique approach

Corporate parent

- Makes capital allocation decisions
- Defines portfolio attractiveness
- Exerts vertical and horizontal influence across the Group
- Sets the long-term vision for the Group

Airline operating companies

- Deep and real-time understanding of customer and competitive environment
- Define product strategy for target customer segments
- Standalone profit centres and independent credit identities
- Individual brand, cultural identity and management teams

Portfolio of world-class brands and operations

- Portfolio caters to a diversified customer base
- Distinct brands with clear customer focus
- Complementary networks
- Airlines focused on operational performance
- IAG's common integrated platform allows the Group to exploit revenue and cost synergies



Global leadership positions

- IAG holds attractive leadership positions in each of its home markets: Barcelona, Dublin, London and Madrid
- Leading the consolidation of the airline sector
- Joint businesses help grow our global reach

Cost efficiency



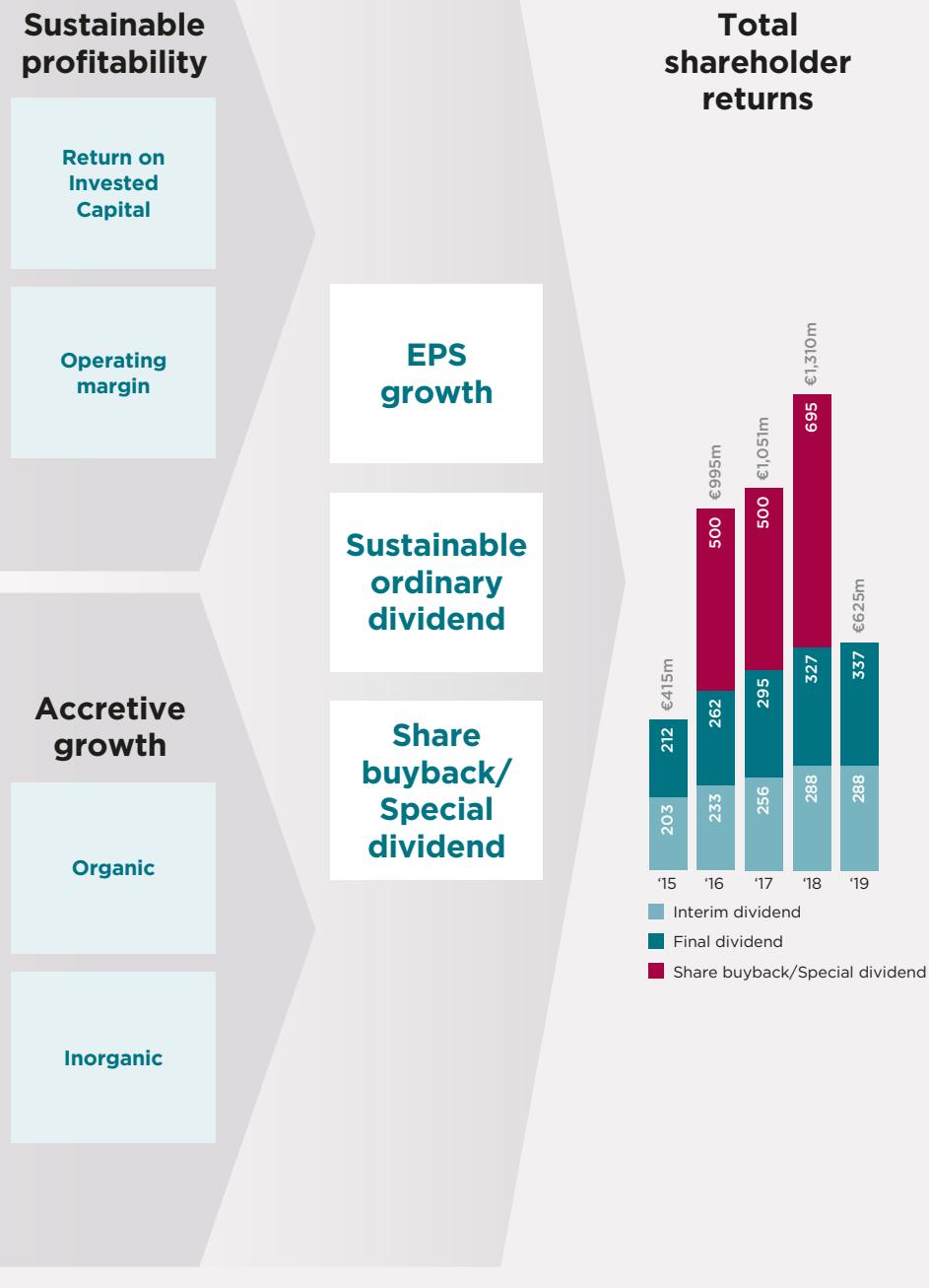
11.0%

Reduction in CASK ex-fuel at constant currency since IAG's formation in 2011

Innovation

- Dynamic and creative culture
- Driving digital innovation in the airline industry
- Digital platform to grow revenue streams, enhance customer loyalty and drive cost efficiencies

Underpinned



Our structure creates additional shareholder value over and above the individual value generated by the operating companies. We have a unique structure with a strong parent company that strictly adheres to the principle of parent neutrality. This is the key point of differentiation between IAG and other European airline groups. IAG's independence enables dispassionate, flexible and rapid decision making. We are disciplined and allocate capital to our operating companies based on strict return criteria in line with our Return on Invested Capital (RoIC) target of 15 per cent. We manage a great portfolio of profitable businesses, each with an attractive and distinct market positioning which diversifies our exposure to both mature versus fast-growing customer segments and business versus leisure customer segments in addition to new and evolving market segments. The result of our unique structure is superior returns to shareholders, with both EPS and dividend growth and additional capital returns. Our RoIC exceeded our targets between 2015 and 2018, and nearly reached our target of 15 per cent in 2019, just being slightly below at 14.7 per cent. The operating margin of all our companies has improved since they joined IAG and we continue to benefit from the synergies of our combined airlines.

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.

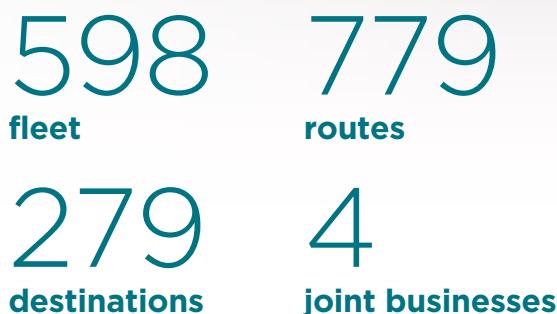
Our resources

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



A common integrated platform

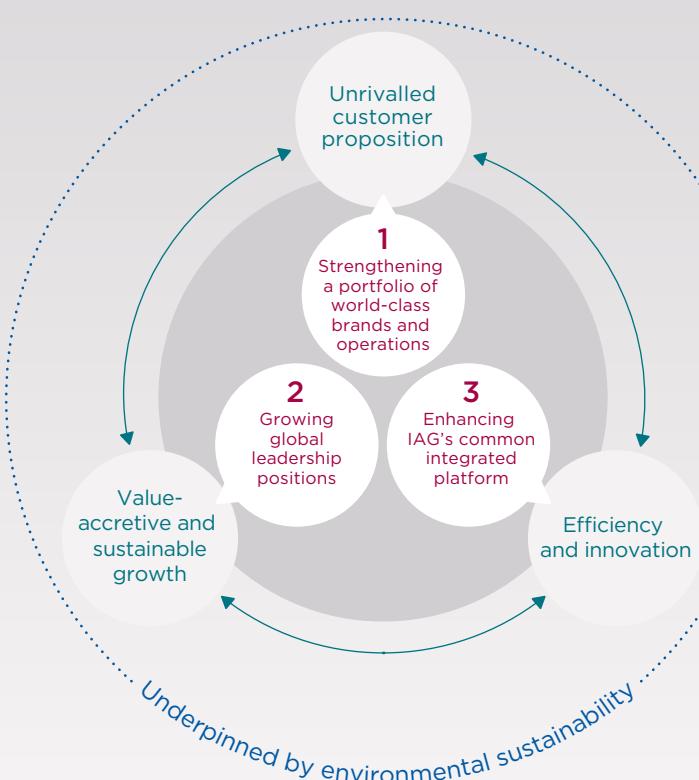
IAG's common integrated platform allows the Group to exploit revenue and cost synergies that the operating companies could not achieve alone.



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

Engaging with our stakeholders

Article 3.6 of IAG's Board of Directors regulations establishes:

The Board of Directors shall perform its duties with unity of purpose and independent judgement, giving the same treatment to all shareholders in the same position and being guided by the corporate interest, understood to be the achievement of a profitable and sustainable business in the long-term, which promotes its continuity and the maximisation of the company's value. In seeking to serve the corporate interest, in addition to respecting the applicable legislation and maintaining conduct based on good faith, ethics and respect for the generally accepted good practices and customs, the Board of Directors shall endeavour to reconcile the corporate interest with the legitimate interests, as applicable, of the employees, suppliers, customers and other stakeholders that might be affected, also taking into consideration the impact of its activities on the community as a whole and on the environment.

Introduction

The commitment made in section 3 of our Board Regulations, in accordance with the Spanish corporate governance framework, is equivalent to that of section 172 of the UK Companies Act. This section aims to describe how directors have applied and complied with these principles in the reporting year. Further details of how the directors' duties have been discharged are included in the complete Corporate Governance section.

Although IAG has multiple stakeholder groups, the Board considered the most significant stakeholder groups to be customers, shareholders and investors, employees, suppliers, governments and regulators, and airline partners and industry associations. The relationship with all stakeholders is informed by the overarching need to ensure the sustainability of our business in all its different aspects, including the impact of our operations on the community and the environment.

Long term vision, strategic priorities and key stakeholder groups

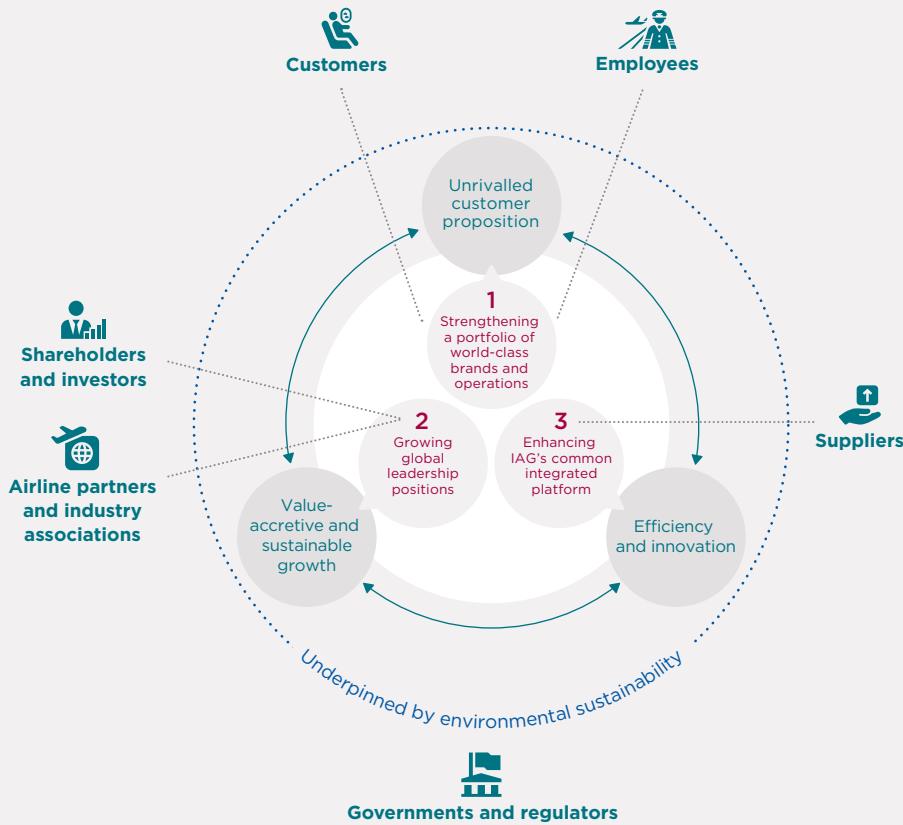
The Board's strategic and risk discussions have been informed by different stakeholder considerations, mostly by having customers at the centre of what IAG does. The Group's vision is to be the world's leading airline group, maximising sustainable value creation for its shareholders and customers.

The first strategic priority for the Group is to strengthen our portfolio of world-class brands, particularly through continuous improvements in net promoter scores across the Group airlines, by looking across each of the elements of the customer journey, (i.e. investments on products and services detailed in the 'Strategic priorities and key performance indicators' section). In order to achieve this objective, it is key to ensure the necessary cooperation and support from our suppliers, for example the new British Airways business class seat "Club Suite" or catering investments. In effect, our operations are dependent on the timely entry of new aircraft and also on

Our key stakeholders



Mapping our stakeholders to our strategic objectives



the necessary engine performance of these aircraft to improve our operational efficiency and resilience, as well as to support the delivery of our Group sustainability programme, for example Rolls Royce Trent engines and fleet modernisation. From our customers' experience, the Group is dependent on the performance of key suppliers that provide services to our customers and the Group itself, such as airports operators, border control and caterers.

The second strategic priority for IAG is growing our leadership positions, heading the consolidation of the airline sector, either through acquisitions or developing joint businesses that help the Group grow its global reach, for example the proposed Air Europa acquisition or joint business agreements, such as the British Airways joint business with China Southern. 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 and we sustain our position in the relevant industry organisations and with governments and regulators, seeking to mitigate the risk from government intervention or changes to the regulations that can have a significant impact on operations.

Lastly, the Group's third strategic priority is enhancing IAG's common platform, improving efficiency and focusing on digital and innovation. The realisation of these objectives needs to be built through cooperation and engagement with our key suppliers, for example New Distribution Channel certification for British Airways and Iberia, and our Hangar 51 initiatives. Under the Group's new CIO, IAG Tech was

launched with the vision of bringing "Technology Excellence" to everything the Group does, aiming to increase shareholder value, accelerate business performance, delight customers, enable employees, and protect the Group's business through the innovative and agile use of technology and data. At the same time, the Group's focus on the customer's experience, together with this exploitation of technology, reduces the impact digital disruptors can have.

Regulation of the airline industry covers many of our activities, and our ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. Namely, the Group is dependent on resilience within the operations of Air Traffic Control (ATC) services to ensure that our flight operations are delivered as

scheduled. At the same time, the delivery of a positive customer journey also depends on the timely, on-budget delivery of the required infrastructure changes, particularly at key airports (i.e. ATC challenges, Dublin airport, London Heathrow third runway project).

As part of our vision and informing all our strategic priorities, as well as the Group's stakeholder engagement is our focus on the sustainability of our business. In particular, the Group's commitment to be the leading airline group on sustainability, integrating environmental considerations into the business strategy at every level and, increasingly, as part of our customer proposition, for example the launch of Flightpath net zero.

For more details please read 'Business

model' and 'Strategic priorities and key performance indicators', 'Risk management and principal risk factors' and 'Sustainability' sections.

Key stakeholders and engagement mechanisms

Our stakeholders engagement framework is articulated in line with our unique value proposition and business model and, consequently, the relationship with certain stakeholders remains an operating company matter, while others are managed at IAG level or are treated as a cross-group responsibility sitting on IAG's common integrated platform. In this sense, the fact that customer engagement is undertaken by the different operating companies ensures a deep and real-time understanding of customers' needs and of their cultural, social and economic

environment. At the same time, our common integrated platform drives efficiency, simplicity and consistency in our approach to our suppliers. As the parent company, IAG is responsible for capital allocation decisions which are considered in a specialised, neutral and disciplined manner, as its independence from the operating companies enables dispassionate and efficient decision-making while ensuring strategic focus and long term vision. Finally, our value proposition is underpinned by a general commitment to environmental sustainability as a vision that unites all of our companies. For further details refer to 'Our investment case' and 'Our business model' sections.

	Why is this stakeholder relevant to the Group?	Which are our engagement mechanisms with this stakeholder group?
Customers 	Our customers are central to the success of IAG and we maintain a relentless focus on delivering outstanding customer experience at all levels of the business. Our diverse portfolio of brands gives us a leading position in meeting the specific requirements of customers across different demand spaces.	We engage and listen to our customers through a range of customer satisfaction and market research surveys and focus groups. Their invaluable feedback is analysed by our expert customer insight teams and is used to drive product and service initiatives that will deliver the greatest value to the customer. Through our IAG Loyalty schemes we develop strong, long-term relationships with our customers. This helps us to deliver an experience tailored to individual customer needs and engage in a way that suits them. All IAG airlines have dedicated and highly-skilled customer relations teams, working around the clock to deliver the highest level of support and assistance to our customers. The customer relations teams are also responsible for resolving any customer complaints or claims, such as those covered under EC Regulation 261/2004. They engage with our customers across a range of channels, including our websites, call centres, social media accounts, e-mail and postal mail. In addition, our customers receive help and guidance in-person throughout their journey from our renowned on-board and airport colleagues.
Employees 	In all the operating companies, employees play a vital role in delivering the service experience that customers expect, whether on the ground or in the air. Our employees bring a diverse range of talent and perspectives that contribute to the values and culture of our companies. Creating an environment where employees feel motivated, safe and able to thrive and deliver for customers is central to the continued success of the Group.	Each operating company has its own communication channels adapted to its culture and profile. In general terms, communication with employees is made using formal and informal channels which include: performance reviews, specific consultations, employee forums, internal social networks, local cascade meetings, newsletters, workshops, engagement surveys and speak up lines. 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. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries.

	Why is this stakeholder relevant to the Group?	Which are our engagement mechanisms with this stakeholder group?
Shareholders and Investors 	<p>As an IBEX 35 and FTSE 100 company, we pride ourselves on being a multicultural group that has inherited the legacy of longstanding listed companies in Ireland, Spain and the United Kingdom. Shareholders and investors are our main capital providers to both invest and grow our business. Our shareholders' and investors' views are critical in supporting the Group to formulate our strategy, as well as the operational and financial performance, to generate and optimise returns in a sustainable way.</p>	<p>We actively and frequently communicate with shareholders and investors, through an open and transparent dialogue so they can understand our performance and also raise any possible concerns. We hold at least six formal meetings every year (Annual General Meeting, Capital Markets Day and four quarterly results briefings), where they have the opportunity to interact with our management and communicate directly with them. We also attend numerous investor conferences throughout the year and organise roadshows around the world to meet investors with diverse perspectives and from different locations. Some of these include both management and Board members, and have a business focus as well as a corporate governance and ESG focus. Additionally, we maintain an ongoing dialogue with equity research analysts, to understand our investors and shareholders' views of the Company.</p> <p>Through our website, annual reports and press activity we keep our shareholders informed of the development of our business.</p>
Suppliers 	<p>IAG is dependent on the performance of key suppliers that provide services to our customers and the Group, including aircraft and engine suppliers, airport operators and caterers. Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group's airlines' operational and financial performance as well as disrupting our customers.</p> <p>In addition, the Group's suppliers are fundamental to ensuring our companies meet the high standards of conduct that customers and other key stakeholders expect. Supply chain integrity is critical to our business as we rely on our suppliers to help meet our customers' needs and to ensure the reliability of our services.</p>	<p>IAG Global Business Services (GBS) provides a centralised procurement function for the Group and manages supplier engagement. IAG GBS engages with approximately 27,000 suppliers on behalf of IAG and its operating companies. IAG GBS strives to conduct business and build relationships with suppliers sharing the Group's values: acting with honesty and integrity in all business dealings, reducing environmental footprints, improving safety, and strengthening contributions to building better societies, locally and globally. In addition to usual procurement processes, the Group engages with supplier using joint projects, including our Hangar 51 accelerator programme, industry conferences and supplier workshops.</p> <p>IAG GBS has built on its sustainable supply chain strategy throughout 2019, by screening an additional 13,000 existing suppliers to the Group. Screening includes third-party assessments of legal, social, environmental and financial risks. As part of our Procurement Sustainability Programme, IAG GBS has built a Corporate Social Responsibility (CSR) audit plan and is increasing the number of external specialised audits carried out each year, with a focus on suppliers located in countries where there are human rights or environmental concerns. IAG GBS also has collaboration projects with key suppliers to encourage sustainability innovation and identify ways to reduce emissions.</p>

	Why is this stakeholder relevant to the Group?	Which are our engagement mechanisms with this stakeholder group?
Governments and Regulators 	<p>The nature of aviation, providing international connections in a safety and security critical environment, means that governments will always take a close interest in the industry's developments and that regulators will make rules that directly affect our operations.</p> <p>IAG therefore engages closely with the national governments, regulators and parliamentarians in the states in which its airlines are based, as well as with relevant supra-national organisations such as the International Civil Aviation Organisation (ICAO), the European Commission and other European institutions. We do so to ensure that policymakers and regulators understand the nature of IAG's business and the wider benefits flying delivers. We seek to ensure that they see the impact of their decisions on our business and, where possible, to influence them to adopt the most advantageous position for IAG's customers.</p>	<p>IAG manages its engagement with government and regulatory stakeholders through a small team reporting to the Chief of Staff. This is supported by representatives in Madrid and Dublin who can engage quickly with local stakeholders where necessary. In states where IAG has major airline bases we engage frequently through informal and formal mechanisms. This includes taking part in face to face meetings with ministers and economic regulators as well as providing written input to formal consultations and taking part in on-going industry groups such as local Airport Operator Committees, particularly where they have a close regulatory involvement, such as at Heathrow.</p> <p>As explained further in section 'Regulatory environment', in 2019 IAG has met and corresponded frequently with government stakeholders, in particular with AESA (L'Agencia Estatal de Seguridad Aérea) in Spain and with the Commission for Aviation Regulation (CAR) in Ireland to explain the Group's position on Brexit and ensure support for the ownership and control status of its airlines. IAG also engages on all policy topics affecting its business in Spain, Ireland and in the UK, where IAG staff have met government ministers and officials to provide input on a range of issues including the government's potential aviation strategy, sustainability and the environment and on airline insolvency. IAG also provides regular input to the CAA through its structured constructive engagement process as well as on a one-to-one basis on the issue of Heathrow prices.</p>

Key decisions made in the year

1 Product investments: the Board has considered several investment decisions during the year aimed to address specific needs of the different airlines' target customer segments. All these initiatives require the involvement of key suppliers and the support of the airline's employees. Examples of these decisions are:

- roll out of British Airways' new longhaul business class seat "Club Suite"
- refurbishment of British Airways and Iberia lounges in key markets
- renewal of British Airways and Iberia catering propositions
- implementation of new boarding procedures in Iberia
- improving connections experience for Aer Lingus passengers
- Vueling's development of in-house digital solutions to improve disruption management

2 Distribution policy: it is IAG's intention to distribute regular cash returns to shareholders in the medium- and long-term. Levered free cash flow is a key performance indicator, which represents the cash generating ability of the Group that is available to return to shareholders, to improve leverage and to undertake inorganic growth opportunities. In determining returns to shareholders, the Board considers the financial headroom enabled by the Group's financial leverage target needed to sustain an investment grade rating.

When considering cash returns to shareholders, IAG has a disciplined capital allocation process. The first priority that the Board considers is the requirement to re-invest in the business through accretive organic growth. The second priority is to pay a sustainable ordinary dividend to shareholders, which, since 2015 has been at a rate broadly four times covered by profit after tax before exceptional items. In its decision making, the Board takes into account the use of cash for and the impact on financial leverage of inorganic acquisition opportunities, such as IAG's proposed acquisition of Air Europa in 2020. If no foreseeable inorganic opportunities exist, the Board would consider the return of surplus cash to shareholders in the forms of share buybacks and special dividends, as was the case in respect of the 2016 to 2018 financial years.

	Why is this stakeholder relevant to the Group?	Which are our engagement mechanisms with this stakeholder group?
Airline Partners and Industry Associations	<p>IAG participates in different national and international associations in order to develop common positions in alignment with those of IAG and to improve the effectiveness of the associations' work in developing and promoting the airline industry.</p> <p>IAG and its operating companies rely on a number of partnerships with airlines all across the world. These partnerships are an efficient way to strengthen the operating companies' marketing and distribution presence in "non-home" markets, and to extend the number of destinations we can offer to our customers. The customer bases of these partners also provide a vital source of traffic to sustain the overall scale of our airlines.</p>	<p>IAG takes a leading role in the international associations of which its airlines are members, in particular the International Air Transport Association and A4E (Airlines for Europe) as well as the national airline associations in Spain (ACETA) and the UK (Airlines UK), participating through the relevant corporate governance structures.</p> <p>As far as partnerships are concerned, each has formal governance structures in place, with regular meetings to monitor progress against a set of agreed outcomes. Informal working level engagement on a continuous basis also occurs, usually to progress specific initiatives that require additional focus.</p> <p>The majority of our partnerships have emanated through our participation in the oneworld alliance. They can vary in size from simple bi-lateral agreements between an operating company and a partner airline to market the services of each other on a number of routes, to a fully comprehensive immunised joint business extending across a number of regions and allowing participants to co-ordinate on pricing and capacity decisions.</p>

③ Flightpath net zero: A specific session on sustainability was included in the Board's annual strategy meeting, held in September 2019, where the Group's strategic approach to sustainability and, in particular, to climate change was considered in depth. In line with this, IAG announced its commitment to achieving net zero carbon emissions by 2050. By doing so, IAG is contributing to both the UK Government's commitment to a net zero carbon economy by 2050 and the United Nations' objective to limit global warming to 1.5 degrees Celsius. The Group's new emissions goal will be achieved through numerous and diverse environmental initiatives, including:

- investing in verified carbon reduction projects
- investing in sustainable aviation fuel
- the modernisation of IAG's fleet including more environmentally-friendly aircrafts
- exploring innovative technologies to reduce the Group's carbon footprint

In addition to this, management incentives are being developed, in line with IAG's new targets, for employees to reduce carbon emissions across the Group.

From an external perspective, the Group is committed to support the search for a global solution to climate change. For this reason IAG is participating, amongst others, in the new United Nations' aviation offsetting scheme which allows our industry to invest in carbon reduction in other sectors.

 [Read more about IAG's commitment to achieving net zero carbon emissions in the CEO review and sustainability report](#)

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	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
KPI or industry measure	Net Promoter Score (NPS) 2022 target 33.0 2019 25.8 +9.5pts vly	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.	R Performance 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.

Strategic priority

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.

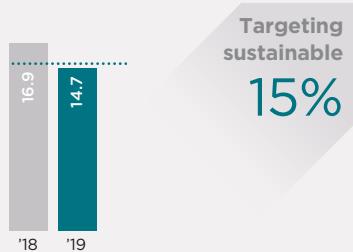
Our priorities for 2020

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 (%)¹²⁴

A Definition and purpose

Return on Invested Capital (RoIC) is defined as EBITDA², 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 (%)¹²³

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.
2019	3.4%*		
2019	4.0%		
2019	4,700	* Last year's growth target over 2020–2022 was 7.4% per annum.	
2019	3,465	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.	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.
2019	4,700	We track the planned capital expenditure through our business planning cycle to ensure it is in line with achieving our other financial targets.	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.
2019	2,100	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.
'18	1,496		
'19	736		

Strategic priority

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.

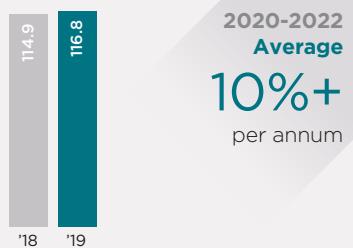
The Group has also accelerated its journey to transform its approach to loyalty, recognising the integral nature of loyalty across multiple business units. Central to this is the modernisation of the Group's core loyalty technology

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

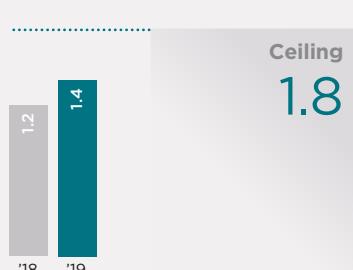
Adjusted EPS (€ cents)¹²

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.

A future based on sustainable growth



Alex Cruz

Chairman and Chief Executive Officer
of British Airways

British Airways statistics

Operating margin

14.5%

-1.1pts vly¹²

2020-2022
15%+

RoIC

14.7%

-1.1pts vly¹

2020-2022
15%+

ASK growth per annum

0.9%

2020-2022
C.3%

Fleet

302

2020-2022
316

“During our centenary year – a landmark in global aviation – we continued to deliver our investment programme for our customers and colleagues, and we made industry-leading strides towards the future of sustainable aviation.”

Overview

2019 was an extraordinary year for British Airways which saw us celebrate 100 years of flying, lead the way in creating a sustainable future for the industry and deliver on our strategic priorities: achieve higher network growth, invest where our customers and people value it most and sustain a financial performance for the long-term. In December we saw evidence that our strategy was working as the prestigious Centre for Aviation (CAPA) awarded us the title Airline of the Year 2019.

We welcomed four brand-new Airbus A350 aircraft to our increasingly fuel-efficient fleet and with those aircraft came our much-anticipated new business cabin seat, the Club Suite, a real milestone in our £6.5 billion investment plan. We also refreshed our Boeing 777 fleet with new interiors, refurbished several of our lounges around the world and introduced new-look amenities in our First and World Traveller Plus cabins.

But 2019 was also a tough year. While we remained on track to meet our stretching financial targets in the first half of the year, the summer months were challenging for the aviation industry as a whole and for us at British Airways.

Operationally we faced a range of adversities including unseasonably bad weather and Air Traffic Control issues across Europe, reducing airport flow rates and inconveniencing customers.

The disruption caused by the pilots' union BALPA's industrial action in September added to these challenges both operationally and financially. In total, 4,521 flights were originally cancelled over seven

days to account for anticipated disruption on September 9, 10 and 27, and to provide our customers with as much certainty as possible about their travel plans. The planned action on September 27 was cancelled by BALPA and our teams worked hard to reinstate flights so as many of our customers as possible were able to travel as planned. As a result, 2,196 flights were reinstated leaving 2,325 cancellations over the period.

This disruption was compounded by an error which saw some customers incorrectly informed that their flights were cancelled. We immediately apologised and rebooked or refunded our customers, enlisting the help of hundreds of colleagues from around the business to assist our Customer Service team in speedily resolving complaints and meeting our compensation obligations.

The financial impact of this disruption was clear in our results for the third quarter and the market was informed that IAG would not meet its profit target for the year.

Our revenues have slightly increased compared with 2018 at £13,290 million. Throughout 2019 we continued to operate efficiently while investing for customers and our teams worked hard to deliver an operating profit of £1,921 million and RoIC of 14.7 per cent.

I am incredibly proud of all we were able to accomplish in celebration of our centenary in 2019. My personal highlight was the visit to our headquarters from Her Majesty the Queen. We also initiated our future-facing programme, BA: 2119, which saw us lead the conversation on the future of sustainable aviation fuels and the evolution of customer experience for the years to come.

1 Comparisons vly are on a like-for-like basis, as the 2018 figures are 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 Comparisons vly are on a like-for-like basis, as 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.

Significant investment in customers

2019 saw us continue our investment programme for customers with new aircraft, new cabins, new technology, new routes, new in-flight dining and refreshed lounges. We are pleased that customers are noticing the difference, and that our customer satisfaction scores versus 2018 have improved. While we fell slightly short of meeting our profit target for the year, we have solid financial foundations and will continue our investment programme throughout 2020.

We debuted our new business cabin seat Club Suite on our new Airbus A350 aircraft. The Club Suite features a door for greater privacy and gate-to-gate programming via 18.5-inch in-flight entertainment screens. The strategic roll-out of the Club Suite across our fleet will continue over the coming years and will significantly elevate our position within the competitive business cabin market.

We introduced a new lounge design concept and renewed our lounges in Johannesburg, San Francisco, Milan and Geneva. We also completed the renovation of our First and Club lounges at New York JFK Terminal 7, providing the premium experience we know our customers appreciate.

I am delighted that in 2019 our colleagues were recognised by Skytrax as the Best Airline Staff in Europe following the introduction of our First Contact Resolution programme at Heathrow, which we expanded worldwide in 2019. The programme transforms the airport customer experience we offer by empowering our people to resolve customer issues at the first point of contact. We also invested heavily in our people, including equipping our 15,000-strong cabin crew with iPhone XRs, so they can offer a more personalised service to our customers.

Strategic growth

We will take delivery of a further 22 new aircraft in 2020 and more than 100 over the next five years to 2025. During 2019, 14 new aircraft (excluding wet leases) were delivered, including four Airbus A350s, three Airbus A32Oneos and seven Airbus A321neos. These aircraft are 25 to 40 per cent more fuel-efficient than those they replace. Our Boeing 747 fleet will be retired by 2024.

During the first half of 2020 we will receive our first state-of-the-art Boeing 787-10 Dreamliner. Deliveries of the aircraft, which will feature our newest cabins, are moving at pace and we will take ownership of a further six Boeing 787-10s throughout 2020.

These aircraft, which balance range and capacity with enhanced fuel efficiency, allow us to quickly and effectively expand our route network and further grow our presence in markets across the globe.

During summer 2019 we operated our largest longhaul schedule in ten years and launched eight new routes from London Heathrow including Osaka, Islamabad, Pittsburgh and Charleston. We are also responding to increased demand for leisure routes with new services from London Gatwick to Milan Bergamo and Kos.

We now serve 33 points in North America making us the largest longhaul carrier into the North Atlantic market and we will continue our strategic growth with our Atlantic Joint Business partner, American Airlines, throughout 2020.

Sustainable aviation

In October IAG became the first airline group worldwide to commit to achieving net zero CO₂ emissions by 2050. As part of this commitment, British Airways became the first UK airline to announce it would offset carbon emissions on its domestic flights from 2020.

We know that tackling our impact on the climate requires a multi-faceted response and we are committed to playing our part. Since 2012, when the EU introduced emissions reduction regulations, British Airways has reduced emissions on European flights by around 40 per cent on every European flight.

From January 2020 we began offsetting the carbon emissions for all customers flying on one of our 75 flights a day within the UK by investing in quality-assured carbon reduction projects around the world. Customers travelling further afield who want to offset their individual emissions can do so via our new carbon calculator. Additionally, we are reviewing minimising the carriage of additional fuel on our flights to limit the impact on the environment.

We believe that sustainable aviation fuels will transform the industry, and we are leading the way in sustainable fuels development. Following the announcement of our collaboration with partners Shell and renewable fuels company Velocys in 2017, Altalto Immingham Limited, a subsidiary of Velocys, submitted a planning application in 2019 to develop Europe's first plant to transform waste into sustainable fuels in Immingham, Lincolnshire. Every year the plant will convert more than half a million tonnes of non-recyclable domestic and commercial waste into cleaner sustainable aviation fuel and our ambition is to power our entire fleet using this fuel.

Digitalisation and innovation

Introducing new technology and digital solutions to increase efficiency, punctuality and sustainability while providing our customers with a seamless travel experience continues to be a priority. We trialled autonomous, emissions-free, driverless baggage vehicles to speed up the transportation of luggage and our

remote-controlled Mototok vehicles, which are powered by 100 per cent renewable electricity and save 7,400 tonnes of CO₂ every year, completed more than 100,000 pushbacks at Heathrow. We also implemented artificial intelligence in many areas of our business including within our airside operation at Heathrow Terminal 5 to help colleagues ensure every flight departs safely and on time.

We launched a new, comprehensive section of ba.com to help customers if their journeys are disrupted. We will make a significant investment in the website in 2020 through major re-platforming and enhanced functionality to vastly improve the booking experience and drive an increase in direct bookings.

Safety and security remain our highest priority and, following the theft of customer data in 2018, we have continued to invest in cloud-based services, replace legacy infrastructure and increased cybersecurity investment.

Communities

At British Airways we are passionate about community development across our global network. During 2019, we announced partnerships with the British Red Cross and The Diana Project, and we supported the relief effort to help those affected in the Bahamas by Hurricane Dorian, including delivering vital aid to the region. In August 2019, BA Holidays announced a new long-term partnership with the international wildlife charity Born Free Foundation and launched its new animal welfare strategy, outlining the travel company's commitment to never promote the captivity of wild animals and discouraging its hotel partners from doing so. Additionally, thanks to the generosity of our customers and colleagues, we have now raised a total of £24 million, since 2010, for Flying Start in partnership with Comic Relief.

We made considerable improvements to the service we provide customers with hidden or visible disabilities including the launch of a dedicated customer care team to assist more than half a million travellers with additional needs who fly with us each year and pledged to make accessibility a Board-level issue. We have continued to invest in young people and will again fund flying lessons for youngsters throughout 2020, inspiring them to pursue a career in aviation.

Conclusion

Throughout a challenging year we have demonstrated the resilience of our airline and I am proud of the results achieved through the hard work of our team. We know there is more to do, and change takes time. Meeting our financial targets is our priority while delivering excellence for our customers across the globe and innovating to ensure our future is sustainable.

Continuous and rigorous transformation to face new challenges



Luis Gallego Martín
Chairman and Chief Executive Officer of Iberia

Iberia statistics	
Operating margin	
8.8%	2020-2022 12%
-1.5pts vly ^{1,2}	
RoIC	
14.1%	2020-2022 15%
-2.7pts vly ¹	
ASK growth per annum	
7.6%	2020-2022 C.3%
Fleet	
107	2020-2022 112

Strong progress in the transformation of Iberia

2019 was another very positive year in the transformation of Iberia. We progressed steadily in our Plan de Futuro Phase 2, cementing our competitive positioning in key markets, renewing our fleet, completing our ongoing transformation

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“With the launch of Plan de Futuro 3, Iberia will continue its efficient transformation focused on digitalisation, customers and sustainability, leveraging data capabilities and talent.”

initiatives and setting the base for Plan de Futuro Phase 3, which we launched at the end of the year, with a strong focus on digitalisation, customer and sustainability. We also took an important step in the consolidation of our hub strategy by announcing in early November the acquisition of 100 per cent of the share capital of Air Europa, subject to approvals.

In the second half of 2019 we reduced our capacity growth, considering the early indications of a potential global macroeconomic slowdown and an unstable political situation in some of our strategic markets in Latin America. Our swift reaction allowed us to shift capacity from these markets towards others with solid performance both in longhaul and shorthaul. Additionally, we announced a significant reduction of our growth plans for 2020 to 2022, leveraging the embedded flexibility in our fleet and operating plans.

Our financial performance was in line with the targets set out by the Group in 2018. We recorded an operating profit of €497 million, with a margin of 8.8 per cent and a Return on Invested Capital of 14.1 per cent, thanks to the strength of our passenger revenues and our continuous focus on tight control of our cost base.

Solid growth in key geographies and overall capacity discipline

During 2019, we increased overall capacity by approximately 8 per cent with expansion across our network, leveraging our best-in-class cost base.

In longhaul we took delivery of four new generation Airbus A350-900s, and increased our depth in American markets. We also continued our efforts to strengthen Iberia's presence in Asia, enhancing connectivity to Tokyo while improving the product.

In shorthaul, we achieved significant growth mainly focused on Iberia Express, strengthening our network and adding six new destinations, improving our seasonal proposition.

New sustainable fleet for new challenges

During 2019, we added four Airbus A350 and four Airbus A320neos to our fleet, increasing the number of fuel-efficient and environment-friendly aircraft in our portfolio, as part of IAG's commitment to sustainability. Also, we completed the implementation of our Premium Economy cabin in all our longhaul fleet.

In June 2019, Iberia became a launch customer for the new Airbus A321XLR, due to arrive in our fleet in 2023. This new aircraft model will have an extended range of 50 per cent, allowing for an increase in frequencies into current destinations and for a potential expansion into new destinations on the East Coast of the United States. The new Airbus A321XLR has an extremely competitive cost base and comfort level equivalent to the standard wide body aircraft in use.

In 2019 we maintained our 4-star status with Skytrax and continued to invest in our customers where it adds value. Improvements in customer satisfaction were achieved due to enhanced comfort, providing extra legroom in the Airbus A350 and Airbus A320neo aircraft, and with the optimisation of the boarding process based on customer value segmentation and the refurbishment of the Madrid lounges.

Launch of Plan de Futuro Phase 3

At the end of 2019 we concluded Phase 2 of Plan de Futuro and started a new Phase 3 that should allow Iberia to reach a sustainable financial performance in line with IAG targets.

The Plan de Futuro 2 set the basis on which we built up the new Plan de Futuro 3, as

without the strong focus in maximising our revenues and reducing our cost structure during the Plan de Futuro 2 phase, combined with a fleet renewal and a new network strategy, we would not be able to initiate the next step in our transformation.

In order to give a new and fresh impulse to the Plan de Futuro, Iberia has created Plan de Futuro 3, which is mainly focused on digitalisation, our customer and sustainability, implying two key enablers which guarantee the success of our plan: new data strategy and talent.

Digitalisation for efficient operations

Real-time information and data analysis are the pillars of one of our core projects in the Plan, Connected Operations. We are developing a more flexible, seamless operation providing all stakeholders with accurate and consistent information allowing us to automate processes, make quicker decisions and give customers solutions even before any disruption occurs. A good example of a seamless digital initiative in this field is the biometric boarding experience that we launched at the end of 2019.

Accurate data at the right time will improve the way we plan and manage our network, increasing our revenue. We are developing new distribution capabilities that will allow us to offer a wider range of services and products to our customers throughout their journey with personalised interactions. Iberia is creating some of the digital assets that will reinvent the way we travel.

Innovation to fulfil our customers' expectations

Boosting the communication and finding new ways to interact with our customers through using and implementing an omni channel strategy, where the customer can freely chose the channel to use depending on the individual travel journey, has improved our Net Promoter Score significantly.

Plan de Futuro 3 will bring even more alternatives to our customers to self-manage their travel end to end. This will generate more revenues, promote the sales of ancillaries and reduce cost in comparison with traditional channels.

Focus on sustainability

Thanks to the digitalisation process, our initiatives have saved more than 20,000 kg/month of paper waste, avoiding around 482 tonnes of CO₂ during 2019. The reduction of fuel burn and emissions is core and we have an ambitious plan to fulfil the IAG commitment for net zero CO₂ emissions by 2050.

Iberia is aware of the need to act responsibly and with coherence in the fight against climate change, responding in a consistent manner to our social and environmental commitment. Apart from the objective of becoming a carbon neutral company, we continued implementing our sustainability strategy by reducing, reusing and recycling plastics and waste,

supporting investigation, as well as renewing and searching for ecofriendly alternatives for our ground equipment.

Data and people as key enablers of our transformation

We are becoming an even more customer-centric company by exploiting data to improve our customer experience, but data goes further. We have redefined Iberia's data strategy and launched our Data Centre of Excellence that will allow us to improve real-time information, boosting business intelligence capabilities and developing advanced analytics models for the whole company. The next two years are key for capturing the value of data in both revenues and cost efficiencies.

None of this will be possible without our people and included in Plan de Futuro 3 is the next phase of Plan person@. Since its launch a year ago, it has been reinforced through various initiatives of recognition, participation; well-being and benefits for people. Its commitment to the management of diverse talent in an inclusive way has achieved, among other objectives, an increase in the number of senior female executives from 10 per cent in 2017 to 27 per cent in 2019.

In terms of collective negotiation, during 2019 a pre-agreement was reached for the future signing of the XXI Collective Agreement. In 2019, we also began negotiations regarding the XVIII agreement relating to passenger Cabin Crews. The 2017 Collective Dismissal agreement has now expired and has resulted in the departure of 955 employees from all groups through early retirement, withdrawals with incentives and deferred relocations.

Non-airline businesses

2019 was also a positive year for the transformation of our non-airline businesses.

Through the GO UP! program, the airports management has continued its transformation process, structured in four pillars: digitalisation of the processes both in the airport terminal and in the operations under the wing; business development; commitment of people; and Hub Vision (at the airports in Madrid and Barcelona). 2020 is a key year in continuing the implementation of transformation initiatives with a focus on efficiency and sustainability.

Acquisition of Air Europa - a strategic move for the Madrid hub and IAG

In early November, IAG announced the acquisition by Iberia from Globalia of 100 per cent of the shares of Air Europa, one of the leading private airlines in Spain, operating scheduled domestic and international flights to 69 destinations, including European and longhaul routes to Latin America, the United States of America, the Caribbean and North Africa.

The acquisition of Air Europa, which is still subject to approval from competition authorities, would add a new competitive,

cost-effective airline to IAG, consolidating Madrid as a leading European hub and resulting in IAG achieving South Atlantic leadership, while unlocking further network growth opportunities.

This will result in customers benefiting from an increased choice and schedule flexibility and greater opportunities to earn and redeem miles.

Assuming satisfaction of all conditions to the acquisition, completion is expected to take place in the second half of 2020.

Outlook on 2020

2020 is expected to be a complex year for the industry, due to economic and political uncertainty. Our approach is based on moderate growth of 3 per cent and focused on the strongest markets (USA and domestic profitable routes). We will launch a new seasonal route to Washington DC, increase flights to Puerto Rico and continue growing capacity on routes to the West Coast of the US. To consolidate our position in Asia we will increase frequencies to Tokyo. We will also add new shorthaul and mediumhaul services to strengthen our position in Europe.

We will continue with our fleet renewal, our customer impact projects and our focus on giving a decisive boost to the digital transformation of Iberia. We will continue with the focus on costs, to keep improving our non-fuel unit cost, which is the best among our competitors, and we hope to conclude the current labour negotiations with the passenger cabin crew, which have already started.

Finally, 2020 will hopefully be the year we obtain competition authorities' approval to complete the acquisition of Air Europa and we can commence its integration into IAG, remaining as a separate company within Iberia. The approval of the Air Europa transaction would lead us to continue implementing our strategy to develop Madrid into a "360-degree hub" that reaches new regions for the Group, and will also develop traffic between Asia and Latin America through the Madrid hub, which still has great growth capacity, especially when combined with that of Air Europa.

Through Phase 3 of the Plan de Futuro we aim to reach the final objectives of the transformation that we initiated several years ago, to make Iberia a profitable company, with a sustainable character and focused on our customers thanks to digitalisation and innovation.

Consolidating Vueling's position in a changing environment



Javier Sánchez-Prieto
Chairman and Chief Executive Officer
of Vueling

Vueling statistics

Operating margin

9.8%

-1.5pts vly^{1,2}

2020-2022

12%

RoIC

13.1%

-4.6pts vly¹

2020-2022

15%

ASK growth per annum

2.7%

2020-2022

C.2%

Fleet

123

2020-2022

128

Overview

In 2019, Vueling's 15th year of operation, we delivered better punctuality, higher levels of customer satisfaction and solid financial results. We pushed forward on innovation, data-driven decision-making, and implementation of the transformational initiatives of our Vueling NEXT programme.

“Our investments in customer experience and operational reliability created measurable improvements in 2019.”

2019: Navigating a changing environment

Higher fuel prices and softer demand drove lower operating margin and RoIC versus 2018. Despite these challenges, Vueling delivered revenues of €2.5 billion and carried 34.6 million passengers, both the highest totals in Vueling's history. Our fleet surpassed 120 aircraft, we improved operational reliability (operated 99.8% of scheduled flights, up 0.7 points from 2018) and punctuality (75.2% of flights departed within 15 minutes of scheduled departure time, up 6.9 points from 2018), and we successfully implemented technologies such as operational decision support tools. Investments in our customer experience in airports, in-flight and during disruptions led to higher levels of customer satisfaction. We delivered solid financial results by amplifying our strengths.

We focused on market leadership. Our markets continued to grow, albeit at a slower pace, so we adjusted our growth too. We maintained balance between capacity and demand while still managing to strengthen positions in key markets throughout Spain and beyond, including Barcelona, Valencia and Paris.

We kept improving our processes. We invested greatly in our Integrated Operations Control Centre to improve how we operate. We improved our processes for maintenance planning, crew scheduling and handling, using automation where possible to make us more agile.

Our customers enjoyed an improved customer experience. We are making significant progress toward our goal of providing the number one customer experience among European low-cost carriers. Improvements in our cabins (such as new slim seats throughout our fleet), high-speed on-board Wi-Fi, disruption self-management systems (such as automated electronic vouchers for meals and hotels), and customer-centric training

for our highly capable and professional crews all contributed to achieve high levels of customer satisfaction.

We strengthened our cost discipline. We introduced new aircraft that are more efficient than the ones they are replacing, signed a new collective agreement with our crews and created efficiencies in our maintenance model without compromising on safety. These actions have helped us maintain our healthy cost position.

We continued investing in digital. Our digital, innovation and data teams continue to tirelessly deliver new tools that underpin our performance. Our teams delivered models that forecast passenger demand and predict the ATC environment, tools that optimise how aircraft are matched to flight lines, and intelligent ancillary bundling. These improvements have also fostered a better customer experience by letting our customers receive real-time, precise flight information, anytime, anywhere.

We made sustainability a priority. Our efforts are focused on climate and energy use, noise reduction and waste management. With an average age of 6.8 years, our fleet is the most modern in Southern Europe, contributing to a 15 per cent reduction in CO₂ emissions per passenger kilometre since 2012. Our Airbus A320neo aircraft reduce noise pollution by 50 per cent. We are actively reducing the use of plastics on our aircraft and in our offices.

Looking ahead: Vueling NEXT in 2020

Following 15 years of growth and success, Vueling is ready to continue as the leading carrier in Barcelona and several major shorthaul and mediumhaul markets. The next phase of Vueling NEXT will implement an enhanced network design, tighten our operational model, and help us to maintain and strengthen our cost position. It will also position the company to become one of the leading airlines in sustainability.

Conclusion

We look forward to 2020. We will tackle any challenges with our usual mix of agility and resolve. We remain focused on generating strong profitability, supported by a leading customer experience and a constructive employee environment. Vueling will continue to be the primary long-term vehicle for the low-cost shorthaul expansion of IAG.

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Maintaining financial performance in a challenging market



Sean Doyle

Chief Executive Officer of Aer Lingus

Aer Lingus statistics	
Operating margin	2020-2022
13.0%	12%+
-2.5pts vly ¹	
RoIC	2020-2022
22.0%	15%+
-5.0pts vly ¹	
ASK growth per annum	2020-2022
4.2%	c.5%
Fleet	2020-2022
57	60

Overview

Aer Lingus started off 2019 by unveiling a refreshed brand reflecting our position as a modern contemporary Irish brand competing on the international stage. This was part of our continuing mission to be the leading value carrier across the North Atlantic. Our commitment is to deliver

“Following a record 2018, a solid financial performance has been maintained with investments made to facilitate future growth.”

greater connectivity combined with excellent service across more North American routes than ever before. Aer Lingus is delivering on this ambition, with a compelling offering in the markets we serve, creating the opportunity for further profitable growth.

Aer Lingus has achieved an operating result and Return on Invested Capital that demonstrates our ability to respond to a challenging environment. 2018 was an exceptional result which benefited from fuel being heavily hedged. 2019 capacity increased by 4.2 per cent, even with capacity growth being moderated against initial plans given the competitive industry backdrop. Our North Atlantic network had a record 2.5 million seats between Ireland and North America. Our strong revenue performance has been delivered in the context of the rising cost of fuel, operational disruption at Dublin Airport and a heavy 2019 maintenance year compared with a light one in 2018. We have maintained high levels of guest satisfaction and our results are underpinned by continued focus on cost efficiency and productivity. We believe that our 2019 performance can be sustained and the opportunity remains for Aer Lingus to continue to grow Dublin Airport as a major hub connecting Europe and North America.

Our value model

Our value model is centred on cost, product and service. It has delivered growth in our business, created new jobs in Aer Lingus and driven significant broader economic benefits, with more North American visitors coming to Ireland than ever before.

Our model is also underpinned by a strong Net Promoter Score (NPS) performance. Feedback from our ‘Voice of the Guest’ surveys is fundamental to the design and delivery of our product and service, with investment decisions being made in line with our value principles. We have received external validation by retaining our status in 2019 as Ireland’s only 4-Star Airline in the Skytrax Ratings and achieving a top five finish in the annual Ireland RepTrak® 2019 study of 100 leading organisations in Ireland.

Our product and brand are well positioned

We have continued to innovate and evolve our product offering in 2019 – launching new ways to pay with ‘Apple Pay’ and ‘Pay with Avios’, introducing AerSpace, our new premium shorthaul travel experience and launching a new co-brand credit card, ‘Aer Credit Card’, with Bank of Ireland. We have also invested in a new baggage tracking system, partnered with PressReader giving guests free access to various media and welcomed our most fuel-efficient aircraft yet as three Airbus A321neolRs joined our fleet. The continued investment in our fleet is one of a range of initiatives focused on reducing carbon emissions. Other initiatives include reducing the use of single-use plastics onboard and increasing the number of electric vehicles in our ground fleet.

We are also part of the first airline group to commit to achieving net zero carbon emissions by 2050.

We have expanded our network in 2019 introducing direct routes to Minneapolis – St. Paul from Dublin and to Dubrovnik and Nice from Cork. Finally, we continue to invest in our people with hundreds of new cabin crew, pilot and ground positions created to keep pace with new aircraft and routes.

Conclusion

Aer Lingus remains committed to delivering on our ambition to be the leading value carrier across the North Atlantic. In 2020 we will continue to develop opportunities for growth by further enhancing the depth, breadth and connectivity of our network with the arrival of additional new engine technology aircraft, whilst remaining committed to delivering high levels of guest satisfaction and operating performance. Our brand will be further enhanced in 2020 with the introduction of a new uniform. We believe the successful execution of our strategy will continue to deliver compelling results for IAG, our stakeholders and for the Irish economy.

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³ Includes four wet leases, two Boeing 757 and two Avro RJ85.

Scaling up IAG's low-cost brand

Longhaul routes



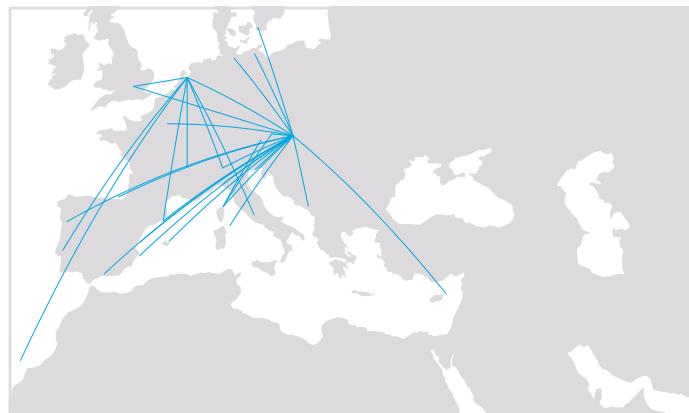
**Passengers carried
in 2019**

849 thousand

**Aircraft in service at
December 31, 2019**

7

Shorthaul routes



**Passengers carried
in 2019**

1,028 thousand

**Aircraft in service at
December 31, 2019**

6

Overview

LEVEL is IAG's new low-cost airline brand, built on the belief that the world is a better place when we all get out and experience it. LEVEL makes travel more affordable, allowing customers to choose what's important to them on their journey. The LEVEL brand operates longhaul flights from Paris and Barcelona with a fleet of seven Airbus A330-200 aircraft and shorthaul flights from Vienna and Amsterdam with six Airbus A320 aircraft. In 2019 LEVEL carried close to two million passengers across 24 routes.

LEVEL continues to collaborate and harmonise with other IAG operating companies whilst remaining true to LEVEL's low-cost DNA, including increased flight connectivity with Vueling and Iberia. During the year Fernando Candela joined LEVEL as CEO having previously held the CEO position at Iberia Express.

Longhaul operation

During 2019, LEVEL continued scaling up its operations, adding an additional longhaul A330-200 aircraft to each of its Paris and Barcelona longhaul bases. LEVEL opened new longhaul routes from Barcelona to Santiago de Chile and New York along with Paris to Las Vegas.

LEVEL has continued to improve key low-cost carrier value drivers including unit cost, ancillary revenue per passenger and improving yields across most markets as routes mature and the business cements its presence in new markets. The brand continues to stimulate demand particularly in longhaul markets as its unbundled product grows IAG's presence in the frugal fun longhaul segment.

Looking forward

2020 will be a year of network stabilisation, with no plans to add new aircraft to the fleet, which is aligned to IAG's broader capacity rationalisation. The business will focus on cementing a robust foundation for future sustainable growth, with a focus on unit cost, brand, Net Promoter Score (NPS) and operational resilience, ensuring we deliver on our promise to customers.

Shorthaul operation

In shorthaul two additional Airbus A320 aircraft were added to the Vienna and Amsterdam operations. In March, LEVEL Europe opened a shorthaul base in Amsterdam, with three Airbus A320 aircraft and routes including Barcelona, London, Vienna, Milan and Rome.

LEVEL Europe continues to develop an added focus on charter and tour operator segments operating in Austria, Germany and Switzerland (DACH region) with destinations in Spain and the rest of the Mediterranean. Strong NPS results continue to demonstrate a positive customer reaction to the LEVEL Europe value proposition, despite ongoing and significant disruption in the Central European airspace.

The LEVEL Europe operation continues to harmonise with other IAG airlines, especially Vueling where LEVEL is building enhanced connection opportunities for its customers.

Looking forward

As with the longhaul business, 2020 will be a year of stabilisation and capacity discipline for LEVEL Europe, leveraging high customer satisfaction, solid operational performance and product consistency. The business will continue to build a solid foundation for future growth with investment in partnerships, connectivity and digital-owned channels.

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.

IAG Platform

IAG GBS

IAG Connect

MRO

IAG Cargo

IAG Loyalty

IAG Tech

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.

Staying focused on our strategy during challenging market conditions



Lynne Embleton

Chairman and
Chief Executive Officer of IAG Cargo

“In a year characterised by a declining market, at IAG Cargo we have continued to invest in our business and focus on our customers.”

Market overview

2019 proved to be a difficult year for global airfreight, with industry-wide revenues down versus 2018, a result of declines in both volumes and yields. According to IATA this was the steepest drop in demand since 2009 during the global financial crisis. A combination of trade tariffs, market uncertainty and some economic softening affected air cargo flows across almost every region.

Against this backdrop, IAG Cargo revenues held up relatively well at €1,117 million. At the end of 2019 IAG Cargo revenues were down 4.8 per cent, trending more than two percentage points above the industry average decline.

Premium products, including Constant Climate, Critical and Prioritise, performed better than general freight. Our new temperature-controlled facility in Madrid, which gained Good Distribution Practice certification in February, has been welcomed by our customers and unlocked new revenues for our Spanish hub. Whilst industry sectors such as automotive parts were significantly down, our Constant Fresh perishable movements saw some year-on-year growth, particularly out of Latin America and Africa.

Digitalising in commercial

2019 was an important year for advancing our commercial capability, with the adoption of integrated Customer Relationship Management tools and the application of machine learning to spot pricing. These foundation steps set the basis for further benefits in 2020.

We have invested in IAGCargo.com with our website now accounting for around 30 per cent of our bookings. We have also developed digital Application Programming Interfaces (APIs) which provide instant access to rates, route availability and enable customers to manage bookings in real time. Customers can directly integrate these APIs into their websites or access them through partnerships with third parties.

In 2019, we implemented a single Cargo Revenue Accounting system and despite initial challenges with our cut-over we are beginning to benefit from efficiencies in our processes.

Our comprehensive product offering has been boosted by the introduction of several ancillary products. In April, we became the first air freight carrier to offer a home relocation service directly to consumers and in October, we partnered with Cargo Signal to offer our customers advanced end-to-end tracking services.

Innovation in operations

To continue to improve our operational performance and customer service, we have been busy with an extensive programme of innovation.

We have again led a category in IAG's Hangar 51 global innovation programme, working with exciting start-ups who are helping us to improve how air cargo works. The 2018 winner, EmuAnalytics, has used its data visualisation platform to identify problem areas that prevent cargo getting on a flight on time. A finalist from this year's programme, AllRead, has spent ten weeks working alongside our team in Madrid using its machine learning technology to optimise data extraction processes within our operations.

We have trialled 3D scanning technology to streamline the way we scan and identify freight, and in December we announced significant advances in the trial of autonomous drone technology within our Madrid warehouse.

In our London hub, we have worked with a virtual reality (VR) partner to create immersive VR training to cut induction time for new recruits.

These technology steps sit alongside a programme of investment in our warehouse facilities, upgrading of systems and adoption of continuous improvement methodologies to drive operational excellence across our hubs.

Sustainability

Our sustainability agenda has progressed in 2019. We replaced 957 of our Unit Load Devices (ULD) with lightweight alternatives, reducing on-board weight and fuel burn. This brings our total lightweight ULDs over 50 per cent. New recycling initiatives are aimed at industrial wood and plastic waste at our hubs. In London and Dublin we are trialling electric tugs as a low-carbon alternative to our current vehicle fleet of over 100 diesel models.

Conclusion

2019 was a tough year for global airfreight and we expect the market to continue to be challenging into 2020.

IAG Cargo has continued its strategy focused on customer service, growth and investment in data, technology and operations to become the carrier of choice worldwide.

IAG's centre of excellence for loyalty



Andrew Crawley
Chairman and Chief Executive Officer of IAG Loyalty

“2019 saw a continuation of underlying profit growth and delivery of key projects to drive future growth and value. The exciting transition of Avios Group Limited to IAG Loyalty will see continued investment in new products and technology, as well as loyalty and data capabilities.”

Overview

IAG's centre of excellence for loyalty, IAG Loyalty, was developed to reflect the more comprehensive loyalty services that we now provide to our airlines and commercial partners, beyond the management of the Avios currency.

IAG Loyalty offers a wide range of loyalty services; these include the Avios currency, customer programmes, loyalty management tools, technology solutions, data and customer insights.

Customers remain at the heart of what we do at IAG Loyalty. Through our loyalty services we offer commercial and airline partners ways to attract, acquire and retain customers, through using the Avios rewards currency and other data services.

Key successes in 2019

Central to the growth of loyalty across IAG is the implementation of a new Global Loyalty Platform – bringing together our customer data into a single integrated Group platform. With a focus on safely and securely safeguarding customer data, Phase 1 of the programme was delivered in 2019 and saw 13 million accounts migrated and 10 billion Avios moved to the new platform. Through the new platform IAG Loyalty can deliver a more personalised and richer experience for our members and simplify the onboarding process for new partners. We plan to complete the next phase of the project in 2020.

New digital and technological solutions are also key to future growth; we're continuing to build our capabilities to position IAG Loyalty as a technology-driven company. In 2019 our Developer Portal was opened to over 500 developers, enabling them to test APIs in seconds. We're adopting a product-driven, agile method for delivering new services and products and continuously updating and improving our products.

We launched nine new Non-Air Partners in 2019 and introduced the Amex Small Business Card to reward small business owners.

Our e-store platform, our online portal with over 1,000 retailers issuing Avios, continues to grow and in 2019 we launched an e-store for our AerClub members.

Another product going from strength to strength is the British Airways Executive Club Rewards app. Throughout the year it has been continually updated with new features. The new flight finder has seen a significant increase in customers clicking from the app to make a booking and geolocation features make sure the app is relevant for the customer.

Pay with Avios was introduced across Aer Lingus and members can now use the product to pay for baggage on British Airways flights. We launched new £1 Reward Flight Saver fares, which has been greeted very positively by members, driving them to also collect more Avios.

Whilst we delivered a strong performance against profit targets, issuance growth in some of our non-air partnerships was just below our expectations. We are confident this will turn around in 2020.

IAG Loyalty place significant emphasis on open channels of communication and two-way dialogue between colleagues and management. The introduction of the “OpenBlend” tool supports IAG Loyalty by upskilling managers in coaching capabilities, creating engaging performance reviews, empowering managers to effectively lead their people, providing real-time analytics on employee wellbeing and building an open and honest culture where people want to work.

Future

In 2020, IAG Loyalty will continue to focus on expanding its data capabilities through the integration of Group data sources. This helps better segmentation and communication for Avios members, with more personalised and targeted content relevant to them.

The next phase of our Global Loyalty Platform will be progressed, and we will continue to introduce new features to enhance our members' experience across our loyalty programmes.

We remain focused on securing new strategic partnerships across the travel, retail and financial services sectors; growing our member base and providing even more ways for members to collect and spend.

Our journey to Technology Excellence



John Gibbs
Chief Information Officer

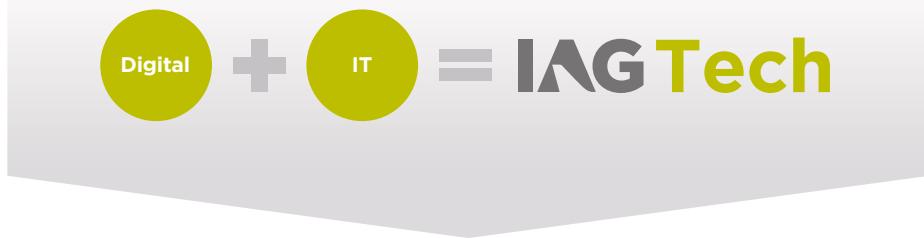
“IAG Tech has the simple vision of bringing Technology Excellence to everything we do with a renewed mission to increase shareholder value and enhance the experience of our other stakeholders.”

In September 2019, IAG created the role of Chief Information Officer (CIO), recognising the importance of digital and IT to the future of the business. Under the new CIO, IAG Tech was launched. IAG Tech brings together over 1,500 digital and IT professionals across the Group, with the simple vision of bringing “Technology Excellence” to everything we do with a renewed mission to increase shareholder value, accelerate business performance, delight customers, enable employees, and protect our business through the innovative and agile use of technology and data.

The focus continues to be on cyber security, leveraging the expertise of strategic global partners to help ensure early detection of future threats through

an enhanced 24/7 Security Operations Centre. IAG Tech has continued to partner with world-class global providers whose expertise is helping support a resilient and scalable IT platform for the Group.

The streamlined organisation now has over 40 per cent of IAG’s technology experts working in product centric, agile teams with more teams working in this way every week. In 2020 IAG Tech will strive to deliver technology excellence, driving to become industry leaders in the use of technology and data, through the development of highly innovative leaders, strong relationships and partnerships, consistently delivering products and projects to time, cost and quality in a secure and compliant environment.



Over 1,500 internal and external experts and a world class IT supply chain

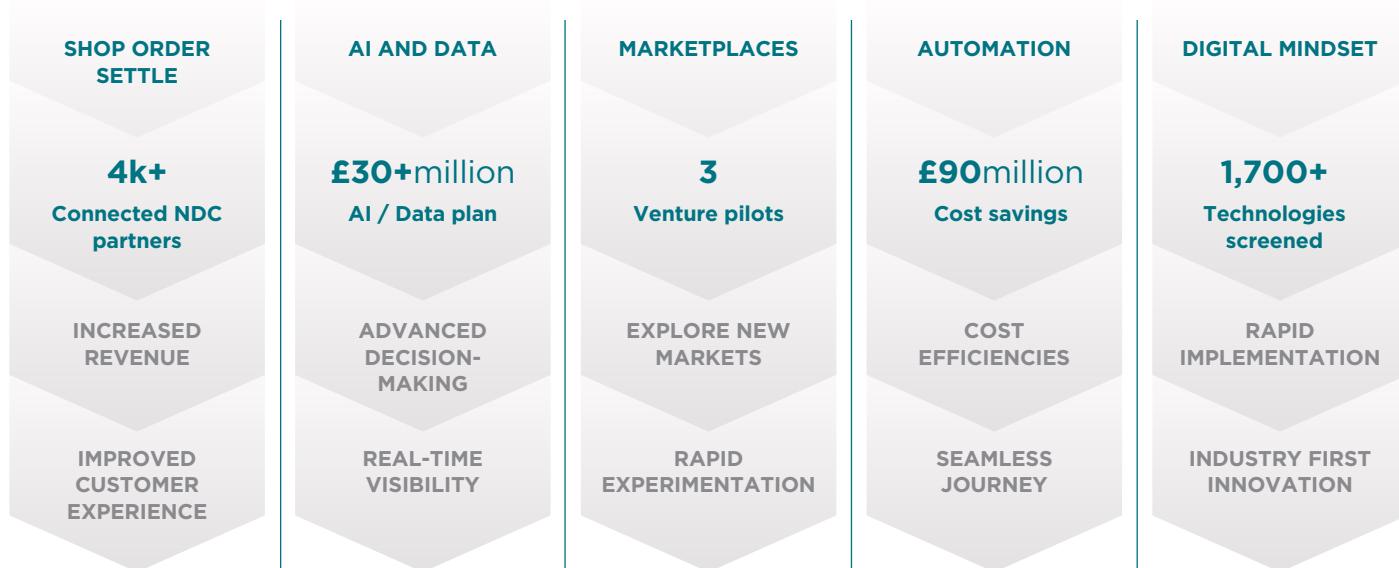
Focused on delivering ‘Technology Excellence’

To deliver the vision of Technology Excellence IAG Tech has refocused around a common purpose. We will do this by:

- researching and piloting innovative use of technology across all our value streams;
- developing a new technology vision, strategy and enterprise architecture;
- delivering new business and technology capabilities in an efficient and effective manner;
- providing resilient services that deliver required levels of availability and performance;
- protecting the business from cyber threats and risks, and ensuring our compliance with external regulations;
- running a professional function, delivering great value and developing our capabilities;
- partnering with the individual businesses to understand and exceed their expectations;
- leveraging the power of our capabilities for the benefit of the community and environment;
- providing world-class, trusted technology leadership and partnerships; and
- leveraging all of this across the Group to maximise the opportunities.

IAG continues to lead the industry in innovation and digital transformation. A 2019 Frost & Sullivan Global Airline Digital Transformation report benchmarked us alongside 65 other global airlines and airline groups – IAG was ranked #1.

Our five key transformations



We remain focused on our five key transformations and have been encouraged by the early wins and value that is being generated from these initiatives. Beyond our proof of concepts, we are now seeing, through implementation, the generation of real value for our shareholders, operating companies, employees and other stakeholders.

Shop Order Settle (SOS)

Our SOS transformation is committed to delivering revenue and customer satisfaction benefits along with realising cost reduction opportunities. During 2019 our focus has been on confirming the vision and direction of the core commercial strategy, and 2020 will see the introduction of the initial modules of the new retail platform supporting IAG.

Specific SOS focus areas during this period included:

- continued development of our new retail pricing engine and its introduction across Iberia point to point routes;
- completion of further trials supporting dynamic Iberia Express Bag Pricing – demonstrating significant potential improvements to ancillary revenues;
- driving industry forward through participation in work on ONE Order Transition and the creation of a new “Retail & Supply” agreement as the future of interline; and
- achieving the New Distribution Capability (NDC) at scale certification for both British Airways and Iberia.

Artificial Intelligence and data

Continuing our strategy commitment, we set out last year to make a step-change in the way we collect, connect and drive business value from data across the Group, we have accelerated the development of our Nexus Global Data Platform.

Working in collaboration with data teams from the operating companies across the Group, we have made the core data capabilities for this future platform available. This lays the foundation for greater collaboration and sharing, building not only a closer community of data expertise but a catalogue of capability and products to drive advanced analytics and AI based within the Group.

Throughout 2019 we have continued to pilot these capabilities, working with teams across the business in engineering, loyalty, operations and back-office functions.

Marketplaces

IAG continues to actively identify and explore new revenue streams and is currently evaluating new opportunities with further proof of concepts and pilots being considered for 2020.

Previous marketplace initiatives, including LEVEL, Zenda and RouteStack, continue to grow demonstrating the value of supporting and incubating new business models centrally at Group level.

Automation

We continue to drive forward our automation agenda both above and below the wing to transform operational safety, efficiency and customer satisfaction.

On the ramp, more remote controlled Mototok aircraft pushback devices are being introduced, with 30 new units at Iberia. In addition, we are trialling Smart Ramp initiatives at Heathrow, such as automated Foreign Object Damage (FOD) detection, event time stamping, automated passenger boarding bridges and Digital Twins.

2019 has seen the first operational trials of autonomous dolly and baggage tugs. In 2020, the next phase of the autonomous dolly will continue to be developed alongside live trials of autonomous vehicles with Iberia.

Our cargo colleagues have been trialling autonomous drone technology to enhance inventory management and in 2020 we will extend this technology to other areas of our business.

Above the wing, our focus remains on customer digital identity. 2019 saw Iberia introduce digital mobile enrolment for customers, offering a seamless biometric airport experience. British Airways has been building on the success of customer touch-points combined with self-service bag drop and boarding.

To date we have realised £90 million of cost savings within British Airways above and below the wing.

Digital mindset

Attracting and working with the leading digital talent globally is core to our Digital Mindset strategy. 2019 represented the fourth iteration of IAG’s Hangar 51 acceleration programme, being hosted in Madrid and Barcelona, which will span seven business focus areas including Airport Operations and Logistics, Future of Customer Interaction, Disruption Management, Future Cargo Logistics, New Products and Services, Sustainability, plus a Wildcard category. Hangar 51 welcomes start-ups and innovation partners to bring new thinking and the latest technologies to help drive faster innovation across our business.

Since the programme’s inception in 2016 we have screened over 1,700 technologies from over 40 countries and have run demonstrable pilots with 35 start-ups focused on delivering real world outcomes to the aviation industry. To date 60 per cent of these pilots have resulted in either follow-on trials, commercial contracts and/or investment funding.

We have a clear journey, and there has never been a more exciting time to be part of IAG Tech.

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.

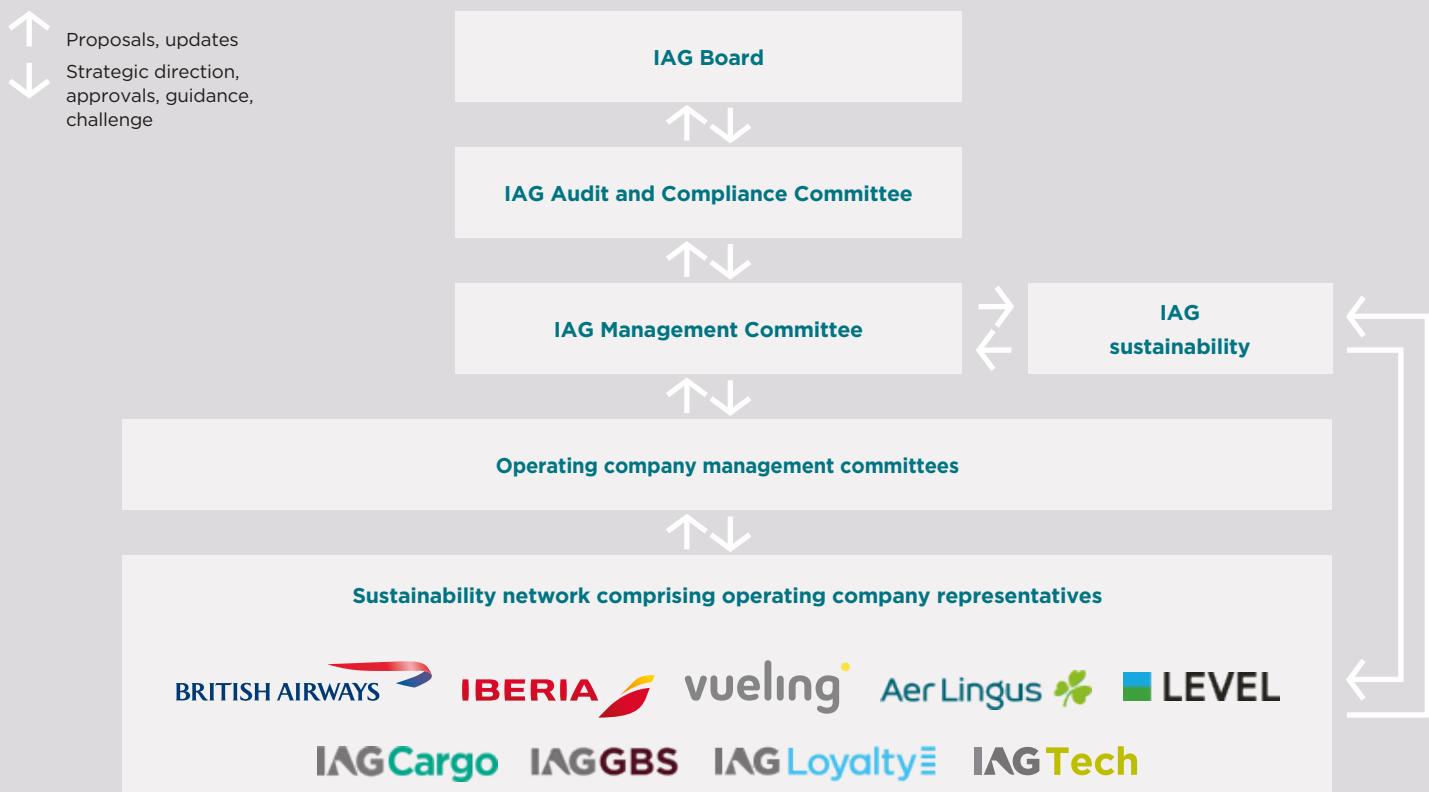
Antonio Vázquez
Chairman

“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
<ul style="list-style-type: none"> Climate change¹ Carbon pricing Energy use Waste Noise Air quality 	<ul style="list-style-type: none"> Diversity and equality Community engagement and charitable support Local economic impacts Employee satisfaction Talent management 	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Operational efficiency Fleet modernisation Noise Air quality Health and safety Modern slavery Accessibility 	Initiatives on: <ul style="list-style-type: none"> Work experience programmes Modern slavery 	Initiatives on: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Climate change Sustainable aviation fuels 	Initiatives/metrics on: <ul style="list-style-type: none"> Work experience programmes Revenue per tonne CO₂ 	Initiatives on: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Noise Air quality Community giving Accessibility 	Initiatives on: <ul style="list-style-type: none"> Waste Supply Chain 	Initiatives on: <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Our operations can affect quality of life in communities near where we operate To maximise our positive wider impact 	<ul style="list-style-type: none"> Participating in airport community forums Community giving campaigns Engaging local schools in sports, charity and learning events 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Regular facilitated meetings of IAG staff in sustainability roles Voluntary environmental and waste champions Staff awareness campaigns 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Procurement processes Screening and on-site audits Joint projects Hangar 51 accelerator programme Industry conferences Supplier sustainability workshops 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> IATA, Air Transport Action Group (ATAG) European trade associations: <ul style="list-style-type: none"> Airlines 4 Europe (A4E) UK trade associations: <ul style="list-style-type: none"> Sustainable Aviation (SA), Airlines UK 	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Meetings and visits Industry conferences and workshops Contributing to NGO initiatives 	<ul style="list-style-type: none"> 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	How we manage it
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.	<ul style="list-style-type: none"> 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
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.	<ul style="list-style-type: none"> 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
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.	<ul style="list-style-type: none"> 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
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.	<ul style="list-style-type: none"> 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
Sustainable aviation fuels - production Opportunity: commercial and environmental opportunity to source cost-effective sustainable fuel and reduce our CO ₂ emissions thereby reducing compliance costs for CORSIA and the European Union Emissions Trading Scheme (EU ETS).	<ul style="list-style-type: none"> 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
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.	<ul style="list-style-type: none"> 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.

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

Potential target for direct action protests

Risk: direct action and civil disobedience protests could disrupt flight operations and/or restrict staff and passenger access.

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.

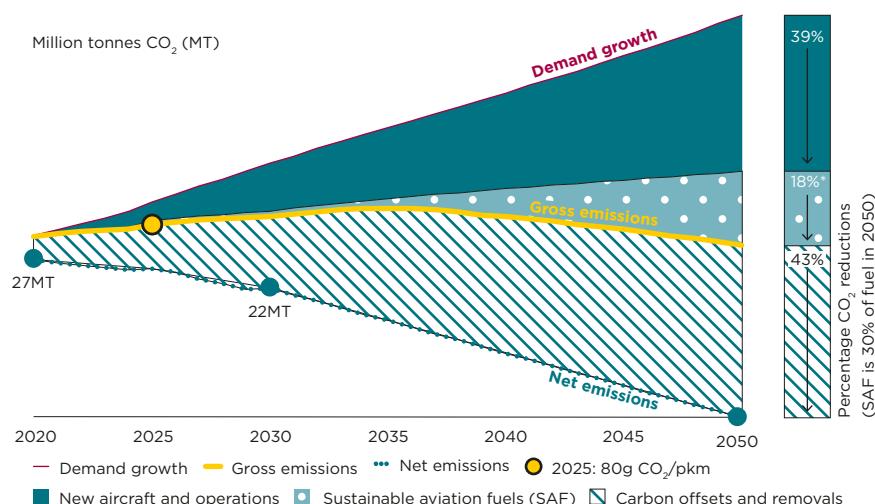
We will regularly review this roadmap to account for policy and technology changes and new insight. In 2020 we expect to update the roadmap to account for IAG business changes and any relevant insights from national, regional and global carbon reduction roadmaps.

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 environmental 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.

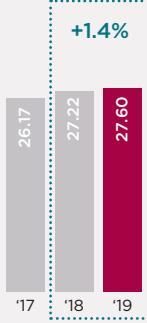
Key climate change metrics

- Indicator improved
- Indicator not improved



Key climate change metrics

● Indicator improved
● Indicator not improved



Net Scope 1 emissions (million tonnes CO₂e)

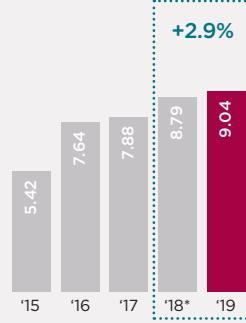
Description

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.



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.

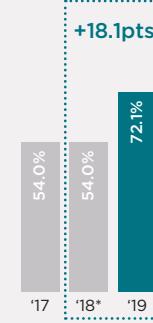
2018 Scope 3 emissions have been restated based on these four categories, to enable a year-on-year comparison with 2019.

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%



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

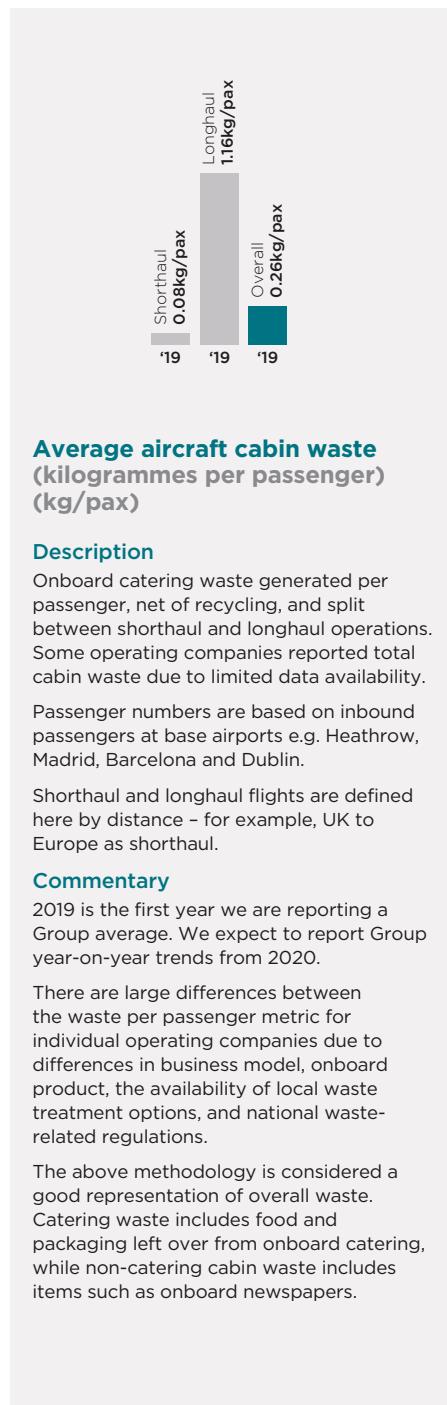
In 2019, British Airways' waste per shorthaul passenger improved by 26 per cent while waste per longhaul passenger improved by 10 per cent, due to the expanded use of waste treatment options and recyclable material onboard. Iberia waste per flight dropped by 7 per cent due to LIFE+ Zero Cabin Waste project 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



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](#)



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.

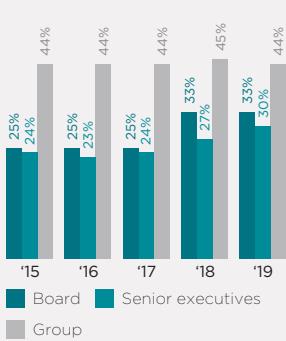
- The British Airways "Flying Start" global charity programme, in partnership with Comic Relief, raised over £3.4 million in 2019 and has raised over £24 million since 2010. Customer collections and fundraising have helped over 800,000 people in some of the world's poorest communities;
- British Airways 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





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.

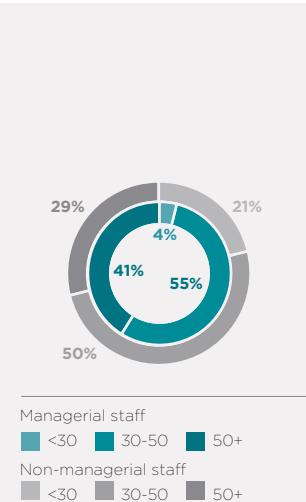
Senior executive levels include IAG and operating company Management Committee members, directors and other senior/executive positions reporting into them.

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.



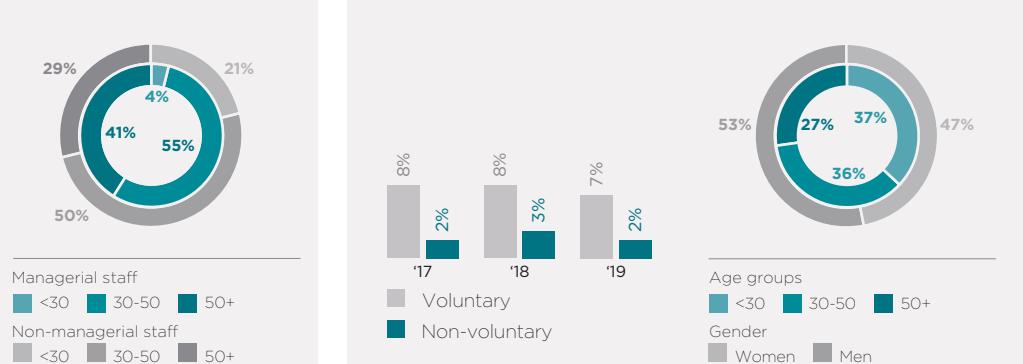
Age diversity (% of staff in each age band)

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

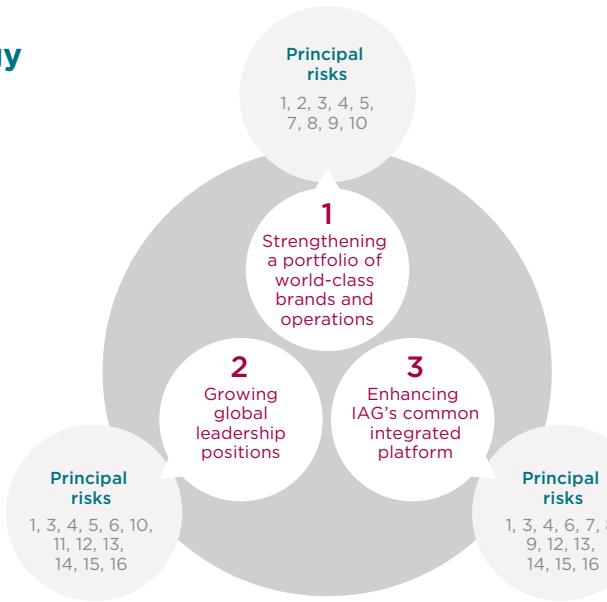
IAG balances the relatively high business and operational risks inherent in its business through adopting a low appetite for financial risk. This conservative approach involves maintaining adequate cash balances and substantial committed financing facilities. There are clear hedging policies for fuel 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



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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges 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.	<ul style="list-style-type: none"> 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



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.	<ul style="list-style-type: none"> 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. 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.
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.	

3. Competition, consolidation and government regulation



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.	<ul style="list-style-type: none"> 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. 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.
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.	
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.	<ul style="list-style-type: none"> 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



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
<p>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.</p> <p>New taxes and increasing price of carbon costs impact on demand for air travel. Customers may choose to reduce the amount they fly.</p>	<p>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.</p>	<ul style="list-style-type: none"> 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.

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 hacktivists.	The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists are capable of and are motivated to attack the airline industry for financial gain and other political or social reasons.	<ul style="list-style-type: none"> 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.	The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.	

Business and operational continued

7. Event causing significant network disruption



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.	<ul style="list-style-type: none"> 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



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.	<ul style="list-style-type: none"> 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



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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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



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.	<ul style="list-style-type: none"> Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets. 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. Commercial policy review of routes when there are delays in the repatriation of cash coupled with the risk of devaluation. The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term.
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.	
Failure to manage interest rate risk.	Interest rate risk arises on floating rate debt and floating rate leases.	
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.	

14. Tax



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.	<ul style="list-style-type: none"> 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



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.	<ul style="list-style-type: none"> IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

16. Non-compliance with key regulation and laws



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.	<ul style="list-style-type: none"> 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 (CORSIA).

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



Steve Gunning
Chief Financial Officer

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

“The Group has delivered another strong set of results and shown its resilience in the face of challenges through the year.”

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.

 See “Basis of preparation” in this report for more details.

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

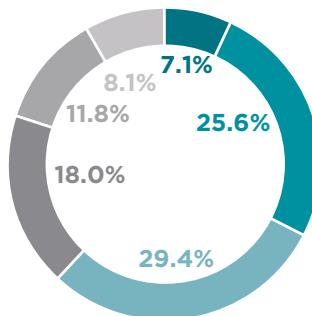
IAG capacity

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

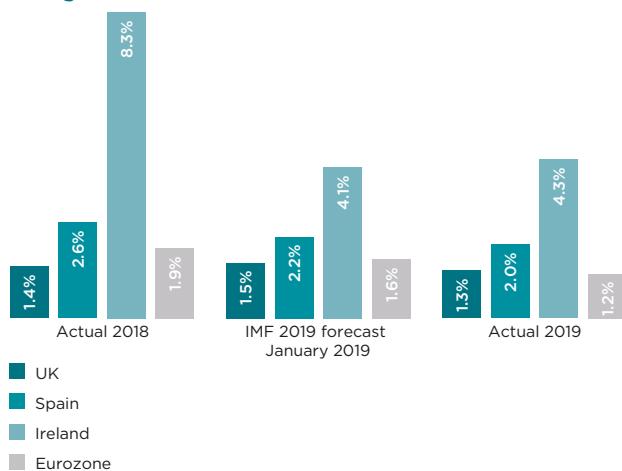
IAG capacity

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.

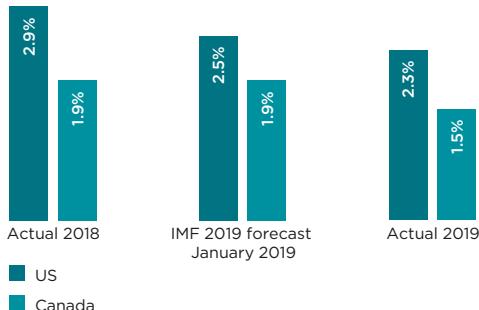
The Group's capacity in Europe was increased 1.7 per cent year on year. LEVEL's operations in Vienna started in July 2018 and therefore 2019 included the full year impact of routes from its base into London, Barcelona and Paris, among others. British Airways launched new routes from London Gatwick to 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.

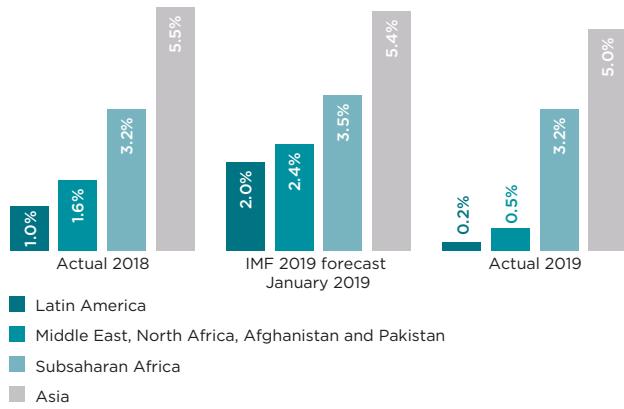
Africa, Middle East and South Asia passenger unit revenue performance at ccy was better in 2019, with improvements in British Airways and Iberia and a lower performance at Vueling driven by a capacity increase of 12.4 per cent.

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

	Higher/(lower)		
	2019	Year over year at ccy	Per ASK at ccy
€ million	4,962	2.6%	(1.4)%

Productivity

	Higher/(lower)	
	2019	Year over year
Productivity	5,115	1.9%
Average manpower equivalent	66,034	2.0%

(i) See note 7 in our Financial statements for more information on our employee costs and numbers.

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

	Higher/(lower)	
€ million	Year over year at ccy	Per ASK at ccy
Fuel, oil costs and emissions charges	6,021	10.0% 5.7%

(i) See note 25 in our Financial statements for more information on our hedging policy.

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.

	2019	Year over year at ccy (proforma)	Year over year at ccy (statutory)
€ million			
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	Translation impact	Transaction impact	Total exchange impact
€ million				
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

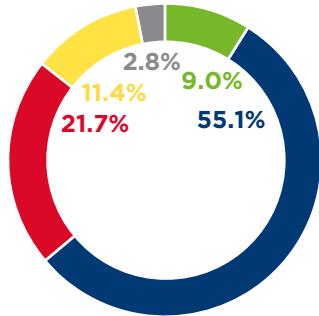
	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²	2019	Higher/ (lower) ¹	Higher/ (lower) ²
ASKs	186,170	0.9%	0.9%	30,255	4.2%	4.2%	73,354	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%
Operating margin	14.5%	(1.1)pts	(0.6)pts	13.0%	(2.5)pts	(2.2)pts	8.8%	(1.5)pts	0.4pts	9.8%	(1.5)pts	1.4pts
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

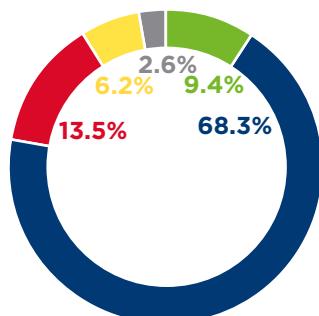
Financial performance by Brand

Capacity



- Aer Lingus
- British Airways
- Iberia
- Vueling
- Other Group companies

Operating profit before exceptions



- Aer Lingus
- British Airways
- Iberia
- Vueling
- Other Group companies

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.

See British Airways section for more on its performance and future plans.

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.

See Iberia section for more on its performance and future plans.

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.

See Aer Lingus section for more on its performance and future plans.

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.

See Vueling section for more on its performance and future plans.

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.

 See note 8 in our Financial statements for more on our non-operating costs.

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.

 See note 9 in our Financial statements for more information on our tax.

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.

 See note 10 in our Financial statements for more information on our EPS.

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 (statutory)	2018	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.

 See key performance indicators section for more information.

 See alternative performance measures section for more information.

Corporate Governance

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Ensuring we have the right leadership and culture to achieve sustainable growth



Antonio Vázquez
Chairman

“Our approach to corporate governance is all about ensuring our business can continue to grow sustainably long into the future for the benefit of all our stakeholders.”

I am delighted to welcome you to our latest corporate governance report, which covers a busy year for the Board and a highly significant one for IAG.

2019 – our ninth year as a combined Group - was a year of solid progress for the company despite challenging operating and geo-political conditions. But it was also one of great change for the leadership of the Group and you will not be surprised that succession planning was a major pre-occupation for the Board during the year.

There were many other important items on our agenda as well, of course. They included the proposed acquisition of Air Europa by Iberia, Brexit contingency planning, the make up of our shareholder register, the data breach at British Airways, as well as further work to embed the principles of the 2018 UK Corporate Governance Code and to roll out our new Code of Conduct, Group-wide.

But the overall role of the Board remains the same - to help create long-term sustainable value for the benefit of our shareholders and all the other stakeholders of the company, working in close co-operation with the management team. My fellow Board directors and I remain firmly focused on that task.

Leadership changes

Effective succession planning is a key element of corporate governance, and it has been a growing activity for the Board and our Nominations Committee in recent years.

That work increased during the year, both in terms of the management team and Board membership.

After completing a thorough evaluation, the Nominations Committee recommended in January 2020 that Luis Gallego, Chairman and Chief Executive of Iberia, should be appointed to succeed Willie Walsh as Group Chief Executive following the announcement of his retirement.

Earlier, in April 2019, we announced that our Group Chief Financial Officer, Enrique Dupuy, would step down in June and be replaced by Steve Gunning, British Airways' Chief Financial Officer.

We also appointed Alistair Hartley as the IAG Director of Strategy following the retirement of Robert Boyle, and John Gibbs to a new and important role within the management team, as Group Chief Information Officer.

More recently we have announced important leadership appointments in our airlines, with Javier Sánchez-Prieto, currently Chairman and Chief Executive of Vueling, replacing Luis at Iberia and with Marco Sansavini moving from the post of Chief Commercial Officer at Iberia to take the helm at Vueling.

With the exception of John, who joined us from Rolls-Royce, all of these appointments are internal promotions. They are evidence of the depth and quality of talent we are so lucky to have within the company, and our determination to develop our own leaders and give them new opportunities to shine. Having said that, when planning succession at all levels of the Group, we always map our options, both internally and externally, to ensure we attract the people we need to sustain our success.

Board changes

Since our earliest days, I've always had the support of a diverse, experienced and highly capable group of non-executive directors. When changes occur, we work hard to recruit the right people to the Board, with a blend of relevant sector and market skills.

At our Shareholders' Meeting in June, Patrick Cescau – a Board member since IAG was first formed in 2011 – stepped down and I thank him for his great service as a director, our Senior Independent Director and a long-standing member of the Audit and Compliance Committee. I have always valued his wise advice and unstinting support.

Dame Marjorie Scardino also left our Board in June 2019 at our Shareholders' Meeting. She has made a wonderful contribution, always bringing a fresh perspective and brilliant insights to our deliberations. I will miss that greatly.

We are delighted to have brought two new, first-class directors on to the team, welcoming Margaret Ewing and Javier Ferrán to the Board in June 2019, after an extensive search by the Nominations Committee.

Margaret brings strong financial and accounting experience, including time working within our sector as chief financial officer at BAA, and is making a valuable addition to our Audit and Compliance Committee. Javier, after a long career with the Bacardi Group, is now chairman of Diageo, a top 10 FTSE 100 company, and brings much experience as a non-executive director, offers us both expertise in general management and a deep understanding of consumer markets.

Following these appointments, we have made some changes to the membership of our committees and Alberto Terol has become our Senior Independent Director.

I'm also glad to say we continue to meet our diversity target of having 33 per cent female representation on the Board. You can read full details of these leadership changes and our rigorous approach to succession planning in the Nominations Committee's report.

Maintaining our effectiveness

We are committed to increasing the effectiveness of the Board, always looking for ways to improve the way we work and our ability both to scrutinise and support the management team.

We completed internal reviews of the Board in 2017 and 2018 during which I talked individually to fellow directors to understand their concerns and to get their ideas on how we can improve our performance. In accordance with recommendations in both the Spanish and the UK corporate governance codes, we open ourselves to external review in the third year to make sure our own conclusions are valid. I am pleased to say the latest review was positive and added good value to our own reflections, as you can read further on in this report.

Compliance, culture and engagement

The Board spent a good deal of time during the year considering how best to embed the principles of the UK Corporate Governance Code, with directors being briefed regularly on its implementation. We also involved the IAG Management Committee in the process to ensure that the day-to-day running of Group conforms to best corporate governance practice.

We believe we are very largely compliant with the code. There are areas relating to culture and engagement with employees and stakeholders that require further work. We are still a young Group made up of distinct airline brands, each with their own values and culture. We see this as a real strength of IAG and one we want to safeguard. But it does make implementing common procedures and principles more challenging for us than might be the case for a company with a more centralised structure.

Good progress was made on implementing our new Code of Conduct across the Group, with activities carried out in all our operating companies and with the Board completing a session on integrity during the year. This project is not about imposing a set of rules and procedures. Rather it is about getting the message clearly out to people across the Group that we must all act with integrity at all times and to demonstrate clearly our aspiration to create a healthy culture across the business.

We are serious about finding ways for the Board to understand the views of employees, without, of course, detracting from the management team's key role in this area. We are doing this in a number of ways. Initially, three Board members – Maria Fernanda Mejia, Nicola Shaw and Alberto Terol – have taken on the role of liaising with employees more closely and were involved in a number of activities during the year.

The Board reviewed its relationship with other key stakeholders, taking into account the issues that are most important to them, not least environmental and sustainability issues where we have made further great progress in 2019.

Non-EU shareholders

Under EU regulations, our airlines must be majority EU owned and controlled to maintain their operating licences. By February 2019, we reached the point where 47.5% of our shares were owned by investors outside the EU so we took swift action to limit non-EU share buying. This move saw the proportion of shares owned by non-EU investors fall to 39.5% during the year and, as a result, we removed the cap with immediate effect on January 17, 2020. The Board will watch this issue carefully. Although it is not an action we like to take, our by-laws permit us to re-impose the permitted maximum, if necessary, to protect our airlines' operating licences.

Sustaining our success

I want to thank my fellow directors for their tremendous work and support during the year. I believe we have a robust corporate governance structure in place and we are all determined to keep it that way.

We want IAG to be a profitable business. But our overriding concern is to make sure we can sustain our success long into the future, for the benefit of those who commit capital to the Group and for our employees and the communities we serve. I think we are well positioned to do just that.

Antonio Vázquez

Chairman



Antonio Vázquez



Willie Walsh



Alberto Terol



Marc Bolland



Margaret Ewing



Javier Ferrán



Steve Gunning



Deborah Kerr



Maria Fernanda Mejia



Kieran Poynter



Emilio Saracho



Nicola Shaw

Antonio Vázquez **Key areas of experience:**

Consumer, sales/marketing, finance, governance

Current external appointments:

Chairman, Cooperation Board of Loyola University. Trustee, Loyola University Foundation. Member, Advisory Board of the Franklin Institute. Trustee, Nantik Lum Foundation.

Previous relevant experience:

Chairman, Iberia 2012–2013. Chairman and CEO, Iberia 2009–2011. Chairman and CEO, Altadis Group 2005–2008. Chairman, Logista 2005–2008. Director, Iberia 2005–2007. Chief Operating Officer and other various positions, Cigar Division of Altadis Group 1993–2005. Various positions at Osborne 1978–1983 and Domecq 1983–1993. Began his professional career in consultancy at Arthur Andersen & Co.

Willie Walsh **Key areas of experience:**

Airline industry

Other Group appointments:

Chairman, Aer Lingus Board of Directors.

Previous relevant experience:

Chairman, Airlines for Europe (A4E) 2016–2019. Chairman, National Treasury Management Agency of Ireland, 2013–2018. Chairman, IATA Board of Governors 2016–2017. Chief Executive Officer, British Airways 2005–2011. Chief Executive Officer, Aer Lingus 2001–2005. Chief Operating Officer, Aer Lingus 2000–2001. Chief Executive Officer, Futura (Aer Lingus' Spanish Charter airline) 1998–2000. Joined Aer Lingus as cadet pilot in 1979.

Alberto Terol **Key areas of experience:**

Finance, professional services, information technology, hospitality industry

Current external appointments:

Vice Chairman, Leading Independent Director and Chairman of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Independent Director, Schindler España. Patron of Fundación Telefónica. Executive Chairman of various family owned companies.

Previous relevant experience:

Chairman of the Supervisory Board, Senvion GmbH 2017–2019. Chairman of the Audit Committee, Senvion S.A. 2017–2019. Director, OHL 2010–2016. Director, Aktua 2013–2016. Director, N+1 2014–2015. International Senior Advisor, BNP Paribas 2011–2014. Member, Global Executive Committee Deloitte 2007–2009. Managing Partner: EMEA Deloitte 2007–2009, Managing Partner Global Tax & Legal Deloitte 2007–2009. Member, Global Management Committee Deloitte 2003–2007. Managing Partner, Latin America Deloitte 2003–2007, Integration Andersen Deloitte 2002–2003, Managing Partner EMEA Arthur Andersen 2001–2002, Managing Partner Global Tax & Legal Arthur Andersen 1997–2001, Managing Partner Garrigues-Andersen 1997–2000.

Marc Bolland **Key areas of experience:**

General management, commercial management/marketing, retail, hospitality industry

Current external appointments:

Head of European Portfolio Operations, The Blackstone Group. Chairman of Blackstone Europe. Director, Coca-Cola Company. Non-Executive Director, Exor S.p.A. Vice President, UNICEF UK. Non-Executive Chairman Polymateria.

Previous relevant experience:

Chief Executive, Marks & Spencer 2010–2016.
 Chief Executive, WM Morrison Supermarkets PLC 2006–2010. Director, Manpower USA 2005–2015. Chief Operating Officer 2005–2006, Director 2001–2005 and other executive and non-executive positions, Heineken 1986–2001.

Margaret Ewing **Key areas of experience:**

Professional services, financial accounting, corporate finance, strategic and capital planning, corporate governance, risk management

Current external appointments:

Senior independent non-executive director and Chairman of the Audit and Risk Committee, Convatec Group Plc. Independent non-executive director and Chair of the Audit and Risk Committee, ITV Plc. Trustee and Chairman of the Finance and Audit Committee, Great Ormond Street Hospital Children's Charity.

Previous relevant experience:

Non-executive director, Standard Chartered Plc 2012–2014. Member of the Audit Committee, John Lewis Partnership Plc 2012–2014. Non-executive director, Whitbread Plc 2005–2007. Vice Chairman, Managing Partner, Public Policy, Quality and Risk and London Practice Senior Partner, Deloitte LLP 2007–2012. Director, Finance, BAA Ltd 2006 and Chief Financial Officer, BAA PLC 2002–2006. Group Finance Director, Trinity Mirror PLC 2000–2002. Partner, Corporate Finance, Deloitte & Touche LLP 1987–1999.

Javier Ferrán **Key areas of experience:**

Consumer, finance, sales/marketing, governance

Current external appointments:

Chairman, Diageo Plc. Non-executive director, Coca Cola European Partners Plc. Member, Supervisory Board Picard Surgeles.

Previous relevant experience:

Member, International Advisory Board ESADE 2005–2019. Non-executive director, Associated British Foods plc 2005–2018. Non-executive director, SABMiller plc 2015–2016. Member, Advisory Board Agrolimen SA 2005–2016. Vice Chairman, William Grants & Sons Limited 2005–2014. Non-executive director, Louis Dreyfus Holdings BV 2013–2014. Non-executive director, Abbott Group 2005–2008. Non-executive director, Desigual SA. Non-executive director, Chupa Chups SA. Partner, Lion Capital LLC 2005–2018. Management positions with Bacardi Group including tenures as Regional President EMEA and President and Chief Executive Officer.

Steve Gunning**Key areas of experience:**

Finance, airline industry

Current external appointments:

Non-Executive Director, FirstGroup Plc.

Previous relevant experience:

Chief Financial Officer, British Airways 2016–2019. Director, IAG Global Business Services 2017–2019. Chief Executive Officer, IAG Cargo 2012–2015. Pension Trustee, British Airways 2006–2011. Managing Director of World Cargo, British Airways 2007–2012. Head of Internal Control, British Airways 2006–2007. World Cargo Finance Director, British Airways 2004–2006.

Deborah Kerr **Key areas of experience:**

Technology, digital, marketing, operations, software and services, general management

Current external appointments:

Director, NetApp Inc. Director, Chico's FAS, Inc. Director, ExiService Holdings, Inc. Managing Director, Warburg Pincus.

Previous relevant experience:

Executive Vice President, Chief Product and Technology Officer, SABRE Corporation 2013–2017. Director, DH Corporation 2013–2017. Director, Mitchell International, Inc. 2009–2013. Executive Vice President, Chief Product and Technology Officer, FICO, 2009–2012. Vice President and Chief Technology Officer, HP Enterprise Services 2007–2009. Vice President Business Technology Optimization, Hewlett-Packard Software 2005–2007. Senior Vice President Product Delivery, Peregrine Systems 1998–2005. Prior senior leadership roles with NASA's Jet Propulsion Laboratory, including Mission Operations Manager, US Space VLBI, Nasa Jet Propulsion Laboratory 1988–1998.

Maria Fernanda Mejia **Key areas of experience:**

General management, marketing and sales, supply chain, strategic planning, corporate transactions

Current external appointments:

Board Member of the Council of the Americas.

Previous relevant experience:

Senior Vice President, The Kellogg Company (2011–2019). President, Kellogg Latin America (2011–2019). Corporate Officer and member of The Kellogg Company Executive Leadership Team (2011–2019). Vice-President and General Manager Global Personal Care and Corporate Fragrance Development, Colgate-Palmolive 2010–2011. Vice-President Marketing and Innovation Europe/South Pacific Division, Colgate-Palmolive 2005–2010. President and CEO Spain and Spain Holding Company 2003–2005, General Manager Hong Kong and Director, Greater China Management team 2002–2003, Marketing Director Venezuela 2000–2002, Marketing Director Ecuador 1998–2000.

Kieran Poynter **Key areas of experience:**

Professional services, finance services, corporate governance, corporate transactions

Current external appointments:

Chairman, BMO Asset Management (Holdings) PLC. Senior Independent Director, British American Tobacco.

Previous relevant experience:

Chairman, Nomura International 2009–2015. Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009–2010. Member, President's committee of the Confederation of British Industry 2000–2008. UK Chairman and Senior Partner, PricewaterhouseCoopers 2000–2008. UK Managing Partner and other executive positions, PricewaterhouseCoopers 1982–2000.

Emilio Saracho **Key areas of experience:**

Corporate finance, investment banking, corporate transactions

Current external appointments:

Director, Altamar Capital Partners. Director, Inditex.

Previous relevant experience:

Chairman, Banco Popular Español 2017. Vice Chairman and Member Investment Banking Management Committee, JP Morgan 2015–2016. Deputy CEO 2012–2015, CEO Investment Banking for EMEA 2012–2014 and member Executive Committee 2009–2013, JP Morgan. CEO, JP Morgan Private Banking for EMEA 2006–2012. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain & Portugal 1998–2006. Global Investment Banking Head, Santander Investment (UK) 1995–1998. Spanish Market Manager, Goldman Sachs International 1990–1995.

Nicola Shaw **Key areas of experience:**

Transport sector, public policy and regulatory affairs, consumer, general management

Current external appointments:

Executive Director, National Grid plc. Director, Major Projects Association. Director, Energy Networks Association and Energy UK.

Previous relevant experience:

Member of the Audit and Risk Committee, English Heritage 2015–2018. Non-Executive Director, Ellevio AB 2015–2017. CEO, HS1 Ltd 2011–2016. Member of the Department for Transport's Rail Franchising Advisory Panel 2013–2016. Non-Executive Director, Aer Lingus Plc 2010–2015. Charity Trustee, Transaid 2011–2013. Director and previously Managing Director, Bus Division at FirstGroup plc 2005–2010. Director of Operations and other management positions at the Strategic Rail Authority 2002–2005. Deputy Director and Deputy Chief Economist, Office of the Rail Regulator (ORR) 1999–2002. Associate, Halcrow Fox 1997–1999. Transport specialist, The World Bank 1995–1997. Corporate planner, London Transport 1990–1993.

 Committee Chair

 Audit and Compliance Committee

 Nominations Committee

 Safety Committee

 Remuneration Committee

Governance framework: structure and responsibilities

IAG, as the Group's parent company, is responsible for the Group's strategy and business plan. It centralises the Group's corporate functions, including the development of its global platform.

IAG sets the long-term vision for the Group, defines portfolio attractiveness and makes capital allocation decisions, exerting vertical and horizontal influence across the Group.

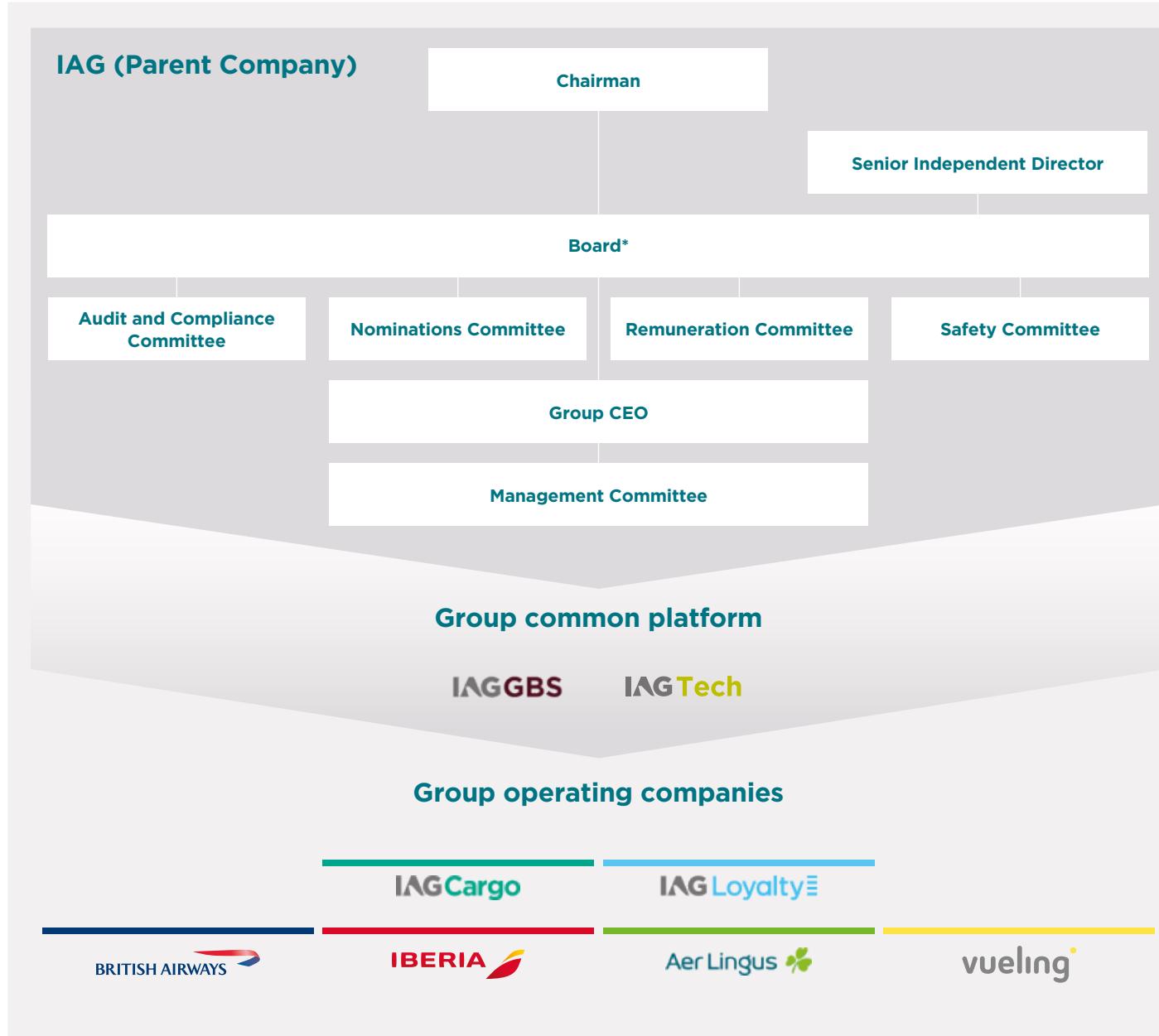
Each operating company is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plans. In particular, each operating company focus is:

- deep and real-time understanding of customer and competitive environment
- define product strategy for target customer segments
- stand alone profit centres and independent credit identities
- individual brand, cultural identity and management teams

Each company has its own board of directors and its own executive committee, led by the top executive of each company.

There is a clear separation of the roles of the Chairman and the Chief Executive. The Chairman is responsible for the operation of the Board and is responsible for its overall effectiveness in directing the company.

The Chief Executive is responsible for the day-to-day management and performance of the Group and for the implementation of the strategy approved by the Board. All the powers of the Board have been permanently delegated to the IAG Chief Executive save for those which cannot be delegated pursuant to the Bylaws, the Board Regulations or the applicable legislation.



* List of Board's reserved matters can be found in Article 3 of the Board Regulations, available on the Company's website.

Board

Comprises ten non-executive directors and two executive directors (IAG CEO and CFO) and is responsible for:

- the supervision of the management of the Company
- the approval of the strategy and general policies of the Company and the Group
- the determination of the policy on shareholders' remuneration
- ensuring the effectiveness of the Company's corporate governance system
- approval of any significant contractual commitment, asset acquisition or disposal or equity investment or divestment
- the definition of the Group structure
- the approval of major alliances
- the definition of the shareholders disclosure policy
- approval of the risk management and control policy, including the Group's risk appetite

Chairman**Antonio Vázquez**

- chairs the shareholders' meetings
- leads the Board's work
- sets the Board's agenda and directs its discussions and deliberations
- ensures that directors receive accurate, timely and clear information, including the Company's performance, its strategy, challenges and opportunities
- ensures that there is an effective communication with shareholders and that directors and executives understand and address the concerns of investors
- offers support and advice to the Chief Executive
- promotes the highest standards of corporate governance

Group CEO**Willie Walsh**

- is responsible and accountable to the Board for the management and profitable operation of the Company
- leads the Company's management team
- oversees the preparation of operational and commercial plans
- develops an effective management strategy
- puts in place effective controls
- coordinates the activities of the Group

Senior Independent Director**Alberto Terol**

- provides a sounding board for the Chairman
- serves as intermediary for the other directors when necessary
- is available to shareholders, should they have any concerns they cannot resolve through the normal channels
- leads the evaluation of the Chairman's performance annually

Audit and Compliance Committee

- reviews the effectiveness of the external auditor process, preserving their independence
- supervises the effectiveness of the internal control of the Company, the internal audit and the risk management systems
- supervises the process for the preparation of the Group's financial results, reviewing the Company's accounts and the correct application of the accounting principles
- assesses and oversees the Company's compliance system
- reviews the Company's CSR and sustainability policy

Nominations Committee

- evaluates and makes recommendations regarding the Board and committee composition
- submits to the Board the proposed appointment of independent directors
- puts in place plans for the succession of directors, the Chairman and the Chief Executive
- oversees and establishes guidelines relating to the recruitment, appointment, career, promotion and dismissal of senior executives
- reports on the proposed appointment of senior executives
- monitors compliance with the company's director selection and diversity policy

Remuneration Committee

- reviews and recommends to the Board the directors and senior executive remuneration policy
- reports to the Board on incentive plans and pension arrangements
- monitors compliance with the Company's remuneration policy
- ensures compliance with disclosure requirements regarding directors' remuneration matters
- review workforce remuneration and related policies

Safety Committee

- receives material safety information about any subsidiary or franchise, codeshare or wet lease provider
- exercises a high level overview of the safety activities and resources
- follows up on any safety related measures as determined by the Board

Application of governance codes

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. In accordance with Spanish legal requirements, this Corporate Governance report includes information regarding compliance with the Spanish Good Governance Code of Listed Companies as well as other information related to IAG's corporate governance. This report is part of the IAG Management Report.

At the same time, as IAG has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council ("FRC") as amended from time to time. A copy of the current version of the UK Corporate Governance Code applicable to this reporting period (updated and published in July 2018) is available at the website of the FRC (www.frc.org.uk). This Corporate

Governance Report includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code.

IAG has prepared a consolidated Corporate Governance Report responding to both Spanish and UK reporting requirements. This Corporate Governance Report is available on the Company's website (www.iairgroup.com), and it is also available on the Spanish Comisión Nacional del Mercado de Valores (CNMV) website (www.cnmv.es). Pursuant to the CNMV regulations, this report has been filed with the CNMV accompanied by a statistical annex covering some legally required data.

During 2019, IAG complied with all the applicable recommendations of the Spanish Corporate Governance Code, with the sole exception of the rules on the composition and operation of non-mandatory Board committees, which is partially non-compliant in relation to IAG's Safety Committee which is chaired by an executive director, the Group Chief

Executive, and not by an independent director as recommended by the Code. The Board believes this is appropriate, taking into consideration that IAG is not an airline but the Group parent company, and its Safety Committee exercises a high-level supervisory role within the Group. Consistent with legal requirements, responsibility for safety matters remains with each Group airline, and the technical nature of the safety issues and the fact that each Group airline has its own particular characteristics makes it advisable that the Group's top executive leads this committee and coordinates the reporting of the different airlines.

As far as the 2018 UK Corporate Governance Code is concerned, the Company considers that it has complied with all of the provisions, although recognising that compliance with some of the more recent changes requires further development both in relation to the provisions and the application of the Code principles.

Board composition

As set out in the Company's Bylaws the Board shall comprise a minimum of nine and a maximum of 14 members. As of December 31, 2019, the Board composition was:

Name of Board Member	Position/Category	First appointed
Antonio Vázquez	Chairman	May 25, 2010 ¹
Willie Walsh	Chief Executive	May 25, 2010 ¹
Alberto Terol	Senior Independent Director	June 20, 2013
Marc Bolland	Director (Independent)	June 16, 2016
Margaret Ewing	Director (Independent)	June 20, 2019
Javier Ferrán	Director (Independent)	June 20, 2019
Steve Gunning	Chief Financial Officer	June 20, 2019
Deborah Kerr	Director (Independent)	June 14, 2018
Maria Fernanda Mejía	Director (Independent)	February 27, 2014
Kieran Poynter	Director (Independent)	September 27, 2010 ²
Emilio Saracho	Director (Independent)	June 16, 2016
Nicola Shaw	Director (Independent)	January 1, 2018 ³

1 Antonio Vázquez and Willie Walsh were formally appointed as directors for the first time on May 25, 2010, although IAG initiated its activities as the holding company resulting from the merger between British Airways and Iberia in January 2011.

2 Kieran Poynter was formally appointed as a director for the first time on September 27, 2010, although IAG initiated its activities as the holding company resulting from the merger between British Airways and Iberia in January 2011.

3 The appointment of Nicola Shaw as a non-executive director was approved by the Shareholders' Meeting on June 15, 2017 but did not become effective until January 1, 2018.

The IAG Board currently comprises ten non-executive directors and two executive directors, IAG's Chief Executive and Chief Financial Officer. The biographies of each member of the Board are set out in the Board of Directors section.

At the Shareholders' Meeting on June 20, 2019, Steve Gunning was appointed as an executive director following the retirement of Enrique Dupuy. Margaret Ewing and Javier Ferrán were also appointed as non-executive directors following the retirement of Patrick Cescau and Dame Marjorie Scardino. Further details of their appointment are set out in the Nominations Committee report. In addition, Alberto Terol was appointed as Senior Independent Director to replace Patrick Cescau.

On January 9, 2020, it was announced that Willie Walsh had decided to retire as Group Chief Executive and would step down at the Board meeting to be held on March 26, 2020 and retire on June 30, 2020. Luis Gallego, Chairman and CEO of Iberia will succeed him as Group Chief Executive.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P, and the Deputy Secretary is Lucila Rodríguez.

Appointment, re-election, resignation and removal of directors

The selection and appointment process is described in detail in the Nominations Committee report.

IAG directors are appointed for a period of one year, as set out in the Company's Bylaws. At the end of their mandate, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws. In this way, the Company complies with the UK Code recommendation that directors should be subject to annual re-election.

Re-election proposals are subject to a formal process, based on the Nominations Committee proposal in the case of non-executive directors, or its recommendation report for executive directors. This proposal or report is prepared having due regard to the performance, commitment, capacity, ability and availability of the director to continue to contribute to the Board with the knowledge, skills and experience required.

Directors cease to hold office when the term of office for which they were appointed expires.

Notwithstanding the above, a director must resign in the cases established in article 16.2 of the Board Regulations, among other things when the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company

Board diversity

Nationality



Spain



Netherlands



Ireland



US



UK



Colombia

Gender

4 females

33%

8 males

67%

Tenure¹

0-3 years

40%

4-6 years

30%

7-9 years

30%

Core areas of expertise¹

Industry 40%

General management 100%

Consumer Brands B2C 50%

Corporate transactions 60%

CEO/Chair experience in a listed company 50%

International 50%

Accounting/Audit 40%

Technology 25%

¹ Non-executive directors only

or when his or her remaining on the Board might affect the Company's credit or reputation or otherwise jeopardises its interests.

According to article 23.2 of the Board Regulations, directors have a number of disclosure obligations, including the duty to inform the Company of circumstances that might harm the Group's name or reputation. In particular, if they become subject to any judicial, administrative or other proceedings. In such circumstances, the Board would consider the case as soon as practicable and adopt the decisions it deems fit, taking into account the corporate interest. As stated previously, if remaining on the Board would affect the Company's reputation, or otherwise jeopardise its interest, a director must place their position at the disposal of the Board and, at its request, formally resign.

The Board may only propose the removal of a non-executive director before the end of the mandate when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause is deemed to exist

when the director takes up new positions or enters into new obligations that prevent them from dedicating the necessary time to the performance of his or her duties as a director, otherwise breaches his or her duties as a director or unexpectedly becomes subject to any of the circumstances provided for in article 16.2 of the Board Regulations. The removal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that determine a material change of control.

A director who stands down before the end of their term of office must state his or her reasons in a letter to be sent to all the directors. In addition, these explanations need to be included in the Company's Annual Corporate Governance Report.

A copy of the Board Regulations is available on the Company's website (www.iairgroup.com), as well as on the website of the Spanish Comisión Nacional del Mercado de Valores (www.cnmv.es).

Board and committee meetings

The Board met 10 times during the reporting period. The Board also held its annual two-day strategy meeting in September 2019. During the reporting period, the Chairman and the non-executive directors met on two occasions without the executives present.

As stated in the Board Regulations, directors shall make their best efforts to attend Board meetings. If this is not possible, they may grant a proxy to another director, although non-executive directors may only grant their proxy to another non-executive director. These proxies need to be in writing and specifically granted for each meeting. No director may hold more than three proxies, with the exception of the Chairman, who cannot represent more than half of the Board members. As far as possible, proxies should be granted including voting instructions.

Meetings attended by each director of the Board and the different committees during the reporting period are shown in the table below:

Director	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
Total in the period	10	7	7	7	2
Antonio Vázquez	100%	–	100%	–	100%
Willie Walsh	100%	–	–	–	100%
Marc Bolland ¹	75%	–	50%	100%	–
Patrick Cescau ²	100%	100%	100%	–	–
Enrique Dupuy de Lôme ^{2,3}	83%	–	–	–	–
Margaret Ewing ⁴	100%	100%	–	–	–
Javier Ferrán ^{4,5}	100%	–	–	50%	100%
Steve Gunning ⁴	100%	–	–	–	–
Deborah Kerr ⁴	100%	86%	100%	–	–
Maria Fernanda Mejia	100%	100%	–	100%	–
Kieran Poynter	100%	100%	–	–	100%
Emilio Saracho ^{3, 4, 6}	90%	–	86%	100%	–
Dame Marjorie Scardino ²	100%	–	100%	100%	–
Nicola Shaw	90%	–	–	86%	50%
Alberto Terol	100%	100%	100%	100%	–

1 Marc Bolland was only able to attend the second day of the annual two-day strategy meeting in September. He was appointed as a member of the Nominations Committee on June 20, 2019 and could not attend one of the two Committee meetings due to a prior commitment. He was replaced as a member of the Safety Committee on June 20, 2019, prior to the two 2019 meetings of this Committee.

2 Enrique Dupuy, Patrick Cescau and Dame Marjorie Scardino retired from the Board on June 20, 2019.

3 Enrique Dupuy and Emilio Saracho could not attend the extraordinary Board meeting held on April 14, 2019 called at a short notice by the Board Secretary at the request of the Chairman.

4 On June 20, 2019 Steve Gunning was appointed as an executive director, Margaret Ewing was appointed as a non-executive director and member of the Audit and Compliance Committee, Javier Ferrán was appointed as a non-executive director and member of the Remuneration and Safety Committees, Deborah Kerr was appointed as a member of the Nominations Committee and Emilio Saracho as a member of the Remuneration Committee.

5 Javier Ferrán was appointed as a member of the Remuneration Committee on June 20, 2019, he could not attend one of the two Remuneration Committee meetings due to a prior commitment.

6 Emilio Saracho could not attend the extraordinary Nominations Committee meeting held on April 14, 2019 called at a short notice by the Board Secretary at the request of the Chairman.

The Board maintains a 12-month agenda planner that ensures that strategic, operational, financial, corporate governance and any other relevant matters are discussed at the appropriate time at Board meetings. This planner is updated and distributed to directors before each Board meeting, giving them

the opportunity to suggest or recommend any specific topics of interest.

Each Board meeting starts with a report from each of the committee's chairs on the key discussions and decisions considered by the respective committees, providing an opportunity for directors to comment

or ask questions on the matters dealt with by each committee. This is followed by a general update from the Group Chief Executive and subsequently, from the Chief Financial Officer.

The key areas of Board activity during 2019 are outlined below:

Board activities

Strategy and planning

- Joint Board/ Management Committee two-day strategy session, including:
 - review of the Group operating model
 - share price performance review and diagnosis
 - competitive landscape
 - market strategic positioning review (customer focus)
 - strategic investments beyond the core
 - distressed scenario planning
 - sustainability review
 - IT review
- Introductory session to the Group Business Plan
- 2020-2022 Group Business Plan and 2020 Financial Plan
- Group IT model
- Updates on corporate strategy and transactions

Performance and monitoring

- Reports from each of the operating companies, including customer and commercial review as well as HR updates
- Quarterly and full year financial reporting
- Monthly financial report (reviewed at the relevant meeting or distributed to all Board members)
- Customer metrics
- Review of different joint business agreements and franchise agreements.
- Level growth and development plans.
- British Airways pensions update

Significant transactions, investments and expenditures

- Norwegian potential deal
- Air Europa acquisition proposal
- Launch of new products and fleet reconfigurations
- Significant aircraft acquisitions, lease-backs and aircraft-related financing arrangements
- Significant maintenance, supply and inventory and engine agreements
- Financing arrangement for the acquisition or lease of aircrafts
- British Airways long-haul fleet
- British Airways litigation review

Risk management and Internal controls

- Risk appetite framework review
- Review risk map and risk appetite statements
- Group cyber security update
- British Airways data incident and possible ICO fine
- Approve going concern and viability statements
- Effectiveness review of the internal control and risk management systems
- Updates and review of the uncertainties arising from the Brexit process
- External auditor yearly report to the Board

Shareholders, stakeholders and governance

- Updates on the permitted maximum of non-EU shares
- Communication strategy
- Review feedback from institutional shareholders, roadshows as well as analyst reports
- IAG Code of Conduct - business standards and values
- Board and management succession planning
- Management Committee remuneration scheme and individual performance (salary review 2019 short and long-term plans, 2018 outcome of variable remuneration plans)
- Changes to Group company boards
- AGM call notice and proposed resolutions
- Review of the Board committee's composition
- Board and committees effectiveness evaluation, and agreed improvement priorities
- UK Corporate Governance Code implementation updates

Board information and training

All Board and committee meeting documents are available to all directors, including the minutes of each meeting. All directors have access to the advice of the Board Secretary and the Group General Counsel. Directors may take independent legal, accounting, technical, financial, commercial or other expert advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in the 2019 financial year.

In 2019 the Board received specific briefings on key developments, such as the ongoing negotiations regarding the UK's exit from the EU and the new UK Corporate Governance Code. In October, a specific training session was also held on cyber security.

In addition, an on-site session was organised at British Airways which gave directors the opportunity to hear first-hand about the events and activities organised by the airline to celebrate its centenary anniversary.

Directors are offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Directors are consulted about their training and development needs and given the opportunity to discuss training and development matters as part of their annual individual performance evaluation.

Board induction

According to the induction guidelines, approved by the Nominations Committee, on joining the Board every newly appointed director has a thorough and appropriate induction. Each programme is based on the individual director's needs and include meetings with other directors, senior management and key external advisors. The induction is designed to provide a wide overview of the industry and the sector, including particulars of each of the markets in which the Group operates, as well as an understanding of the Group business model and its different businesses. The programme is also a useful tool to introduce the new director to the IAG Management Committee as well as to the different operating companies' teams. Once they have met all the relevant positions at the Company, directors then have the opportunity to visit the Group's key sites and to meet with each operating company's leadership team, as a deep dive in each of the Group businesses. In addition to individual relevant topics as applicable, the basic content of the programme is:

- origin of the Group. Business basics and strategy



IAG and the airline industry has many complexities that are unique to it. The induction programme highlighted these complexities, as well as providing an excellent introduction to all aspects of the Group's strategy, operations, functions, and the Board and Committee agendas, including visits to observe aspects of the day to day operations of certain of the operating companies. Commencing the programme with a session with the Chairman, who provided extremely valuable insight to the history of the Group, its evolution, the key strategic challenges it faces and, very importantly, the priorities for the Board during the next 12 to 18 months, was extremely helpful and enabled me to put the subsequent induction meetings with senior management and other Board members in context. My induction programme was enhanced and tailored to my specific knowledge requirements as a member of the Audit and Compliance Committee. Throughout all aspects of the ongoing induction programme I have found every person I have met very open, willing to share insights and keen to ensure that I understand their 'chosen topic' but also wanting to understand my initial perceptions and own experience. This has meant that a working relationship with the management team and others has quickly and effectively developed.

Margaret Ewing

- Spanish corporate legal framework. UK and Spanish corporate governance requirements
- Group governance structure
- IAG compliance programme and litigation status
- aviation regulation and Brexit
- M&A briefing and strategy
- IAG capital structure. Main shareholders and analyst coverage
- Sustainability programme
- IAG finance particulars and financial targets (including fleet acquisition, hedging policy and risk map)
- IAG brands portfolio
- IAG platform
- business model, competitive landscape, strategy and current position of each one of the operating companies



Being new to the airline industry I found the induction programme well thought out and comprehensive. One could feel that it was a well established procedure which was taken very seriously by all involved. This was the case both at IAG's Head Office, where I had the opportunity to meet all members of the Management Committee starting with its CEO, as well as other persons responsible for key central functions, as well as at the different operating companies that I had the opportunity to visit. With hindsight, even if the learning process should never end, it has allowed me to get up to speed in just a few months and exceeding all my expectations. I am very grateful to all involved.

Javier Ferrán

In relation to each committee newly appointed members are also provided with introductory sessions specific for each committee and designed in accordance with the directors' interests and needs.

Board and committee evaluation

Following the internal evaluations carried out in 2017 and 2018, an external evaluation was conducted this year by Independent Board Evaluation (IBE), who were selected following a competitive tender process under the supervision of the Nominations Committee. IBE has no other connection with the Company.

IBE undertook a formal and rigorous evaluation which included:

- a comprehensive brief given by the Chairman to the evaluation team, defining the main focus of the evaluation
- interviews held with all directors, as well as with the former SID who left the Board in June 2019
- interviews with key Board contributors including the Group General Counsel, the Board Secretary and Deputy Secretary, the IAG Head of Group Audit, as well as the external auditors and the Remuneration Committee independent advisor
- the evaluation team observed main board and committee meetings held on July 31 and August 1
- support materials for briefing purposes were provided by the Company
- discussion of the main conclusions with the Chairman and those of the committees with the different chairs

The report was presented to all Board members, together with the Group General Counsel and the Board Secretary and Deputy Secretary. The overall conclusions of the review were positive, confirming that the Board and the committees continue to adequately fulfil their responsibilities.

In response to the evaluation report an action plan was developed to address the improvement areas identified, and this plan was discussed and approved by the Board in its meeting held on January 30, 2020. The plan includes the following measures:

- agree key priorities which will inform the rolling Board planner, already used to organise the Board's work and which will be updated twice a year
- improve the follow-up of actions agreed by the Board or at the Committees' Meetings
- review the focus on sustainability matters and agree where this responsibility sits best in the governance structure
- reinforce the Board's focus and oversight with regards to culture and stakeholders' engagement in line with the UK Corporate Governance Code
- a number of improvements were agreed in relation to the organisation of the meetings' agendas, Board papers and presentations
- maintain the focus on board succession planning at Board and Management Committee level

In addition to the work performed by IBE, an assessment of the performance of the Chairman was conducted by the Senior Independent Director, taking into consideration the external evaluation and consultation with each non-executive director. The results were discussed at a meeting of the non-executive directors without the Chairman present.

Additionally, the Chairman met each director individually to discuss their contribution and performance, as well as their development needs, and also shared the peer feedback provided to IBE as part of the evaluation process.

Culture

In 2019, the Board approved a new Code of Conduct that applies to all directors and employees of the Group. All directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

Various training and communications activities were carried out in all operating companies to support awareness of the principles detailed in this Code. The Board itself completed the same training activity at its meeting held on May 9, 2019. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out. In addition, resources are available across the Group for employees to get advice or report grievances into any alleged or actual wrongdoing.

Within this framework, each operating company develops its own people strategy in accordance with the company's culture and identity. Some companies have taken this opportunity to renew their corporate value such as British Airways, Iberia and Vueling, Aer Lingus have reviewed their engagement approach including clear initiatives to reinforce their desired culture and values.

Workforce engagement

The Board considered the 2018 UK Corporate Governance Code provision on workforce engagement and, as an initial proposal, agreed that three of its non-executive directors would take on the role of liaising on employee engagement in order to adequately cover the different operating companies' and business locations.

During this first reporting year, the employee engagement activities were limited to the four main Group airlines. These directors have participated in a wide range of activities covering a broad spectrum of employees from different areas of the business and discussed a wide range of topics, including some in which senior management were not present. The main activities completed during 2019 and during the first two months of 2020 were:

- IAG European Works Council meeting held in December 2019
- meeting in the Aer Lingus inflight training academy
- meetings with employees based in Dublin and London Heathrow airports
- British Airways "Passionate about service" training session
- British Airways uniform design workshop
- meeting with the British Airways Engineering team
- Iberia anniversary of "Plan Persona and employee of the month"
- Iberia session "Inspiring Woman"

- presentation of Iberia's employee values (with those employees who participated in the project workshops)
- Vueling annual leadership retreat – culture session
- Vueling Q4 townhall session

The Board was informed of the main outcomes and main issues considered during these engagement activities and a number of improvements were agreed to support and enhance this engagement.

In addition to these specific activities, the Board enjoyed other opportunities to engage with the Group employees including site visits, specific training activities and the annual two-day strategy meeting, which includes a formal dinner with all Board members and the different operating companies' leadership teams.

The Board is regularly updated in relation to each operating company's employee matters as part of the report that each of the operating companies presents to the Board, in addition to specific items that may be brought to its attention as required.

The Audit and Compliance Committee has also reviewed and reported to the Board on the effectiveness and functioning of the confidential Speak Up channels available throughout the Group, where concerns can be raised on a confidential basis.

Shareholders and investors

Shareholders' interests have always been present in the Board's considerations. The Board engages directly in active dialogue with shareholders and investors mainly through the Group Chief Executive, the Group Chief Financial Officer and the Chairman, who regularly meet with shareholders and investors. In addition, the Senior Independent Director has attended meetings at the request of certain shareholders. Non-executive directors had the opportunity to meet shareholders at the Shareholders' Meeting as well as during IAG's Capital Markets Day.

The Board is regularly appraised of shareholders' feedback and main issues discussed with shareholders and investors. During 2019, the Company's brokers and other financial advisors made presentations to the Board to report on specific topics as well as to discuss the macro economic environment. A specific session regarding IAG's share performance and investors' feedback was part of the 2019 Group strategy meeting.

IAG Key Stakeholders



Considering stakeholders' interests

As explained in the stakeholder section of the report, the Board undertook a key stakeholder review. The Board considered this information, the existing engagement mechanisms and how the Board is kept informed to ensure proper understanding of the Group's main stakeholders' views and concerns. The Board has satisfied itself that appropriate engagement with key stakeholders is taking place and has agreed to formalise this as a regular reporting matter to the Board to keep engagement mechanisms under review to ensure that they remain effective.

The Board engages directly with two of the main stakeholder groups, shareholders and investors and employees, in this latter case through the arrangements put in place in accordance with the 2018 UK Corporate Governance Code. Engagement with all the remaining stakeholders falls under management's responsibility.

IAG's stakeholder engagement framework is articulated in accordance with the Group's business model. In line with this, the relationship with certain stakeholders is managed at an operating company level, as in the case of customers, employees, governments and regulators and, to a certain extent in the case of airline partners and industry associations. This ensures that the relationship is established as closely as possible and within the relevant cultural and business context. This does not preclude that the Group coordinates certain activities, and sets minimum standards or guidance as far as this is deemed appropriate.

Understandably, the relationship with shareholders and investors is conducted at IAG level, mainly through IAG's investor relations department and the IAG Chairman and executive directors.

IAG GBS provides a centralised procurement function for the Group and generally manages supplier engagement.

As far as IAG's sustainability programmes are concerned, these are coordinated at IAG level, covering the 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 Board and the Audit and Compliance Committee provide appropriate oversight and direction. Further details on IAG's sustainability governance and engagement with stakeholders on sustainability can be found on the 'Sustainability' section.

The following table details how the Board is kept informed in relation to IAG's key stakeholders, excluding employees and shareholders and investors.

Customers		The Board has always paid special attention to issues related to customers and brands, and the focus on customer issues has always been present in Board discussions. During 2019, the Board has been regularly provided with customer metrics as part of its performance and monitoring activities. A session devoted to market strategic positioning, including customer focus was included in the Company's 2019 annual strategy meeting. Finally, several proposals related to customer experience and product offerings have been discussed by the Board, including the launch of new products and fleet renewals and reconfigurations.
Suppliers		The Board receives regular updates regarding key supplier relationships, relevant developments and engagement activities, including updates received through internal audit and risk management reporting. During 2019, agreements with major aircraft providers, leasing companies, caterers, as well other key service providers have been reviewed by the Board in the context of the relevant transactions and investment decisions
Governments and regulators		The Board is kept duly informed of any relevant issues within the regulatory and political context. In 2019, the Board was regularly informed about Brexit developments and the engagement with the relevant authorities at EU and Member State level. In addition to this, the Board received reports about engagement with the European Commission, EU Member States and authorities in relation to key policy matters, particularly regarding the European air traffic management system. The Board was also updated during the year on the engagement with the UK Civil Aviation Authority and the Department of Transport on the ongoing debate on Heathrow expansion.
Airline partners and industry associations		During 2019, the Board reviewed several of the Group existing partnerships and joint business agreements. Similarly, the Board has been regularly informed of the most relevant matters affecting the industry, particularly in the context of environmental matters.

Other statutory information

Directors' disclosure duties, conflicts of interests, and related party transactions

Directors must inform the Company of any participation or interest they may hold or acquire in any company that is a competitor of the Group, or any activities that could place them in conflict with the corporate interest.

Directors have an obligation under the Board Regulations to adopt the measures necessary to avoid conflict of interest situations. These include any situation where the interest of the director, either directly or through third parties, may conflict with the corporate interest or with his duties to the Company. In the event of conflict, the affected director must inform the Company and abstain from

participating in the discussion of the transaction referred to by the conflict. For the purposes of calculating the quorum and voting majorities, the affected director would be excluded from the number of members in attendance.

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions with the directors, with shareholders that have a significant holding or with any persons related to them.

The execution of these type of transactions or any transaction which may entail a conflict of interest need to be reported to the Audit and Compliance Committee to ensure that they are carried out at arm's length and with due observance of the principle of equal treatment of shareholders. In the case of transactions that fall within the

ordinary course of business and are customary or recurring in nature and following a report by the Audit and Compliance Committee, the Board may grant a general authorisation as long as they are executed under certain terms and conditions. This authorisation needs to be endorsed by the Shareholders' Meeting in those cases established in the Spanish companies' legislation and, in particular, in any transaction with a director valued at more than 10 per cent of corporate assets.

In addition to this, and prior to the Audit and Compliance Committee consideration, shareholder related party transactions are also reviewed by the IAG Management Committee and are reported to the IAG Head of Group Audit.

IAG maintains commercial relationships with Qatar Airways, including cargo capacity agreements, passenger codeshares, wet leases and interline agreements. As a significant shareholder, these transactions have been reviewed by the Audit and Compliance Committee and approved by the Board.

Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability for the benefit of the directors and officers of the Company and its subsidiaries.

Share issues, buy-backs and treasury shares

The Annual General Meeting held on June 20, 2019 authorised the Board, with the express power of substitution, for a term ending at the 2020 Annual General Meeting (or, if earlier, 15 months from June 20, 2019), to:

- i increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by up to one-third of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation), through the issuance and placement into circulation of new shares (with or without a premium) the consideration for which shall be cash contributions;
- ii issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,500,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than one-third of the aggregate nominal amount of the

Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation);

- iii exclude pre-emptive rights in connection with the capital increases and the issuance of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances subject to an aggregate maximum nominal amount of the shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued share capital as at June 20, 2019.
- iv carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions:
 - a the maximum aggregate number of shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued share capital on June 20, 2019, the date of passing the resolution;
 - b the minimum price which may be paid for an ordinary share is zero;
 - c the maximum price which may be paid for an ordinary share is the highest of:
 - i an amount equal to five per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
 - ii the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the

transaction is carried out at the relevant time; in each case, exclusive of expenses.

The shares acquired pursuant to this authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby. For further details see note 27 to the Group financial statements.

The IAG Securities Code of Conduct regulates the Company's dealings in its treasury shares. This can be accessed on the Company's website (www.iairgroup.com).

Capital structure and shareholder rights

As of December 31, 2019, the share capital of the Company amounted to 996,016,317 euros (2018: 996,016,317 euros), divided into 1,992,032,634 shares (2018: 1,992,032,634 shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2019, the Company owned 7,702,495 shares as treasury shares.

Company's share capital

	Share capital (euros)	Number of shares/voting rights
December 31, 2019	996,016,317	1,992,032,634

Each share in the Company confers on its legitimate holder the status of shareholder and the rights recognised by applicable law and the Company's Bylaws which can be accessed on the Company's website (www.iairgroup.com).

The Company has a Sponsored Level 1 American Depository Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depository, Deutsche Bank, is the registered holder. As at December 31, 2019

The significant shareholders of the Company at December 31, 2019, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:

Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	Percentage of capital
Qatar Airways (Q.C.S.C) ¹	426,811,047	-		426,811,047	21.426%
Capital Research and Management Company	-	213,580,659	Collective investment institutions managed by Capital Research and Management Company	213,580,659	10.722%
Europacific Growth Fund	107,329,400			-	5.388%
Invesco Limited	-	40,845,381	Various mutual pension funds managed by Invesco Ltd	40,845,381	2.050%
Lansdowne Partners			Funds and accounts managed by Lansdowne Partners (UK) LLP	34,047,907	1.709%
International Limited	-	34,047,907			

¹ As reported to the Spanish CNMV on February 18, 2020, Qatar Airways' shareholding increased to 500,000,000 shares, representing 25.10% of the Company's share capital.

the equivalent of 6,616,691 shares was held in ADR form (2018: 21 million IAG shares).

Shareholder's Meeting

The quorum required for the constitution of the shareholder's meeting, the system of adopting corporate resolutions, the procedure for amending the Bylaws and the applicable rules for protecting shareholders' rights when changing the Bylaws are governed by the provisions established in the Spanish Companies Law.

The Company corporate governance information is available on the Company's website (www.iairgroup.com) in the "Corporate Governance" section under "Shareholders' Meeting".

Disclosure obligations

The Company's Bylaws establish a series of special obligations concerning disclosure of share ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the UK.

In accordance with article 7.2 b) of the Bylaws, shareholders must notify the Company of any acquisition or disposal of shares or of any interest in the shares of the Company that directly or indirectly entails the acquisition or disposal of a stake of over 0.25 per cent of the Company's share capital, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, as well as the creation of any charges on shares (or interests in shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, pursuant to article 10 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its subsidiaries.

In the event of a breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's share capital in nominal value, the Board may also direct that no transfer of any such shares shall be registered.

Limitations on ownership of shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital. If such a determination is made and notified to the stock market, no further acquisitions of shares by non-EU persons can be made.

In such circumstances, if non-EU persons acquire shares in breach of such restriction, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-EU person.

On February 11, 2019, IAG notified the relevant stock markets that, due to the level of share ownership by non-EU shareholders, the Board established the maximum number of shares that may be held by non-EU shareholders at 47.5% of the Company's issued share capital. As a consequence, and in accordance with IAG's Bylaws, IAG prohibited further acquisitions of IAG shares by non-EU persons until further notice. On January 17, 2020, IAG notified the relevant stock markets that the level of ownership of IAG's issued shares by relevant non-EU shareholders had fallen to 39.5%. As a result, IAG removed the ownership restriction which had been introduced in February 2019 with immediate effect. The IAG Board continues to monitor the ownership level of non-EU shareholders, and in accordance with IAG's Bylaws, the Board is authorised at any time to re-impose a maximum number of shares that may be held by non-EU shareholders if necessary.

Impact of change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination in the event of a change of control of the Company:

- the brand alliance agreement in respect of British Airways and Iberia's membership of oneworld, the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company;
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third-party airline, or the parent of a third-party airline; and
- certain IAG, Aer Lingus, British Airways, Iberia and Vueling exchange and interest rate hedging contracts allow for early termination if, after a change of control of the Company, their credit worthiness was materially weaker.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Report of the Audit and Compliance Committee



Kieran Poynter
Audit and Compliance Committee Chairman

Committee members

Date appointed	Meetings attended
Kieran Poynter (Chair) September 27, 2010	100% 
Margaret Ewing June 20, 2019	100% 
Deborah Kerr June 14, 2018	86% 
Maria Fernanda Mejia June 16, 2016	100% 
Alberto Terol August 2, 2013	100% 

Dear Shareholder

The Audit and Compliance Committee continues to provide independent and robust challenge to management and our auditors to ensure there are effective and high-quality controls in place and appropriate judgements taken. During 2019, we have considered the requirements of the 2018 UK Corporate Governance Code as well as the impact of various regulatory reviews into the audit sector as we completed our Group tender for the 2021 external audit.

Patrick Cescau stepped down from the Board and the Committee in June 2019 as part of the Board succession planning. During his time on the Committee Patrick made a significant contribution to the Committee in playing a key role in advocating strong internal control, risk management and compliance practices across the Group.

In order to maintain a strong and diverse Committee membership we welcomed Margaret Ewing as a member from June 20, 2019. Margaret brings recent and relevant financial acumen and governance experience to the Committee as well as experience from a range of industries, including airports.

I believe we have the right mix of skills and experience on the Committee to provide constructive and robust challenge and support to management. During 2020 we will continue to consider the changing corporate governance landscape and the impact of various regulatory reviews (Business, Energy and Industrial Strategy Committee, Kingman, Competition and Markets Authority and Brydon) into the audit sector on the Group.

Kieran Poynter
Audit and Compliance Committee Chairman

The Committee's responsibilities

The Committee's principal responsibility was to oversee and give reassurance to the Board with regards to the integrity and quality of financial reporting, audit arrangements and internal controls. The Committee's activities include:

- reviewing the financial statements and announcements of the Group to ensure integrity;
- reviewing and challenging significant accounting estimates and judgements made in the representation of financial statements of the Group;
- reviewing and challenging management's assessment of the viability of the Group, including whether there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities when they fall due;
- reviewing the effectiveness of the internal control system, provision of assurance on the risk management process, overseeing the tax and treasury risk management and reviewing the principal risks facing the Group;
- reviewing and agreeing the internal audit programme, resourcing, effectiveness and resolution of issues raised;
- monitoring the internal controls manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them;
- discussing with the external auditors any significant weaknesses in the internal control environment detected in the course of the audit; and
- recommending the appointment of external auditors where appropriate and reviewing their effectiveness, fees, terms of reference and independence.

An evaluation of the Committee's performance was completed as part of the external evaluation process carried out in 2019. The Committee was found to be operating effectively during the year and will be implementing recommendations to enhance how the Committee supports the Board in its assessment of the risks facing the Group.

The Audit and Compliance Committee

The composition, competencies and operating rules of the Audit and Compliance Committee are regulated by article 29 of the Board Regulations. A copy of these Regulations can be found on IAG's website.

The Committee's activities during the year

The Committee met seven times during 2019 and continues to plan management attendance at Committee meetings in advance including a review of the agenda of each meeting to ensure the attendees of each item are appropriate, the inclusion of private

sessions of the Committee members and with both the external and internal auditors as appropriate.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Head of Group Audit and representatives from the external auditors. The Head of Group Audit reports functionally to the Chairman of the Committee.

Members of the management team including the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller were invited to attend specific agenda items as required and when relevant.

During 2019, the Committee reviewed the effectiveness of the Group's risk management through internal audit, external audit and a series of deep dives into the areas below. After robust challenge and debate, there were no topics where there was significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board.

Other items reviewed

Business, operational and financial risks

Treasury and financial risk management

The Committee continued to review the Group's fuel, foreign exchange hedging positions and financial counterparty exposure on a quarterly basis, including that the approved hedging profile was being adhered to and continued to be appropriate to manage these risks in line with the Group risk appetite. The Committee also continued to review the Group's financial debt funding strategy, correspondent instruments and go-to-market strategy of the financing transactions performed by the Group in 2019.

Union withdrawal agreement and transition period

The Committee considered management's evaluation and risk assessment of the arrangements around the UK's exit from the European Union as part of the review of the principal risks and uncertainties of the Group. While there will continue to be uncertainty until negotiations for the future EU-UK relationship are reached, the Committee agrees with management's current assessment that, even in the event of no-deal after the transition period, Brexit will have no significant long-term impact on the Group.

The Committee will continue to engage with management and take steps to protect the interests of IAG in a no-deal scenario.

Cyber security

The Committee continues to receive regular updates on the Group's cyber security programme following the data breach reported by British Airways in September/October 2018.

Compliance and regulatory

Anti-bribery, sanctions, competition law, privacy and General Data Protection Regulation (GDPR) compliance

The Committee reviewed the Group's anti-bribery, sanctions, competition and privacy compliance programmes including the latest risk maps, regulatory developments, the key programme activities for 2019 and priorities for 2020. The Committee also received an update on the implementation of the IAG Code of Conduct and the planned awareness and communication activities to support the Group in 2020.

Sustainability

The Committee reviewed the progress made in the implementation of the sustainability strategy and the performance against targets in key areas such as carbon footprint and noise performance including the 2050 net zero carbon emissions goal. This also included a review of the new carbon targets to 2025, 2030, and 2050, progress relating to sustainable alternative fuels, fuel efficiency and improvements in carbon disclosure including work with the Carbon Disclosure Project and the Task Force on Climate related financial disclosure.

Whistleblowing

The Committee reviewed procedures whereby staff across the Group can raise confidential concern regarding any matter including but not limited to accounting, internal control and auditing. There are whistleblowing channels provided by third-party providers, Safecall and Ethicspoint, where all staff across the Group can report concerns to senior management in their company. The Committee also reviewed the volume of reports by category and nature; timeliness of follow-up; responsibility for follow-up and noted that there were no significant financial or compliance issues raised. The annual review is coordinated by the Head of Group Audit.

Financial reporting

Internal Control over Financial Reporting (ICFR)

As part of the Group's internal control framework it complies with the Spanish corporate governance requirement (ICFR), which is an analysis of risks in financial reporting, the documentation of accounting processes, and audit of internal controls. In 2019 the Committee reviewed the results of the audits and no material weaknesses were identified. The Committee also tracked the progress of internal audit recommendations.

Enterprise risk management

The Committee was updated on the principal risks of the Group. The Committee reviewed the process by which risk strategy and appetite had been assessed to confirm that the statements were still relevant and appropriate. They also reviewed the performance of the Group against each of its risk appetite

statements and the Committee agreed with management's assessment that the Group has operated within its risk appetite framework.

Viability statement

In February 2020, the Committee reviewed the Group's viability assessment which covered a three-year time horizon in line with the Group's Business Plan period. The analysis evaluated the impact of combinations of risks under severe but plausible downturn scenarios (refer to Risk management and principal risk factors section). The Committee considered the impact on liquidity, solvency and the ability to raise financing over the period to 2022. The Committee considered how solvency and headroom were determined and confirmed the period over which viability is considered. The Committee has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2022.

Litigation

The Committee received regular litigation status reports from the General Counsel including one about the status of the remaining civil claims against British Airways following the 2017 European Commission decision on alleged cartel activity with respect to air cargo charges.

A number of the civil claims have been concluded during 2019. The Committee agreed with management's view that, given the status of proceedings, it is not possible at this stage to predict the final outcome and no financial provision should be made for the remaining open civil claims. More detailed information relating to the cargo litigation is available in note 31 to the Group financial statements.

Distributable reserves/dividend capacity

The Committee reviewed in detail the technical considerations, including cash and distributable reserves, supporting dividend decisions taken by the Board.

Key performance indicators

In October 2019 the Committee reviewed the amendments to the Group's key performance indicators (see Alternative performance measures section for further information).

Accounting matters

Company accounting policies are maintained by the Group Finance Department, which updates and issues the Group Accounting Policy manual. Throughout the year, the Committee considers the implications of new accounting standards, reviews complex accounting transactions, and considers the key estimates and judgements used in the preparation of the Group financial statements. In 2019, this included the review of exceptional items associated with pension costs at British Airways. In addition the Committee considered the implementation of the new accounting standard IFRS 16 'Leases' in 2019, and

judgements and estimates surrounding the pension transactions, the carrying value of goodwill and indefinite-lived intangibles, revenue recognition in relation to loyalty programmes, income tax provisions, and changes to the estimated useful lives and residual values of certain aircraft.

The exceptional item arose from the settlement between British Airways and the Trustee of the Airways Pension Scheme that permits the Trustee to make discretionary funding increases up to the level of RPI. The settlement has been treated as a plan amendment. The Committee has reviewed and agreed with management's rationale for recognising these costs and disclosing them as exceptional items by virtue of their size or non-cash incidence.

The Committee considers whether the Annual Report and Accounts are fair, balanced and understandable. The Committee also reviews disclosure during the year through a half-yearly report from the IAG Disclosure Committee outlining all the matters they discuss. The Committee is satisfied that the Annual Report and Accounts are fair, balanced and understandable and has recommended their adoption by the Board.

External audit

The Committee continues to work closely with EY, with the engagement partners attending seven meetings during the year. The Committee reviewed the engagement letter, fees and considered the audit plan which included EY's assessment of risk areas within the financial statements and key audit matters. The Committee asked for additional information on the scope of the external audit including additional information and analysis on out of scope areas of the business and the impact of reporting and audit developments on the Group.

Reports from the external auditor were reviewed during the meetings, covering the conclusions of the review of the Group's results for the half year, interim audit findings, early warning report for year end matters, and for the final report for year-end matters. No significant control weaknesses were identified or reported to the Committee by the external auditors in 2019, however the Committee requested additional information to understand EY's choice of a controls or substantive-based audit approach as well as the impact of the implementation of a new common finance system in British Airways and Iberia.

In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors. The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed the audit team's qualifications, expertise,

resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Committee's assessment included a detailed questionnaire completed by key directors, managers and a sample of accounting staff throughout the Group. The questionnaire results demonstrated that management regarded EY's overall performance as good. This aligned with the Committee's independent assessment of performance. Having reviewed EY's performance during 2019, the Committee concluded that EY were independent and that it was in the Group's and shareholders' interests not to tender the audit in relation to their re-appointment for 2020. The Board of Directors refrain from engaging any audit firm entitled to be paid by the Company for all services rendered fees in excess of 10 per cent of such firm's total revenue for the previous year. The current EY partner is Hildur Eir Jónsdóttir who has held her role since 2016.

To comply with the Spanish Act 22/2015 on the requirement to tender the external audit at least every ten years, the Company has completed a process designed to satisfy the requirements for the selection and appointment of a new external auditor for the years 2021, 2022 and 2023. The Committee recommended two external audit firms to the Board and the Board will be recommending the appointment of KPMG at the Company's AGM to be held in June 2020.

Non-audit services provided by the external auditors are subject to a Board-approved policy that prohibits certain categories of work and controls the overall level of expenditure. It is the Company's intention to comply voluntarily with the revised UK standards in relation to non-audit services.

The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and all projects are either pre-approved or approved by the Committee Chairman for projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target annual maximum of €1.6 million with an additional allowance of up to €1.2 million for large projects where EY are uniquely placed to carry out the work.

Average spend across the last three years was within the total target maximum. Spend in 2019 was €1,504,000 with an additional €1,383,000 relating to work performed on a working capital review for the proposed fleet acquisition. 39 per cent of the €1,504,000 spend related to recurring work on the audit of accounts required by our Joint Business arrangements. Details of the fees paid to the external auditors during the year can be found in note 6 to the Group financial statements.

Report of the Nominations Committee



Antonio Vázquez
Nominations Committee Chairman

Committee members	
Date appointed	Meetings attended
Antonio Vázquez (Chair) December 19, 2013	100%
Marc Bolland June 20, 2019	50%
Deborah Kerr June 20, 2019	100%
Emilio Saracho June 16, 2016	86%
Alberto Terol June 20, 2019	100%

Dear Shareholder

On behalf of the Board, I am pleased to present the Nominations Committee's Report, which summarises our work over the past year.

As already anticipated in my last letter as Committee Chairman, succession was the main focus for the Committee in 2019 both for executive and non-executive directors. Recently, we announced the retirement of our Group Chief Executive, Willie Walsh and the appointment of his successor, Luis Gallego, current Chairman and Chief Executive of Iberia. On April 15, 2019 we announced the appointment of Steve Gunning as the Group Chief Financial Officer, succeeding Enrique Dupuy, who stepped down in June 2019 at the Shareholders' Meeting. I am pleased that both appointments have been made from within the Group, which is evidence of the strength and depth of IAG's leadership and senior management teams.

At the same time, the Committee continued its regular consideration of the composition of, and succession plans for, the IAG Board in order to ensure the right balance of diversity, experience and skills to provide the oversight needed to sustain our business over the long term. In this respect, this year saw the retirement of Patrick Cescau, our Senior Independent Director, and Dame Marjorie Scardino. To fill these vacancies, and following a suitable search process, the Committee recommended the appointment of Margaret Ewing and Javier Ferrán.

As a consequence of these changes, the Committee reviewed the composition of the Board committees and also recommended to the Board the appointment of Alberto Terol as Senior Independent Director.

As customary, we also reviewed and discussed management succession planning and talent development arrangements, including board appointments in our main operating companies, which has proven to be a very useful development tool. At a senior management level, this year we saw the retirement of Robert Boyle, Director of Strategy, after 26 years with the Group, succeeded by Alistair Hartley, who joined the Group in 2015 as Head of Strategy. As a new addition to the Management Committee, we oversaw the appointment of John Gibbs in the new role of Group Chief Information Officer. Lastly, on January 30, 2020 the Committee considered and recommended to the Board the appointment of Javier Sánchez-Prieto, as Chairman and Chief Executive of Iberia, and of Marco Sansavini as Chairman and Chief Executive of Vueling, both appointments will be effective on March 26, 2020. The number of internal appointments prove once again the privilege of having a strong and committed internal pipeline.

Our main objectives and areas of focus for 2020, are the completion of Luis Gallego's transition into the role of Group Chief Executive, as well as a closer oversight of our management talent pipeline ensuring that appropriate opportunities are in place to develop high-performing individuals, while ensuring we build on diversity and inclusivity across senior roles in the business. Having completed nine years as a non-executive director my succession arrangement is another priority for 2020. This process is being led by the Senior Independent Director, involving all non-executive directors.

Antonio Vázquez
Nominations Committee Chairman

The Nominations Committee

The composition, competencies and operating rules of the Nominations Committee are regulated by article 30 of the Board Regulations. A copy of these Regulations can be found on the Company's website.

The Nominations Committee has overall responsibility for leading the process for appointments to the Board and to ensure that these appointments bring the necessary skills, experience and competencies to the Board, aligning its composition to the business strategy and needs.

These Regulations state that the Nominations Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. A majority of the members of the Nominations Committee must be independent directors.

The Committee's responsibilities

The Nominations Committee's responsibilities are contained in the Board Regulations. These can be summarised as:

- evaluating the competencies, knowledge and experience necessary on the Board and reviewing the criteria for the Board composition and the selection of candidates
- submitting the appointment of directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairmen
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner
- establishing guidelines for the appointment, recruitment, career, promotion and dismissal of senior executives

- reporting to the Board on the appointment and removal of senior executives
- ensuring that non-executive directors receive appropriate induction programmes
- establishing a target for female representation on the Board which should adhere to the Company's Directors Selection and Diversity Policy
- submitting to the Board a report on the annual evaluation of the Board's performance

The Committee's activities in 2019

The Committee met seven times during 2019. Directors' attendance at these meetings is shown over and further detailed in the Corporate Governance report. The Group Chief Executive was invited to attend the Committee's meetings as and when necessary.

In accordance with its responsibilities, the Committee focused on the following activities during the year:

- the composition of the Board and the combined capabilities and experience of the non-executive directors
- formulating a refreshment and succession plan for the Board, covering key positions
- non-executive director search and appointment of Margaret Ewing and Javier Ferrán
- reviewing the Board committees' membership
- executive directors and management succession plans
- Chairman and Group Chief Executive annual appraisals
- talent management, pipeline and diversity
- review of the Board annual evaluation process and conclusions, as well as that of the Nominations Committee
- changes to Group company boards

Executive directors and management appointments and succession planning

Each year the Committee scrutinises the strength of succession planning arrangements for the executive directors and senior management, with particular emphasis during the last two or three years. The annual review of succession planning for the top 50 leadership positions has been a key and regular item of Committee discussion and oversight.

In the normal performance of its obligations, the Nominations Committee had compiled a Group Chief Executive role profile in accordance with the future strategic direction and needs of the Company. This profile was again circulated and discussed by all non-executive directors this year. This profile contained a brief of the requirements and the desired skill-set that a potential successor to Willie Walsh would need.

To support this process, the Nominations Committee appointed Spencer Stuart as the search consultant to review the external market and to conduct the executive assessment of the already identified internal candidate. The Nominations Committee discussed the conclusions of Spencer Stuart's reports on the mapping exercise and the executive assessment. Following this, each of the Committee members interviewed the internal candidate. The Nominations Committee shared the conclusions of its assessment with the Board, but considering the relevance of the decision, asked the remaining non-executive directors to consider all the information made available to the Committee and to complete their own individual assessments. Additionally, a special meeting of non-executive directors was held with the internal candidate. Following this, it was agreed by all directors that Luis Gallego was the right candidate to succeed Willie Walsh following his decision to retire.

In January 2020, the Committee met to agree the timeframe of the succession of the Group Chief Executive and the proposal to nominate Luis Gallego to this

IAG has an agreed process in place for the recruitment and appointment of new non-executive directors to the Board, which principles are included in the Director Selection and Diversity Policy. This process was followed in relation to the appointments of both Margaret Ewing and Javier Ferrán. Details regarding compliance with diversity principles are included below.

The appointment of Margaret Ewing and Javier Ferrán

October 2018

Search initiated in accordance with Board succession plans and specifications discussed and agreed

November 2018

Executive Search Firm engaged to assist with the search

November 2018

Longlist of potential candidates considered

December 2018

Shortlist agreed and shared with the Board

role with effect from March 26, 2020, which appointment was unanimously approved by the Board.

In 2019, the Committee also considered succession arrangements for IAG's executive director and Chief Financial Officer, Enrique Dupuy, who stepped down from the Board at the Shareholders' Meeting in June 2019. In accordance with the internal succession planning arrangements, Steve Gunning, at the time Chief Financial Officer at British Airways, was appointed as Group Chief Financial Officer and as a executive director at the Shareholders' Meeting.

In terms of senior executive appointments, in June 2019, Alistair Hartley was appointed as a member of the Management Committee following Robert Boyle's retirement in May 2019, and John Gibbs was appointed as IAG's first Chief Information Officer in September 2019. John's previous role was chief information officer for Rolls-Royce.

In January 2020, Javier Sánchez-Prieto, currently Chairman and CEO of Vueling, was appointed Chairman and CEO of Iberia, with Marco Sansavini, currently Commercial Director of Iberia being appointed Chairman and CEO of Vueling. Both appointments, together with that of Luis Gallego as Group Chief Executive, will be effective on March 26, 2020.

Non executive directors appointments and Board succession planning

The Committee regularly reviews the formal succession plan for the Board, including analysis of non-executive directors' length of tenure, skills and experience. The Committee discussed the Board skills matrix and experience needed in the context of the Group strategy and challenges, including any areas requiring strengthening from a skills and succession perspective. The conclusions of this exercise helped to inform the search for new directors and the profile and skills required.

The ongoing refreshment of the Board has led to the appointment of Margaret Ewing and Javier Ferrán as non-executive directors on June 20, 2019, filling the vacancies left by Patrick Cescau and Dame Marjorie Scardino, who did not stand for re-election at the 2019 Shareholders' Meeting.

Spencer Stuart was engaged to support this recruitment process. Spencer Stuart has no other connection with the Company other than providing recruitment services. Spencer Stuart is an accredited firm under the Enhanced UK Code of Conduct for Executive Search Firms.

Board positions and committee memberships

Following the 2019 Shareholders' Meeting, Alberto Terol became the Senior Independent Director. At the Nominations Committee meeting held on the same day, the Committee reviewed the composition of the committees and proposed to the Board the appointment of Javier Ferrán and Emilio Saracho as members of the Remuneration Committee, Javier Ferrán as a member of the Safety Committee, Marc Bolland, Deborah Kerr and Alberto Terol as members of the Nominations Committee, and Margaret Ewing as a member of the Audit and Compliance Committee.

Directors independence, performance and re-election

The Nominations Committee, having considered the matter carefully, is of the opinion that all of the current non-executive directors remain independent, both in line with the definition set out by the Spanish Companies Act and with that of the UK Corporate Governance Code, and are free from any relationship or circumstances that could affect, or appear to affect, their independent judgement.

In accordance with UK Corporate Governance recommendations, the Committee believes that non-executive

directors should generally stay in the role no longer than nine years. However, the Committee and the Board may determine that it is in the Company's best interest for a director with a particular profile and in particular circumstances to stay beyond the nine-year term, and appropriate explanations in dialogue with shareholders and investors will be provided in such a case.

Regarding the length of tenure recommendations included in the 2018 UK Corporate Governance Code, the Committee is mindful that, as of January 2020, both the Chairman of the Board and the Chairman of the Audit and Compliance Committee have completed nine years as non-executive directors. The Committee and the Board have carefully planned the overall Board succession process and will continue with its renewal plan to facilitate effective succession and the development of a diverse board. As far as the chair succession arrangements are concerned the Senior Independent Director is leading this process including all non-executive directors and in consultation with the executive directors.

All proposals for the appointment or re-election of directors presented to the 2019 Shareholders' Meeting were accompanied by an explanatory report issued by the Board of Directors with the support of the Nominations Committee assessing the competence, experience and merits of each candidate. Following this review, the Committee was of the opinion that each non-executive director submitting him or herself for re-election continued to demonstrate commitment to the role as a member of the Board and its committees, discharged his or her duties effectively and that each was making a valuable contribution to the leadership of the Company for the benefit of all shareholders.

January and February 2019

Interviews completed and feedback discussed (other directors invited to meet short-listed candidates)

May 2019

Nominations Committee considered final candidates and made recommendation to the Board

May 2019

Appointment announced by the Board, and published report for submission to the Shareholders' Meeting

June 2019

Appointment approved by the Shareholders' Meeting

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a non-executive director cannot hold more than six other directorships, including only four in a listed company. Executive directors can only hold one directorship in another public listed company. Each director is required to advise the Committee and seek its authorisation before accepting any external directorship or other significant appointment that might affect the time they are able to devote to the role as a director of the Company.

The Committee also reviews the time commitment of each non-executive director on at least an annual basis.

Diversity

The Nominations Committee and the Board are committed to achieving diversity in its broadest sense in the composition of the Board and senior management, and fully support all initiatives in this regard. A combination of opinions, skills, experiences, backgrounds and orientations on the Board and the Management Committee is important in providing the range of perspectives, insights and challenge needed to facilitate their respective roles.

IAG's approach to inclusion and diversity on the Board is set out in the Company's Director Selection and Diversity Policy. The procedure for the appointment of directors follows the principles established in this Policy, and, as recommended by the Spanish Good Governance Code, the Nominations Committee reviews compliance with this policy on a yearly basis.

When considering director appointments, the Committee follows a formal, rigorous and transparent procedure, designed to preserve this diversity value while ensuring that any appointment is made on merit, and taking into account the specific skills and experience needed at any point in time to ensure continuing Board balance and relevant knowledge. Gender diversity principles are followed throughout the process, while preserving the general diversity and merit based appointment principles established in the policy. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

The basic principles and steps followed in every appointment process are:

- each search is based on a prior analysis of the needs of the Board. This evaluation is made alongside succession plans for directors and taking into consideration the conclusions from the annual review of Board performance.
- searches are conducted by selected executive search firms, only engaging with those who are signatories to the UK Voluntary Code of Conduct for Executive Search Firms.
- the long-list of potential candidates needs to include adequate representation of female candidates, and candidates, as far as possible, from the widest possible pool.
- this long-list of candidates is reviewed and discussed by the Nominations Committee to produce a short list which is then circulated to the whole Board for relevant comments or possible objections.
- the short listed candidatures are analysed to ensure compliance with the applicable independence tests
- following this, interviews are conducted with those preselected with the participation of different Committee members.
- availability and commitment expectations are discussed with each of the candidates, and a rigorous assessment of each potential candidate is completed before the Committee reaches a final decision.

The process led by the Committee to identify, select and make the Board recommendation in relation to the appointments of both Margaret Ewing and Javier Ferrán is set out above.

IAG's Board aspiration to have 33 per cent female representation on the Board by the end of 2020 is formally reflected in the Directors Selection and Diversity Policy. This target was met in 2018 following the appointment of Deborah Kerr as a non-executive director and this remained the case following the appointment of Margaret Ewing after the retirement of Dame Marjorie Scardino.

This policy also sets out IAG's commitment to strengthen the gender balance on IAG's leadership and senior management teams. IAG's Management Committee is responsible for improving diversity within management and generally across the Group. The Nominations Committee is committed to improving diversity, and gender diversity in particular, within the Group, and encourages and supports Group initiatives in this respect. Relevant details on diversity can be found on the Sustainability section.

Induction of directors

A comprehensive induction programme was initiated for Margaret Ewing and Javier Ferrán in July 2019 and has been arranged following IAG's induction guidelines as approved by the Nominations Committee. This is described in more detail previously in this report.

The Committee annual evaluation

The annual performance evaluation was externally conducted by Board Independent Evaluation as part of the overall Board evaluation process. The Committee supervised the process for the selection of the external provider, and considered the results of this exercise regarding both the Board and the Committee itself at the Nominations Committee meeting held in September 2019. The evaluation concluded that the Committee operated effectively during 2019.

In 2020, the Committee has agreed to prioritise its focus on the review of the Group's framework for management succession and talent development, as well as on the initiatives to improve gender diversity and inclusivity within the Group, in addition to its work regarding Board succession planning.

Report of the Safety Committee



Willie Walsh
Safety Committee Chairman

Committee members	
Date appointed	Meetings attended
Willie Walsh (Chair) October 19, 2010	100%
Antonio Vázquez October, 19 2010	100%
Javier Ferrán June 20, 2019	100%
Kieran Poynter October 19, 2010	100%
Nicola Shaw June 14, 2018	50%

Dear Shareholder

In 2019, the Safety Committee continued its routine work monitoring the safety performance of IAG's airline companies, as well as the systems and resources dedicated to safety activities across the Group. In June 2020 we were pleased to welcome Javier Ferrán as a new member to the Committee following the Board Committees composition review.

As I do every year, I like to highlight the role that this Committee plays within our Group, partly to be clear about our remit as a committee and partly to emphasize its uniqueness and its value in the Group context. Safety and security responsibility lie with each Group airline in accordance with its applicable standards, its own culture and the circumstances and particularities of each business. IAG's Safety Committee exercises a high-level overview of safety activities to ensure a minimum Group standard, but more importantly it fosters the Group homogenisation effort in safety reporting, the discussion of common issues and the sharing of best practices between Group airlines.

Willie Walsh
Safety Committee Chairman

The Safety Committee

The Committee composition, competencies and operating rules are regulated by article 32 of the Board

Regulations. The Committee is made up of no fewer than three and no more than five directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function.

In addition to Committee members, senior managers with responsibility for safety matters are invited to attend and report at Committee meetings as and when required. During 2019, representatives of the British Airways, Iberia, Aer Lingus and Vueling safety teams attended meetings.

The Committee's responsibilities

Responsibility for safety matters belongs to the Group's airlines. IAG, through its Safety Committee, has an overall view of each airline's safety performance and of any important issues that may affect the industry. The Committee also has visibility of the Group airlines' resources and procedures. Responsibility for performing detailed and technical assessments remains with each airline, overseen by their respective safety committees.

The Committee's duties include:

- to receive significant safety information about IAG's subsidiaries, franchise, codeshare or wet-lease providers used by any member of the Group
- to exercise a high-level overview of safety activities and resources
- to inform the Board and to follow up on any safety-related matters as determined by the Board
- to carry out any other safety-related functions assigned by the Board

The Committee's activities during the year

During 2019 the Committee held two meetings. Directors' attendance at these meetings is shown opposite and further detailed in the Corporate Governance report.

Key topics discussed for each airline under their regular safety risk management, safety culture, operational risks, as well as reported data on aircraft damage. In addition to this, the Committee considered the Group annual report on dangerous goods, as well as specific reports. British Airways' Head of Quality and Technical Engineering reported to the July meeting as requested by the Committee on the 787 Trent 1000 engines' durability issues and their operational implications.

Report of the Remuneration Committee



Marc Bolland
Remuneration Committee Chairman

Committee members

Date appointed	Meetings attended
Marc Bolland (Chair) June 16, 2016	100%
Maria Fernanda Mejia October 30, 2014	100%
Nicola Shaw January 1, 2018	86%
Emilio Saracho June 20, 2019	100%
Javier Ferrán June 20, 2019	50%

Dear Shareholder

As Chairman of the Remuneration Committee, and on behalf of the Board, I am pleased to present the Remuneration Report for 2019. It has been a year of high activity for the Committee on several fronts, including detailed discussions on the regulatory and governance developments in both Spain and the UK. Changes at Board level and Management Committee level have also meant the Committee carefully considering remuneration packages and exit packages taking into account all the appropriate external and internal factors. I have set out below our overall approach, a summary of 2019 performance and key decisions made by the Committee in 2019. The remuneration policy is up for review and approval in 2021, and the Committee will consider the features of the new policy in the context of the views and perspectives of key stakeholders as well as ensuring that the policy continues to support the business objectives. We will consult with key shareholders ahead of finalising the proposed policy. Once determined, our new policy will be published in next year's report, and any changes to the current approach will be clearly set out.

As well as global economic conditions, the Company faced a number of other challenges during 2019, and in September the Company issued a guidance update to the London and Spanish stock exchanges, as a result of the British Airways pilots' strike, a threatened strike by Heathrow

airport employees, and booking trends in our low-cost segments.

Overall strategy and link to remuneration

IAG's aim is to become the world's leading international airline group. Its strategy is to actively participate in the consolidation of the airline industry to create a multi-brand portfolio of leading airline businesses each focused on addressing specific customer markets and geographies while driving revenue and cost synergies through commercial co-operation, scale effects and leverage of the broader Group platform. Execution of this strategy coupled with disciplined capital allocation allows IAG to deliver superior value and sustainable financial returns to its shareholders. To measure the effectiveness of this strategy, a set of consistent financial metrics linked to creating shareholder value are applied to each part of the Group.

The Committee's main objective is to ensure that remuneration at IAG continues to be aligned with, and drives delivery of our business and strategic priorities, because we see that as the best way to drive performance. We will continue to focus on alignment between performance and pay outcomes, ensuring that the management team receive fair outcomes under our incentive plans only where this can be supported by company and individual performance. We are very pleased to see our shareholders' support for our remuneration policies and practices in recent years.

IAG's executive remuneration framework aims to support the business objectives and the financial targets attached to them through the following two schemes:

The Company's long-term incentive plan, known as the performance share plan (PSP), measures our performance by:

- earnings per share (EPS), adjusted for exceptional items, which reflects the profitability of our business and the core elements of value creation for our shareholders. Growing earnings indicates that the Group is on the right path to create value for our shareholders;
- total shareholder return (TSR) to ensure alignment with our shareholders; and
- Return on Invested Capital (RoIC) to assess efficient return on the Group's asset base.

The annual incentive plan has its major focus on strong financial performance, and therefore the primary measure in the plan is the Group's operating profit before exceptional items (this element has a 60 per cent weighting). A customer measure, Net Promoter Score (NPS), drives a focus on improving customer advocacy as a source of competitive advantage (10 per cent weighting from 2020). Performance against role-specific objectives (20 per cent weighting from 2020) allows us to focus on key strategic and business targets that are important aspects of the role, which may not be suitably captured under the financial or customer elements. For 2020, we have introduced a new measure which focusses on reducing our flight emissions. The specific measure is the grammes of CO₂ per passenger kilometre. This measure will have, for 2020, a 10 per cent weighting.

The policy in general is designed to deliver total remuneration that is competitive and with a strong emphasis on "pay for performance". The Committee will continue to ensure that executive remuneration is aligned with our business strategy and that the overall reward framework for 2020 and beyond is in the best interests of our shareholders.

Summary of performance and incentive outcomes

The PSP that was awarded in 2017 had a three-year performance period (2017 to 2019) and had the same performance measures as current awards. Performance targets for all three measures were set at the beginning of 2017 at a level that the Committee considered to be appropriately stretching based on internal and external expectations for performance.

The Company has had solid financial performance over the last three years, leading to 2019 adjusted EPS reaching 116.8 euro cents. As a result, the 2017 PSP has an outcome of 60 per cent of its maximum for the EPS element. RoIC in 2019 reached 14.7 per cent, resulting in an outcome of 91 per cent of its maximum level for the RoIC element. TSR has outperformed the index that the Company measures itself against by over 4 per cent, resulting in an outcome of 65% of its maximum for the TSR element. Overall, this has resulted in the 2017 PSP award having an outcome of 72 per cent of the maximum. The PSP award has an additional two-year holding period. This applies until the end of 2021.

The financial target for the 2019 annual incentive plan set at the beginning of the year was for an IAG operating profit of €3.43bn. The challenges that I mentioned earlier have led to IAG operating profit being below this target and paying out at 24 per cent of the maximum level for the 60 per cent weighting linked to financial performance. It is very pleasing to see strong customer performance at all airlines in the Group and as a result the outcome for the NPS measure was well above the target level of 21.0 set at the beginning of 2019, resulting in a pay-out at the maximum level for the 15 per cent weighting linked to customer performance.

For the outcomes of both the 2017 PSP award and the 2019 annual incentive plan, the Committee was mindful of not just relying on formulaic outcome: we were committed to determining appropriate and robust outcomes taking into account all necessary factors, including the wider Company performance context. It was the view of the Committee that the incentive outcomes appropriately reflect performance in the period and the remuneration policy operated as intended and therefore no discretion was applied.

Decisions during 2019

2019 has been another busy year for the Committee. We have continued working through the implications for IAG of the new UK Corporate Governance Code (the Code) and we are committed to complying with all the provisions of the Code.

For the first time in recent years, there have been changes at the executive director level. The Committee carefully considered appropriate leaving arrangements for the outgoing Chief Executive Officer (CEO) as well as the Chief Financial Officer (CFO) of IAG, (covered in detail later in this report), and at the same time discussed fully the remuneration packages for their respective replacements. Both the new CEO and CFO were internal promotions and in their prior roles were entitled to a 25 per cent of salary employer pension contribution rate. However the Committee was mindful of the relevant provisions in the Code as well as investor expectations and recommended a rate that was comparable to the rate for the majority of IAG's workforce. As a result both the new CEO and CFO have a pension contribution rate of 12.5 per cent of salary. As a Committee, we intend to follow this same thinking if there are any more newly appointed executive directors in future, whether they are internal promotions or external hires.

There have been two other new appointments to the IAG Management Committee during 2019, and the Committee took careful consideration when determining their remuneration packages, taking into account all necessary external and internal factors to ensure the packages are fair and appropriate.

The Committee had oversight of remuneration practices across IAG as well as the overall bonus frameworks in place at the airlines. This analysis helped shape our thinking when determining remuneration for IAG executives.

In October of last year, the Company announced industry-leading short, medium and long-term climate targets. The Committee was very keen to add a climate measure to the Company's incentive plans, as part of our plans towards the long-term sustainable success of our company. As mentioned, for the 2020 annual incentive plan, a CO₂ emissions efficiency measure has been added for the first time. All operating companies in the Group have added climate measures to their own incentive plans for 2020.

Working with shareholders

IAG has always recognised the need to build strong relationships with our investors through a process of open and transparent dialogue, and the Committee has continued that approach during 2019. We appreciate their constructive comments about remuneration. Our overall intention has been to ensure that we have a strong alignment to our strategy because we think that is the way to create long-term, sustainable shareholder value.

On behalf of the Committee, I appreciate your time in reading our 2019 DRR and I hope you find it accessible and informative.

Approved by the Board and signed on its behalf by

Marc Bolland

Remuneration Committee Chairman

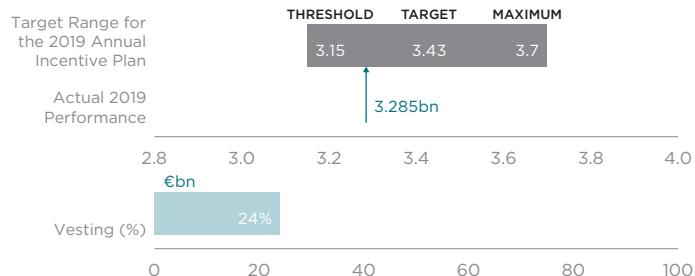
At a Glance

Implementation of remuneration policy in 2019

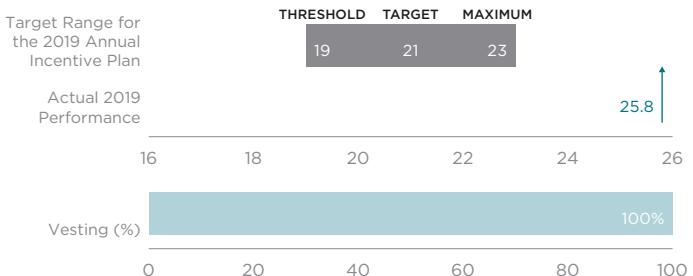
The following two charts show Company performance for the two corporate measures in the 2019 annual incentive plan.

Financial performance and customer performance has resulted in 24 per cent and 100 per cent vesting respectively:

IAG Operating Profit (before exceptional items)

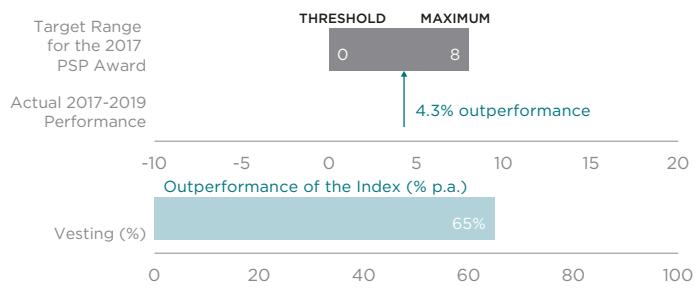


Net Promoter Score

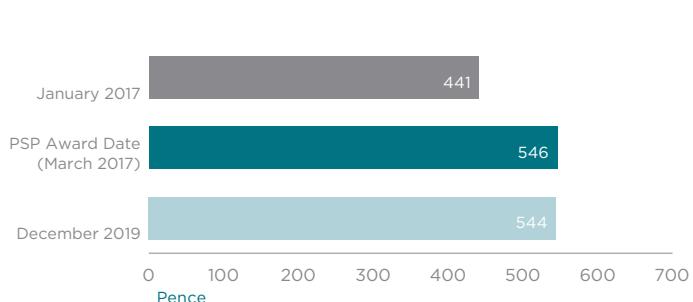


The following four charts show Company performance for the three performance measures in the 2017 PSP award, and share price performance:

Total Shareholder Return

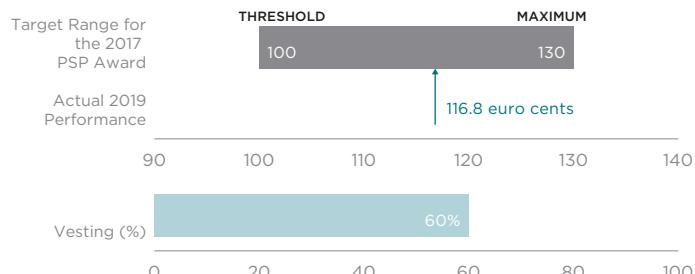


Share Price

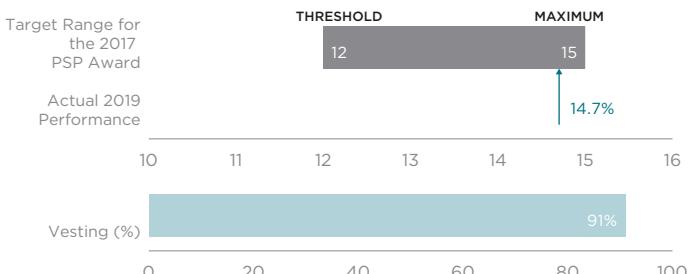


Strong EPS and RoIC performance in 2019 has resulted in good vesting levels for the following two measures in the 2017 PSP award:

Adjusted Earnings per Share



Return on Invested Capital



Introduction

The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

The Company's current policy on directors' remuneration was approved by shareholders at the annual Shareholders' Meeting on June 14, 2018. It is intended that this policy will apply for three years, and therefore there are no changes to the policy this year. However, mindful of shareholders' views, certain aspects of how the policy operates in practice have been discussed by the Remuneration Committee and approved by the Board with effect from January 1, 2020. However, these adjustments to the application of policy, listed in the following section, don't imply an amendment of the policy that would be subject to the shareholders' meeting approval.

As a Spanish incorporated company, IAG is subject to Spanish corporate law. The Spanish legal regime regarding directors' remuneration is substantially parallel to that of the UK as far as directors' remuneration disclosure and approval requirements are concerned.

The Company welcomes the opportunity provided by the Spanish CNMV allowing companies to prepare free format reports. Therefore, for the second year in a row, IAG is presenting a consolidated report responding to Spanish and UK disclosure requirements. This report will be accompanied by a duly completed form which is required by the CNMV covering some relevant data. This is prepared in accordance with Spanish legislation and is available on the Company's website, and the CNMV website.

It is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2013 and to follow best practice UK standards, for the benefit of our UK shareholder base.

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains the Annual Report on Remuneration, which covers the information on directors' remuneration paid in the reported year.

Directors' Remuneration Policy

The policy as approved by shareholders at the annual Shareholders' Meeting on June 14, 2018 was shown in full in the 2017 Directors' Remuneration Report and is not repeated here. It can be found on the Company's website in the 2017 Annual Report and Accounts. However, as covered in the Committee Chairman's letter at the beginning of this report, the Committee has considered the remuneration provisions in the UK Corporate Governance Code and shareholder sentiment and have as a result determined how the policy will be operated in practice in respect of pension provisions. The policy of capping pension employer contributions at a maximum level of 15 per cent of basic salary for new externally recruited external directors will also be applied for internal promotions. On a case-by-case basis, pension contributions may be set lower than 15 per cent.

The policy itself will be reviewed and submitted for a shareholder vote next year, at the annual Shareholders' Meeting in 2021.

Annual Remuneration Report

The Annual Remuneration Report sets out how the Directors' Remuneration Policy (as approved by shareholders at the annual Shareholders' Meeting on June 14, 2018) was put into practice in 2019 and how it will be implemented in 2020.

The Committee's activities during the year

In 2019, the Committee met 7 times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	Review of IAG Management Committee members' basic salaries Approval of the 2019 annual incentive plan Approval of the 2019 Performance Share Plan
February	2018 annual incentive plan payments to IAG Management Committee members 2019 Management Committee role-specific objectives Vesting outcome of the Performance Share Plan 2016 award Final review of 2018 Directors' Remuneration Report New UK Corporate Governance Code requirements Review of incentive plans in all operating companies across the Group Review of information on the pay ratio between the CEO and IAG UK workforce Annual disclosure regarding gender pay gap data
March	CFO succession remuneration arrangements
April	CFO succession remuneration arrangements
June	Approval of remuneration for a new Management Committee member
August	Approval of remuneration for a new Management Committee member
October	Executive remuneration market update and review of corporate governance requirements Remuneration strategy for 2020

Subject to audit

Single total figure of remuneration for each executive director

The table below sets out the single total figure and breakdown for each executive director. An explanation of how the figures are calculated follows the table. The remuneration for each executive director reflects the performance of the Company and the contribution each individual has made to the ongoing success of the Company.

Director ('000)	Salary		Benefits		Pension		Total Fixed		Annual incentive		Long-term incentive		Total Variable		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Willie Walsh (GBP) ¹	850	850	30	27	213	213	1,093	1,090	883	1,051	1,222	889	2,105	1,940	3,198	3,030
Willie Walsh (euro)	967	962	34	31	242	241	1,243	1,234	1,004	1,189	1,390	1,006	2,394	2,195	3,637	3,429
Steve Gunning (GBP) ^{1,2}	315	-	8	-	39	-	362	-	286	-	380	-	666	-	1,028	-
Steve Gunning (euro)	358	-	9	-	44	-	411	-	325	-	432	-	757	-	1,168	-
Enrique Dupuy de Lôme (GBP) ^{1,3,4}	269	557	46	27	67	139	382	723	217	498	-	412	217	910	599	1,633
Enrique Dupuy de Lôme (euro)	306	630	52	31	76	157	434	818	247	564	-	466	247	1,030	681	1,848
Total (€'000)	1,631	1,592	95	62	362	398	2,088	2,052	1,576	1,753	1,822	1,472	3,398	3,225	5,486	5,277

1 Remuneration for all executive directors above is paid in sterling and expressed in euro for information purposes only.

2 Steve Gunning joined the Board on June 20, 2019

3 Enrique Dupuy de Lôme stepped down from the Board on June 20, 2019

4 Enrique Dupuy de Lôme taxable benefits include a payment of €37,394 in lieu of fifteen days of accrued but untaken holiday entitlement

Additional explanations in respect of the single total figure table for 2019

Each director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

Base salary

Salary paid in year for executive directors.

Taxable benefits

Taxable benefits including personal travel and, where applicable, a company car, fuel and private health insurance.

Pension related benefits

Employer contribution to pension scheme, and/or cash in lieu of pension contribution.

Annual incentive plan

Annual incentive award for the year to December 31, 2019 (accrued at December 31, 2019, but cash payments (50 per cent of the award) not paid until March 2020). The outcomes of the performance conditions which determined the award are described in the next section. Half of the annual incentive award is deferred into shares for three years (Incentive Award Deferral Plan (IADP)). For the 2019 annual incentive plan, these will vest in March 2023.

Long-term incentive vesting

This relates to the IAG PSP 2017 award based on performance measured to December 31, 2019, although the shares vested will not be delivered until January 1, 2022, following the two-year holding period. For the purposes of this table, the award has been valued using the average share price in the three months to December 31, 2019 of 544.4 pence. The outcomes of the performance conditions which determined vesting are described below.

For the year to December 31, 2019, €:£ exchange rate applied is 1.1371 (2018: 1.1317).

Share price appreciation and depreciation

The amount of remuneration attributable to share price depreciation is £3,592 (Willie Walsh), zero (Enrique Dupuy de Lôme), and £1,116 (Steve Gunning). This is as a result of share price depreciation from the date of the PSP award on March 6, 2017 until the end of 2019. The Committee have not exercised any discretion as a result of share price appreciation or depreciation for any of the remuneration in the above table.

Life Insurance

The Company provides life insurance for all executive directors. For the year to December 31, 2019 the Company paid contributions of €26,790 (2018: €22,987).

Subject to audit**Variable pay outcomes****2019 Annual Incentive Plan**

At the beginning of 2019, the Board, following a recommendation by the Committee, set IAG operating profit before exceptional items as the financial target in the Annual Incentive Plan for that year, with a 60 per cent weighting. Operating profit before exceptional items was considered to be the most appropriate financial measure in aligning shareholder interests with the Company. For the customer measure, there was a weighting of 15 per cent. Outcomes were calculated based on NPS. NPS is used to gauge the loyalty of the Group's customer relationships. It is calculated based on survey responses, by subtracting the percentage of customers who are 'Detractors' from the percentage of customers who are 'Promoters'. The final 25 per cent weighting is based on personal performance against objectives. The Remuneration Committee, on the proposal of the Chairman of the Board, considered the Chief Executive Officer's performance against his objectives; and on the proposal of the Chief Executive Officer, considered the Chief Financial Officer's performance against his objectives. Both performance evaluations were submitted to the Board for final approval on January 30, 2020.

The maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance). For the retiring Chief Financial Officer of IAG (Enrique Dupuy de Lôme) the maximum award was 150 per cent of salary (75 per cent of salary for on-target performance), pro-rated to end on June 20, 2019, and for the new Chief Financial Officer of IAG (Steve Gunning) the maximum award was 165 per cent of salary (82.5 per cent of salary for on-target performance), pro-rated to start on June 20, 2019.

The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Financial Officer of IAG (Steve Gunning)	Chief Financial Officer of IAG (Enrique Dupuy de Lôme)
IAG operating profit (before exceptional items) (60 per cent)	Payout	£245,922 €279,638	£75,874 €86,276	£57,606 €65,504
	per cent of maximum awarded	24 per cent See below for details of the performance target ranges	24 per cent See below for details of the performance target ranges	24 per cent See below for details of the performance target ranges
Group Net Promoter Score (15 per cent)	Outcomes versus targets	£255,000 €289,961	£78,674 €89,460	£59,733 €67,922
	per cent of maximum awarded	100 per cent See below for details of the performance target ranges	100 per cent See below for details of the performance target ranges	100 per cent See below for details of the performance target ranges
Personal performance against objectives (25 per cent)	Outcomes versus targets	£382,500 €434,941	£131,124 €149,101	£99,555 €113,204
	per cent of maximum awarded	90 per cent See below for details of the extent of the achievement of objectives	100 per cent See below for details of the extent of the achievement of objectives	100 per cent See below for details of the extent of the achievement of objectives
Details of any discretion exercised				
Overall outcome		£883,422 €1,004,540	£285,672 €324,837	£216,894 €246,630

Half of the overall outcome of the annual incentive detailed above is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

The target ranges and outcomes for each corporate measure in the annual incentive plan for 2019 were as follows:

	Threshold level at which payments begin	On-target (50 per cent of the maximum pay-out)	Stretch target (Maximum pay-out)	Outcome for 2019	Pay-out as a percentage of the maximum
IAG operating profit (before exceptional items)	€3,150m	€3,430m	€3,700m	€3,285m	24 per cent (2018: 66 per cent)
Group NPS	19.0	21.0	23.0	25.8	100 per cent (2018: 0 per cent)

For both measures, there was a straight-line sliding scale between the threshold level and the on-target level, and between the on-target level and the stretch target level.

Personal Performance

In assessing personal performance, the Committee considers a range of factors to ensure there is a holistic and detailed assessment of the executive directors' contribution. For 2020, the assessment of personal performance focused on progress towards our strategic priorities and key performance indicators during the year:

- 1 Strengthening a portfolio of world-class brands and operations with an unrivalled customer proposition
- 2 Growing global leadership position with value accretive and sustainable growth
- 3 Enhancing IAG's common integrated platform with efficiency and innovation

The assessment of the executive director's achievements is summarised below:

Chief Executive Officer of IAG (Willie Walsh)

Objective	Outcome
Succession planning	Effective facilitation of CEO succession planning and consideration of skills and expertise within the senior team and effective succession management within this team.
Key stakeholder relationships	Successful management of key stakeholder relationships including with governments and regulators.
Brexit	Planned and led the Group's response in relation to Brexit outcomes (in the context of the external uncertainties) including interactions with the relevant authorities.
Unrivalled customer proposition	
Customer focus	Led the Group's commitment to strengthen its customer focus and instilled this focus across the Group as a whole.
Customer investment	Ensured that each of the airlines invested significantly in improving their customer experience - key investment decisions included in lounges, catering, seats and digital solutions.
Airbus A350 introduction	Led the introduction of the Airbus A350 fleet.
Value accretive and sustainable growth	
Route and network expansion	Reinforced the Group's revenue leadership positions in its home markets with addition of new routes and optimisation of longhaul network with joint business partners.
New airlines	Managed new opportunities for airline integration and joint ventures including successful progression of Air Europa deal.
Sustainability and CO₂ emission	Ensured ongoing focus on being a leading airline group with regard to sustainability. This included the successful launch of Flighthpath net zero and building a platform as IAG makes progress towards its 2050 CO ₂ emissions target by investing in carbon reduction projects, sustainable aviation fuel, modernised fleet and innovative technologies.
Efficiency and innovation	
Cost reductions	Kept the Group focused on efficiency and cost reduction programmes to ensure customer and shareholder value creation.
IT platform	Development of clear IT strategy informed by deep technical knowledge and a business and customer focus.
Digital innovation	Ensured that digital innovation remained a core part of the Group's focus, in particular continuing the Hangar 51 accelerator programmes to attract global talent, and making strategic investments to automate the business above and below the wing.
Customisation and data analytics	Continued development in the Group of capabilities to support data customisation and data analytics.
Outcome (as a % of maximum)	90%

Chief Financial Officer of IAG (Steve Gunning)

Objective	Outcome
CFO transition	Has made a smooth transition into the role including an effective handover process from the outgoing CFO
Unrivalled customer proposition	
Investment decisions	Supported the significant and focussed investment at each airline to strengthen customer focus and improve the customer experience.
Cost reductions	Continued to ensure focus on reducing costs and improving efficiency by leveraging Group scale and synergy opportunities.
Value accretive and sustainable growth	
Management of financial risk	Carefully managed financial risk, maintaining adequate cash balances and substantial committed financing facilities.
Expansion opportunities	Facilitated expansion opportunities for airline integration and joint ventures including successful progression of Air Europa deal.
Efficiency and innovation	
Cost reductions	Drove the CASK ex-fuel cost reduction.
Capital allocation	Proactively led on the continued focus on disciplined capital allocation, active portfolio management, and flexible and rapid decision-making.
Outcome (as a % of maximum)	100%

Chief Financial Officer of IAG (Enrique Dupuy de Lôme)

Objective	Outcome
CFO transition	Enrique successfully achieved his main objective in 2019, which was to ensure there was a smooth handover and transition to the new CFO.
Unrivalled customer proposition	
Investment decisions	Supported the significant focussed investment at each airline to strengthen customer focus and improve the customer experience.
Cost reductions	Continued to ensure focus on reducing costs and improving efficiency by leveraging Group scale and synergy opportunities.
Value accretive and sustainable growth	
Management of financial risk	Carefully managed financial risk, maintaining adequate cash balances and substantial committed financing facilities.
Efficiency and innovation	
Cost reductions	Drove the CASK ex-fuel cost reduction.
Capital allocation	Proactively led on the continued focus on disciplined capital allocation, active portfolio management, and flexible and rapid decision-making.
Outcome (as a % of maximum)	100%

IAG PSP award 2017

The IAG PSP award granted on March 6, 2017 was tested at the end of the performance period which began on January 1, 2017 and ended on December 31, 2019. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG, and 150 per cent of salary for the previous Chief Financial Officer of IAG (Enrique Dupuy de Lôme).

One-third of the award was subject to a TSR performance condition measured against the TSR performance of the MSCI European Transportation (large and mid-cap) index, one-third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one-third subject to RoIC. The definition of RoIC used was the methodology as described in the Company's 2017 Annual Report and Accounts. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2017)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG outperformed the index by 4.3 per cent p.a.	65 per cent
Adjusted earnings per share (EPS) (one-third)	2019 EPS of 100 €cents (10 per cent of award vests)	2019 EPS of 130 €cents (100 per cent of award vests)	116.8 €cents	60 per cent
Return on Invested Capital (RoIC) (one-third)	2019 RoIC of 12 per cent (10 per cent of award vests)	2019 RoIC of 15 per cent (100 per cent of award vests)	14.7 per cent	91 per cent
Details of any discretion exercised				
Overall outcome				72.11 per cent

IAG PSP award 2016

The IAG PSP award granted on March 7, 2016 was tested at the end of the performance period which began on January 1, 2016 and ended on December 31, 2018. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG, and 150 per cent of salary for the previous Chief Financial Officer of IAG (Enrique Dupuy de Lôme).

The performance measures, and their weightings and definitions, were the same as described above for the 2017 award. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2016)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG underperformed the index by 6 per cent p.a.	0 per cent
Adjusted earnings per share (EPS) (one-third)	2018 EPS of 105 €cents (10 per cent of award vests)	2018 EPS of 145 €cents (100 per cent of award vests)	117.7 €cents	39 per cent
Return on Invested Capital (RoIC) (one-third)	2018 RoIC of 12 per cent (10 per cent of award vests)	2018 RoIC of 15 per cent (100 per cent of award vests)	16.6 per cent	100 per cent
Details of any discretion exercised				
Overall outcome				46.19 per cent

Subject to audit

Scheme interests awarded during the financial year

The IAG PSP is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 8, 2019. The table in this section sets out the key details of the award.

The Committee believes that comparing the Company's TSR to that of European transportation companies, including airlines, is appropriate, given that these companies are subject to external influences impacting share price performance similar to those of the Group. This comparison therefore provides a good reference point for management outperformance and value creation.

Earnings per share reflect the profitability of our business and the core elements of value creation for our shareholders. Growing earnings indicates that the Group is on the right path to create value for our shareholders.

The Company uses rolling RoIC as a profitability indicator to assess efficient return on the Group's asset base. It quantifies how well the airlines generate cash flow in relation to the capital invested in their businesses together with their ability to fund growth and to pay dividends.

PSP 2019 – eligibility, metrics and targets

Type of award	Shares		
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.		
Face value awarded (per cent of salary)	CEO of IAG - 200 per cent Enrique Dupuy de Lôme - 150 per cent (to be pro-rated: see note later in the report on leaving arrangements) Steve Gunning (who at the time of the award was not an executive director) - 120 per cent		
Grant price	£5.67		
Performance period	January 1, 2019 to December 31, 2021		
Performance conditions and weightings	Threshold Target Maximum		
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third weighting)	IAG's TSR performance equal to the index 25 per cent vests	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight line vesting between threshold and maximum)	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Adjusted EPS. Measure is adjusted EPS in final year of the performance period, i.e. 2021 EPS (one-third weighting)	EPS of 150 €cents 10 per cent vests	EPS between 150 €cents and 190 €cents (straight line vesting between threshold and maximum)	EPS of 190 €cents 100 per cent vests
RoIC. Measure is RoIC in final year of the performance period, i.e. 2021 RoIC (one-third weighting)	RoIC of 14 per cent 10 per cent vests	RoIC between 14 per cent and 16 per cent (straight line vesting between threshold and maximum)	RoIC of 16 per cent 100 per cent vests
Holding period	Additional period of two years after the performance period		

The three measures are as defined for the 2017 PSP award earlier in the report. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the EPS targets and/or definition in the context of any corporate transactions, provided that, in its view, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports.

Subject to audit

Total pension entitlements

Willie Walsh is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions during the reporting period (2018: zero). He received cash in lieu of contributions of £212,500 (2018: £212,500).

Enrique Dupuy de Lôme is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions in his time as an executive director during the reporting period (January 1, 2019 to June 20, 2019) (2018: zero). He received cash in lieu of contributions of £67,292 (2018: £139,250).

Steve Gunning is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions in his time as an executive director during the reporting period (June 20, 2019 to December 31, 2019). He received cash in lieu of contributions of £39,357.

Enrique Dupuy de Lôme: payments for loss of office and payments to past directors

On April 15, 2019, it was announced that Enrique Dupuy de Lôme would step down from the Board and the role of Chief Financial Officer on June 20, 2019. The Company's remuneration policy states that the period of notice required from the executive is six months and the period of notice required from the Company is 12 months. By April 2020, Enrique Dupuy de Lôme will have served 12 months' notice.

Enrique Dupuy de Lôme received (or will receive) the payments set out below, less any required tax withholdings. All payments are in accordance with his service agreement and the Company's remuneration policy as set out in the Company's 2017 Annual Report and Accounts.

The single total figure of remuneration table for executive directors earlier in this report showed all remuneration paid to Enrique Dupuy de Lôme up until the date he stepped down from the Board, i.e. June 20, 2019. This included base salary, taxable benefits, pension related benefits, and the 2019 annual incentive award pro-rated to June 20, 2019.

From June 21, 2019 onwards, he received or is expected to receive, the following:

Payments from June 21, 2019 to December 31, 2019	Basic salary of £300,833, taxable benefits of £13,603, and pension benefits of £75,208 (cash allowance). There was no further 2019 annual incentive award entitlement after June 20, 2019.
Payments already made in 2020, or expected to be made up until the date he ceases employment (April 14, 2020)	Basic salary of £164,667, taxable benefits of £7,442, and pension benefits of £41,167 (cash allowance).

IADP Awards

Enrique Dupuy de Lôme holds outstanding IADP awards granted in 2017, 2018, and 2019, and is about to receive a 2020 award in respect of the deferred shares portion of the outcome of the 2019 annual incentive plan. All of these awards will remain capable of vesting in full on their normal vesting dates, in accordance with the rules of the IADP.

PSP Awards

Enrique Dupuy de Lôme holds outstanding PSP awards as follows:

Award	Notes
2016 PSP Award	Shares will be released at the end of the normal two-year holding period (end of 2020)
2017 PSP Award	Shares will reflect the vesting outcome at the end of 2019, and released at the end of the normal two-year holding period (end of 2021)
2018 PSP Award	Shares will reflect the vesting outcome at the end of 2020, pro-rated to 20 June 2019 (pro-ration is 17/36). On a recommendation from the Remuneration Committee, the Board determined that no additional holding period will apply
2019 PSP Award	Shares will reflect the vesting outcome at the end of 2021, pro-rated to 20 June 2019 (pro-ration is 5/36). On a recommendation from the Remuneration Committee, the Board determined that no additional holding period will apply

No additional holding period will apply to the 2018 and 2019 PSP awards. At the time of his stepping down, he held shares equal to 691 per cent of salary and unvested IADP and PSP awards will ensure that he will continue to have a significant shareholding in the Company post-termination.

Travel Benefits

Enrique Dupuy de Lôme will participate in the Iberia travel benefits programme for former employees, in line with the standard approach in place.

Payments to past directors

Baroness Kingsmill received travel benefits worth €22,131 during 2019 after she had left the Company.

James Lawrence received travel benefits worth €9,905 during 2019 after he had left the Company.

Dame Marjorie Scardino received travel benefits worth €22,422 during 2019 after she had left the Company.

Patrick Cescau received travel benefits worth €12,514 during 2019 after he had left the Company.

Subject to audit

Statement of directors' shareholding and share interests

In order that their interests are aligned with those of shareholders, each executive director is required to build up and maintain a minimum personal shareholding in the Company.

Under the Group's shareholding guidelines, the CEO of IAG is required to build up and maintain a shareholding of 350 per cent of salary. Other executive directors are required to build up and maintain shareholdings of 200 per cent of salary. In addition, they are required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained. The Committee has reviewed executive directors' progress against the requirements and notes that both executive directors are above the shareholding requirement.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares including those in the performance share plan holding period, and unvested deferred annual incentive shares. Interests in share awards following departure enable departing directors to remain aligned with the interests of shareholders for an extended period after leaving the Company. Deferred annual incentives and PSP awards subject to a holding period will normally vest at the normal time. This means that directors may retain a significant interest in shares following departure from the Company. The Remuneration Committee intends to further review the Company's arrangements for alignment with shareholders post-ceasation of employment as part of the review of the Remuneration Policy that will take place prior to the 2021 AGM. The table below summarises current executive directors' interests as of December 31, 2019:

Executive director	Shareholding requirement	Shares owned	Shares already vested, or in the holding period, from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Willie Walsh	350 per cent of salary	50,000	1,117,753	323,716	137,222	(1,078 per cent of salary) 1,628,691
Steve Gunning	200 per cent of salary	16,651	132,934	73,614	45,863	(253 per cent of salary) 269,062

External non-executive directorship

The Company's consent is required before an executive director can accept an external non-executive appointment and permission is only given in appropriate circumstances. During the reporting period in question, Steve Gunning was a non-executive director at FirstGroup Plc, for which he received a fee of €65,952.

Non-executive directors

Non-executive directors are paid a flat fee each year, as per the following table. There was no increase to fees from the previous year.

Role	Fee
Non-executive Chairman	€645,000
Non-executive directors	€120,000
Additional fee for holding a Committee chairmanship	€20,000
Additional fee for Senior Independent Director	€30,000

In relation to the Chairman, as set out in the British Airways and Iberia merger documentation, the conditions of the service contract with Iberia were taken into account at the time of the merger. This means that he will therefore continue to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

Subject to audit**Single total figure of remuneration for each non-executive director**

Director (€'000)	2019 fees	Taxable benefits	Total for year to December 31, 2019	2018 fees	Taxable benefits	Total for year to December 31, 2018
Antonio Vázquez	645	5	650	645	4	649
Alberto Terol	136	26	162	120	22	142
Patrick Cescau ¹	71	27	98	150	37	187
Marc Bolland	138	19	157	120	6	126
Margaret Ewing ²	64	1	65	-	-	-
Javier Ferrán ³	64	2	66	-	-	-
Deborah Kerr ⁴	120	11	131	65	4	69
James Lawrence ⁵	-	-	-	55	4	59
Maria Fernanda Mejia	120	14	134	120	10	130
Kieran Poynter	140	24	164	140	27	167
Emilio Saracho	120	18	138	120	18	138
Dame Marjorie Scardino ⁶	58	40	98	140	68	208
Nicola Shaw ⁷	120	16	136	120	7	127
Total (€'000)	1,796	203	1,999	1,795	207	2,002

1 Patrick Cescau retired from the Board on June 20, 2019

2 Margaret Ewing joined the Board on June 20, 2019

3 Javier Ferrán joined the Board on June 20, 2019

4 Deborah Kerr joined the Board on June 14, 2018

5 James Lawrence retired from the Board on June 14, 2018

6 Dame Marjorie Scardino retired from the Board on June 20, 2019

7 Nicola Shaw joined the Board effective January 1, 2018, appointment approved by the annual Shareholders' Meeting on June 15, 2017

Additional explanations in respect of the single total figure table

Each director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

Fees

Fees paid in the year for non-executive directors.

Taxable benefits

Taxable benefits including personal travel.

For the year to December 31, 2019, €:£ exchange rate applied is 1.1371 (2018: 1.1317).

Subject to audit**Directors' interests in shares**

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	512,291	0.026
Willie Walsh	1,305,331	0.066
Marc Bolland	0	0.000
Margaret Ewing	0	0.000
Javier Ferrán	80,000	0.004
Steve Gunning	175,508	0.009
Deborah Kerr	0	0.000
Maria Fernanda Mejia	100	0.000
Kieran Poynter	15,000	0.001
Emilio Saracho	0	0.000
Nicola Shaw	1,714	0.000
Alberto Terol	26,537	0.001
Total	2,116,481	0.106

There have been no changes to the shareholdings set out above between December 31, 2019 and the date of this report.

Share scheme dilution limits

The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the annual Shareholders' Meeting on June 14, 2018 the Company was given authority to allocate up to 45,000,000 shares in 2019, 2020, and 2021. Of this a maximum of 5,100,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2019, 2020, and 2021.

The highest and lowest closing prices of the Company's shares during the period and the share price at December 31, 2019 were:

At December 31, 2019	625p
Highest in the period	668p
Lowest in the period	414p

Company performance graph and Chief Executive Officer of IAG 'single figure' table

The chart shows the value by December 31, 2019 of a hypothetical £100 invested in IAG shares on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year ends.

The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

IAG's total shareholder return (TSR) performance compared to the FTSE 100



The table below shows the CEO 'single total figure' of remuneration for each year since the creation of IAG in January 2011:

	CEO of IAG - 'total single figure' of remuneration	Annual incentive payment as a percentage of the maximum	Long-term incentive vesting as a percentage of the maximum
2011	£1,550,000	18 per cent of maximum	35 per cent of maximum
2012	£1,083,000	No annual incentive payment	Zero vesting of long-term incentives
2013	£4,971,000	78.75 per cent of maximum	100 per cent of maximum
2014	£6,390,000	97.78 per cent of maximum	85 per cent of maximum
2015	£6,455,000	80 per cent of maximum	100 per cent of maximum
2016	£2,462,000	33.33 per cent of maximum	50 per cent of maximum
2017	£3,954,000	92.92 per cent of maximum	66.67 per cent of maximum
2018	£3,030,000	61.85 per cent of maximum	46.19 per cent of maximum
2019	£3,198,000	51.97 per cent of maximum	72.11 per cent of maximum

Single total figure of remuneration includes basic salary, taxable benefits, pension related benefits, annual incentive award and long-term incentive vesting.

2011 figure includes 20 days of remuneration in January 2011 paid by British Airways.

Percentage change in remuneration of the Chief Executive Officer of IAG compared to employees

The table below shows how the remuneration of the Chief Executive Officer of IAG has changed for 2019 compared to 2018.

This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are all UK employees in the Group, comprising around 40,000 employees in total. To make the comparison between the CEO of IAG and employees as meaningful as possible, it was determined that as large a group as possible of employees should be chosen.

The selection of all UK employees in the Group (roughly two-thirds of the entire Group's employees) meets these criteria. The majority of the 40,000 UK employees in the Group are employed by British Airways, but there are also a number of employees from all other companies in the Group based in the UK. It was determined that employees outside the UK would not be considered for the comparison, as very different employment market conditions exist in other countries.

	Chief Executive Officer of IAG	UK employees
Basic salary	No basic salary increase for 2019.	Basic salary awards in 2019 at UK companies in the Group varied from around 2.5 per cent to 3.0 per cent.
Annual incentive	Decrease from £1,051,000 in March 2019 (covering the 2018 performance period) to £883,000 in March 2020 (covering the 2019 performance period). This represents a 16 per cent decrease.	Changes in overall annual incentive payments for 2019 versus 2018 varied considerably around the Group, depending on the incentive design, financial performance, and non-financial performance at each individual company.
Taxable benefits	No change in benefits policy. Actual payments increased to £30,000 in 2019 from £27,000 in 2018.	No change in benefits policy. Overall costs 2019 versus 2018 increased slightly in line with inflation.

Relative importance of spend on pay

The table below shows, for 2019 and 2018, total remuneration costs, operating profit and dividends for the Company.

	2019	2018
Total employee costs, IAG	€4,962,000,000	€4,812,000,000
Total remuneration, directors (including non-executive directors)	€7,485,000	€7,279,000
IAG operating profit (before exceptional items)	€3,285,000,000	€3,230,000,000
Dividend declared	€288,000,000	€1,310,000,000
Dividend proposed	€337,000,000	-

Total employee costs are before exceptional items.

CEO Pay Ratio

Following UK Government changes to reporting regulations, IAG voluntarily chose to disclose the median pay ratio in last year's report in advance of the regulations being implemented. For this report, IAG will comply fully with the regulations. The table below shows the ratio of pay between the CEO of IAG and IAG's UK employees. The CEO of IAG remuneration is the 2019 'single figure' total remuneration, and this is compared to the 25th, median, and 75th percentile 2019 total remuneration of full-time equivalent UK employees in IAG. The Government's methodology "Option A" has been used to calculate the remuneration, as we believe that this is the option that most investors favour, and gives the most accurate and robust ratio. The data for the UK employees is from the payroll records of 38,781 UK employees who were in the Group during 2019.

Percentile	CEO of IAG Pay Ratio	Basic Salary, UK employees	Total Remuneration, UK employees
25 th (Lower quartile)	109:1	£20,092	£29,360
50 th (Median)	72:1	£32,290	£44,208
75 th (Upper quartile)	49:1	£46,544	£64,673

Around 98 per cent of the Group's UK employees work for British Airways. British Airways have undertaken many initiatives in recent years to ensure its lower paid workers are paid fairly.

Implementation of remuneration policy for 2020

Basic salary

Basic salaries for executive directors are reviewed from January 1 each year. After careful consideration of Company affordability, the worth of each executive, retention risks and the size of pay increases generally across the Group for 2020 (which varied across the Group from 2.0 per cent to 3.0 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive director	Basic salary review
Chief Executive Officer of IAG (Willie Walsh)	£850,000 (€962,000) (no increase from 2019, owing to retirement shortly).
Chief Executive Officer of IAG (Luis Gallego)	£820,000 (€932,000) (new appointment from March 26, 2020).
Chief Financial Officer of IAG	£610,000 (€694,000) (in UK sterling terms, an increase of 2.5% from 2019).

2020 annual incentive plan

For 2020, the maximum award for the Chief Executive Officer of IAG will be 200 per cent of salary and for the Chief Financial Officer of IAG 165 per cent of salary. The weighting for the IAG operating profit before exceptions measure will be 60 per cent, for role-specific objectives will be 20 per cent, and for the NPS measure will be 10 per cent. For the first time, a carbon measure will be introduced. The measure will be a flight emissions intensity measure: grammes of carbon dioxide per passenger kilometre, and the weighting will be 10 per cent. The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit before exceptions, NPS and the carbon measure for 2020 at the threshold, on-target and maximum levels. At threshold, there will be a zero pay-out, 50 per cent of the maximum will pay out at the on-target level, and 100 per cent of the maximum will pay out at the stretch target level. There will be a straight-line sliding scale between threshold and on-target, and on-target and the stretch target. For commercial reasons, the target range for these measures will not be disclosed until after the end of the performance year. They will be disclosed in next year's Remuneration Report.

2020 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2020, with a performance period of January 1, 2020 to December 31, 2022. For 2020, the face value of awards for the Chief Executive Officer will be 200 per cent of salary and for the Chief Financial Officer 175 per cent of salary.

The Board has approved the use of three performance conditions, each with a one-third weighting. These are the same three performance conditions and weightings that have been used since 2015.

The first is based on IAG TSR performance relative to an index. For the first time, the index will be the STOXX Europe 600 Travel and Leisure Index, as the Board believes this is a more appropriate benchmark. The target range is identical to 2019 and is outlined earlier in this report.

The second performance condition is based on adjusted EPS. The Board and the Committee have agreed that the adjusted EPS target range for the 2020 PSP award will be decreased compared to the 2019 PSP award. The adjusted EPS measure will be as follows:

Weighting	One-third
Threshold	2022 adjusted EPS of 140 €cents 10 per cent vests
Target (straight line vesting between threshold and maximum)	2022 adjusted EPS between 140 €cents and 180 €cents
Maximum	2022 adjusted EPS of 180 €cents 100 per cent vests

The third performance condition is RoIC. The measure will be as follows:

Weighting	One-third
Threshold	2022 RoIC of 14 per cent 10 per cent vests
Target (straight line vesting between threshold and maximum)	2022 RoIC between 14 per cent and 16 per cent
Maximum	2022 RoIC of 16 per cent 100 per cent vests

There will be an additional holding period of two years. This means that executives will be required to retain the shares for a minimum of two years following the end of the performance period. This is to strengthen the alignment between executives and shareholders.

Taxable benefits and pension related benefits

Taxable benefits remain unchanged for 2020. Pension related benefits as a percentage of basic salary will decrease for new externally recruited executive directors as stated in the remuneration policy, and also will decrease for internal promotions on a case-by-case basis.

Non-executive director fees

Non-executive director fees were last reviewed in 2017 and remain unchanged for 2020. The fees have remained unchanged since 2011.

Payments for loss of office and payments to past directors: Willie Walsh

On January 9, 2020 it was announced that Willie Walsh has decided to retire as Chief Executive. He will step down from the Board on March 26, 2020 and remain employed by the Company until June 30, 2020 in order to support the transition and provide insight and background. In accordance with the scheme rules, Willie was granted 'good leaver' status by the Committee.

Willie Walsh received (or will receive) the payments set out below, less any required tax withholdings. All payments are in accordance with his service agreement and the Company's remuneration policy as set out in the Company's 2017 Annual Report and Accounts.

Willie will receive basic salary of £224,000, taxable benefits of £8,000, and pension benefits of £56,000 (cash allowance), after he has stepped down from the Board.

Willie Walsh holds outstanding IADP awards granted in 2017, 2018 and 2019, and is about to receive a 2020 award in respect of the deferred shares portion of the outcome of the 2019 annual incentive plan. All of these awards will remain capable of vesting in full on their normal vesting dates, in accordance with the rules of the IADP.

PSP Awards

The 2015 PSP Award shares were released at the end of the normal two-year holding period (end of 2019). Willie Walsh holds outstanding PSP awards as follows:

Award	Notes
2016 PSP Award	Shares will be released at the end of the normal two-year holding period (end of 2020)
2017 PSP Award	Shares will reflect the vesting outcome at the end of 2019, and released at the end of the normal two-year holding period (end of 2021)
2018 PSP Award	Shares will reflect the vesting outcome at the end of 2020, pro-rated to 30 June 2020 and released at the end of the normal two-year holding period (end of 2022)
2019 PSP Award	Shares will reflect the vesting outcome at the end of 2021, pro-rated to 30 June 2020 and released at the end of the normal two-year holding period (end of 2023)

The Remuneration Committee retains the authority to lapse the unvested 2018 and/or 2019 PSP awards if, at the date upon which the applicable performance conditions have been assessed, the Committee is not satisfied that Willie Walsh remains in retirement.

Travel benefits

Willie Walsh will participate in the British Airways travel benefits programme for former employees, in line with the standard approach in place.

2020 annual incentive plan

As set out earlier in this report, Willie Walsh will remain as Chief Executive Officer until March 26, 2020. He will be eligible for a 2020 annual incentive award, pro-rated to reflect the period he serves as Chief Executive Officer. Any award will be paid to him in the normal manner, with 50 per cent being deferred for three years and malus and clawback rules will apply. The relevant measures and weightings are as set out earlier in this report.

Newly appointed Chief Executive Officer and Chief Financial Officer

Chief Executive Officer (Luis Gallego)

Luis Gallego will succeed Willie Walsh as Chief Executive Officer on March 26, 2020. The Committee carefully considered the package to be offered to Luis, in the context of the new UK Corporate Governance Code as well as the views of our shareholders and best market practice.

Upon appointment, Luis Gallego will receive a base salary of £820,000. This compares to the current salary for the CEO, who has not received or taken a salary increase since 2014, of £850,000. In addition, the pension contribution rate for Luis will be revised downward to 12.5 per cent, which is comparable to the rate for the majority of the UK workforce.

Luis will be eligible for an annual incentive award of up to 200 per cent of salary and PSP award of up to 200 per cent of salary.

Chief Financial Officer (Steve Gunning)

Steve Gunning was appointed to the Board as Chief Financial Officer on June 20, 2019. In order to reflect the size and scope of the role, as well as the appropriate market positioning, the Committee felt it was appropriate for Steve to receive a base salary of £595,000. Whilst the salary is higher than the previous CFO (whose salary was £570,000), the Committee considers that this appropriately reflects the significance of the role in unlocking current growth opportunities and delivering the Company's key strategic priorities in challenging global economic conditions. The increase also brings the CFO salary more in line with the appropriate market positioning.

In addition, the pension contribution rate for Steve will be revised downward to 12.5 per cent, which is comparable to the rate for the majority of the UK workforce.

Steve will be eligible for an annual incentive award of up to 165 per cent of salary and PSP award of up to 175 per cent of salary.

The Remuneration Committee

The Committee's composition, competencies and operating rules are regulated by article 31 of the IAG Board Regulations. A copy of these Regulations is available on the Company's website.

Beyond executive directors, the Committee oversees the general application of the remuneration policy to the IAG Management Committee (and also occasionally considering remuneration matters of managers generally across the Group).

According to article 31 of the Board Regulations the Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be Independent directors. Marc Bolland is Chairman of the Committee. For the reporting period all members were considered Independent non-executive directors of the Company and none of the members has any personal financial interest, other than as a shareholder, in the matters to be decided.

In accordance with the 2018 UK Code, the Remuneration Committee also has responsibility to review workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Advisers to the Committee

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte report directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2019 were €123,118, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, global employment programmes, data governance, business process improvement, financial advisory work and tax to the Group in 2019. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

The Company obtained high level headline remuneration survey data from a variety of sources. During the year, the CEO of IAG provided regular briefings to the Committee apart from when his own remuneration was being discussed.

Statement of voting

The table below shows the consultative vote on the 2018 annual Directors' Remuneration Report at the 2019 annual Shareholders' Meeting, and the binding vote on the Directors' Remuneration Policy at the 2018 annual Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2018 Annual Directors' Remuneration Report	1,243,527,439	1,175,238,898 (94.51 per cent)	7,612,630 (0.61 per cent)	60,675,911 (4.88 per cent)
Directors' Remuneration Policy	1,463,865,426	1,396,029,011 (95.37 per cent)	13,091,180 (0.89 per cent)	54,745,235 (3.74 per cent)

Supplementary information

Directors' share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP.

Director	Date of grant	Number of options at January 1, 2019	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2019
Executive directors									
Willie Walsh	May 28, 2015	206,060	-	-	-	-	January 1, 2020	December 31, 2024	206,060
	March 7, 2016	314,233	-	-	169,089	-	January 1, 2021	December 31, 2025	145,144
	March 6, 2017	311,355	-	-	-	-	January 1, 2022	December 31, 2026	311,355
	May 10, 2018	246,020	-	-	-	-	January 1, 2023	December 31, 2027	246,020
	March 8, 2019	-	-	-	-	299,824	January 1, 2024	December 31, 2028	299,824
Total		1,077,668	-	-	169,089	299,824			1,208,403

	Date of grant	Number of options at date of appointment	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2019
Steve Gunning									
	May 28, 2015	52,363	-	-	-	-	January 1, 2020	December 31, 2024	52,363
	March 7, 2016	37,621	-	-	-	-	January 1, 2021	December 31, 2025	37,621
	March 6, 2017	96,703	-	-	-	-	January 1, 2022	December 31, 2026	96,703
	May 10, 2018	77,800	-	-	-	-	January 1, 2023	December 31, 2027	77,800
	March 8, 2019	101,587	-	-	-	-	January 1, 2024	December 31, 2028	101,587
Total		366,074	-	-	-	-			366,074

The award granted on March 7, 2016 was tested at the end of the performance period, and as a result 46.19 per cent of the award vested, as detailed earlier in this report in the section on Variable pay outcomes.

The performance conditions for each of the other PSP awards listed above will be tested to determine the level of vesting. For each of these awards, one-third of the award is subject to TSR performance measured against an index, one-third is subject to adjusted EPS performance, and one-third is subject to RoIC performance. The performance conditions will be measured over a single three-year performance period. For each of these awards, following the performance period there is an additional holding period of two years.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the dates of the PSP awards were as follows: 2019: 567 pence; 2018: 691 pence; 2017: 546 pence; 2016: 541 pence; and 2015: 550 pence.

Incentive Award Deferral Plan (IADP)

The following directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG performance for the periods that ended December 31, 2015, December 31, 2016, December 31, 2017, and December 31, 2018).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2019	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2019
Executive directors								
Willie Walsh	2015	March 7, 2016	125,693	125,693	March 7, 2019	-	-	-
	2016	March 6, 2017	51,893	-	March 6, 2020	-	-	51,893
	2017	May 10, 2018	114,297	-	March 8, 2021	-	-	114,297
	2018	March 8, 2019	-	-	March 8, 2022	-	92,720	92,720
Total			291,883	125,693		-	92,720	258,910

	Relates to incentive award earned in respect of performance	Date of award	Number of awards at date of appointment	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2019
Steve Gunning								
	2016	March 6, 2017	16,117	-	March 6, 2020	-	-	16,117
	2017	May 10, 2018	37,603	-	March 8, 2021	-	-	37,603
	2018	March 8, 2019	32,813	-	March 8, 2022	-	-	32,813
Total			86,533	-		-	-	86,533

There are no performance conditions to be tested before vesting for the IADP, except that the director must still be employed by the Company at the time of vesting, or have left as a Good Leaver.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2019 IADP award was 567 pence (2018: 691 pence; 2017: 546 pence; and 2016: 541 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2016 IADP award was 541 pence. The share price on the date of the vesting of this award (March 7, 2019) was 554 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

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The Group's consolidated statements which follow have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

CONSOLIDATED INCOME STATEMENT

€ million	Note	Before exceptional items 2019	Year to December 31			
			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	5	2,613	3,678
Depreciation, amortisation and impairment		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

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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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 Group's 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.

3 Segment information continued

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	(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
	2019	(restated)	
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
	2018	(restated)	
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

	Year to December 31	
	2019	2018
€ million		
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:

	2019	2018
€ million		
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:

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

Cost of inventories:

	2019	2018
€ million		
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			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.

9 Tax continued

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
Deferred tax asset										546
Deferred tax liability										(572)
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.

9 Tax 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.

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		Fleet	Property, plant and equipment	Total	2018
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.

15 Intangible assets and impairment review continued

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	Current	<30 days	30-60 days	>60 days
€ million				
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	Current	<30 days	30-60 days	>60 days
€ million				
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 ¹²	(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.

23 Long-term borrowings continued

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.

24 Provisions continued

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:

Increase/(decrease) in fuel price per cent	2019		Increase/(decrease) in fuel price per cent	2018	
	Effect on result before tax € million	Effect on equity € million		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
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.

25 Financial risk management objectives and policies continued

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
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
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					
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Lease liabilities	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
Financial assets					
December 31, 2018	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	Total carrying amount by balance sheet item
€ 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 Total
	Level 1	Level 2	Level 3	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

26 Financial instruments continued

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				Carrying value Total
	Level 1	Level 2	Level 3	Total	
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
Related tax credit	601	1,455
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.

26 Financial instruments continued

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

	Number of shares '000s	Ordinary share capital € million	Share premium € million
Allotted, called up and fully paid			
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							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)
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year to December 31, 2019

29 Other reserves and non-controlling interests continued

€ million	Other reserves								
	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	Non-controlling interest ⁷
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.

30 Employee benefit obligations continued

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			
	APS	NAPS	Other ¹	Total
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			
	APS	NAPS	Other ¹	Total
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:		Defined contribution plans	
Current service cost		5		55
Past service cost/(credit) ^{1,2}	665		670	(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	Interest expense on scheme liabilities	Interest expense on asset ceiling	Net financing income relating to pensions
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.

30 Employee benefit obligations continued

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 longevities 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.

30 Employee benefit obligations continued

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).

32 Related party transactions continued

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

33 Changes to accounting policies continued

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.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

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 exceptions	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 adjustment¹</i>		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 exceptions	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 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi, 110065	Call centre	India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways 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 0GB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	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 Muñoz 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, 2 ^a 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 Caserío, 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)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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
<p>Passenger and Other revenue recognition, (€22,468 million and €1,921 million, 2018 restated: €21,401 million and €1,684 million)</p> <p>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.</p> <p>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.</p> <p><i>Refer to Note 2 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <p>Passenger revenue:</p> <ul style="list-style-type: none"> ▶ 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. <p>Manual adjustments:</p> <ul style="list-style-type: none"> ▶ 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. <p>Loyalty programmes:</p> <ul style="list-style-type: none"> ▶ 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
<p>Valuation of British Airways and Iberia's employee liabilities (€31,094 million, 2018: €25,820 million)</p> <p>The valuation of these balances requires significant levels of judgement and technical expertise to select appropriate valuation assumptions.</p> <p>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.</p> <p>British 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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ▶ 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.
<p><i>Refer to Notes 2, 24 and 30 of the consolidated financial statements.</i></p>	
<p>The assessment of the carrying value of goodwill and acquired Indefinite life Intangible assets (€2,460 million, 2018: €2,403 million)</p> <p>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.</p> <p>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.</p> <p><i>Refer to Notes 2 and 15 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ 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
<p>Accounting for aircraft maintenance, restoration and handback costs (maintenance provisions: €1,675 million, 2018: €1,359 million)</p> <p>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.</p> <p>The accounting for maintenance obligations under lease agreements, including the end of lease hand back requirements, is subject to management assumptions.</p> <p>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.</p> <p><i>Refer to Notes 2 and 24 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ 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.
<p>Appropriateness of assumptions made and accuracy of IFRS 16 accounting</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>Refer to Notes 2, 13 and 33 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ 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

Additional Information

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IBC Shareholder information

Adjusted aircraft operating leases ¹	Aircraft operating lease costs multiplied by 0.67
Adjusted earnings per share	Earnings are based on results before exceptional items, after tax 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
Airline non-fuel costs	Total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs. 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. Shown on a constant currency basis
Airline non-fuel costs per ASK	Airline non-fuel costs divided by ASK
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo carried that generate revenue (freight and mail) multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDA	Operating profit before exceptional items, interest, taxation, depreciation, amortisation and impairment
EBITDAR ¹	Operating profit before exceptional items, depreciation, amortisation and rental charges
Gross capex	Gross capital expenditure is the total investment in fleet, customer product, IT and infrastructure before any proceeds from the sale of property, plant and equipment as shown in the cash flow statement ('Acquisition of property, plant and equipment and intangible assets')
Interest cover	The number of times profit before taxation and exceptional items adding back net interest expense and interest income cover the net interest expense and interest income
Invested capital	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.
Levered free cash flow	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
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less cash and cash equivalents and other current interest-bearing deposits

Net Promoter Score (NPS)	The Net Promoter Score (NPS) is a metric based on survey responses to the 'likelihood to recommend' question and is calculated by subtracting the percentage of customers who are 'Detractors' (score 0-6, unlikely to recommend) from the percentage of customers who are 'Promoters' (score 9-10, likely to recommend)
Operating margin	Operating profit/(loss) before exceptional items as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Passenger unit revenue per ASK (PASK)	Passenger revenue divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue divided by RPK
Productivity	ASK divided by average manpower equivalent
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on Invested Capital (RoIC)	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
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Sector	A one-way revenue flight
Sold cargo tonnes	The number of cargo tonnes sold, including freight, courier, mail and interline
Total capital	Total equity plus net debt
Total Group revenue per ASK (RASK)	Total group revenue divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure before exceptional items excluding fuel divided by ASK
Total operating expenditure per ASK (CASK)	Total operating expenditure before exceptional items divided by ASK
Total traffic revenue per ATK	Revenue from total traffic (passenger and cargo) divided by ATK

1 Relevant to 2018 Alternative performance measures only.

Total Group operations		2019	2018 ¹	2017 ²	2016	2015 ³
Traffic and capacity						
Available seat km (ASK)	million	337,754	324,808	306,185	298,431	272,702
Revenue passenger km (RPK)	million	285,745	270,657	252,819	243,474	221,996
Cargo tonne km (CTK)	million	5,577	5,713	5,762	5,454	5,293
Passengers carried	'000	118,253	112,920	104,829	100,675	88,333
Sold cargo tonnes	'000	682	702	701	680	661
Sectors		775,486	754,700	717,325	708,615	660,438
Block hours	hours	2,272,904	2,207,374	2,100,089	2,067,980	1,867,905
Operations						
Average manpower equivalent		66,034	64,734	63,422	63,387	60,862
Aircraft in service at year end		598	573	546	548	529
Aircraft utilisation - Longhaul (average hours per aircraft per day)	hours	13.5	13.5	13.5	13.5	13.5
Aircraft utilisation - Shorthaul (average hours per aircraft per day)	hours	8.6	9.0	8.9	8.8	9.1
Punctuality - within 15 minutes	%	77.8	75.5	81.8	77.2	80.2
Regularity	%	98.7	98.7	99.1	99.3	99.4
Financial						
Passenger unit revenue per ASK (PASK) ⁴	€cents	6.65	6.59	6.63	6.68	7.46
Passenger revenue per RPK ⁴	€cents	7.86	7.91	8.02	8.18	9.16
Cargo revenue per CTK ⁴	€cents	20.03	20.53	19.65	18.74	20.67
Total revenue per ASK (RASK) ⁴	€cents	7.55	7.47	7.47	7.56	8.38
Average fuel price	(\$/metric tonne)	628	687	519	425	908
Fuel cost per ASK ⁴	€cents	1.78	1.63	1.51	1.63	2.23
Operating profit before depreciation and amortisation (EBITDA) ⁴	€million	5,396	5,481	4,134	3,822	3,642
Total operating expenditure excluding fuel per ASK (CASK ex. fuel) ⁴	€cents	4.80	4.77	5.00	5.08	5.30
Operating margin ⁴	%	12.9	14.4	12.9	10.9	10.2
Lease adjusted operating margin ⁴	%	n/a	14.4	14.2	12.0	11.2
Total operating expenditure per ASK (CASK) ⁴	€cents	6.58	6.40	6.51	6.71	7.53
Dividend cover	times	3.8	3.9	4.0	4.0	3.8
Interest cover	times	6.3	6.7	16.4	10.8	8.2
Net debt	€million	7,571	6,430	655	2,087	2,774
Equity	€million	6,829	6,720	6,933	7,741	7,328
Adjusted net debt to EBITDAR	times	n/a	1.6	1.5	1.8	1.9
Net debt to EBITDA	times	1.4	1.2 ¹	n/a	n/a	n/a
Exchange rates						
Translation - weighted average	£:€	1.13	1.13	1.14	1.21	1.39
Transaction	£:€	1.13	1.13	1.14	1.21	1.40
Transaction	€:\$	1.12	1.18	1.14	1.11	1.11
Transaction	€:\$	1.27	1.33	1.29	1.34	1.55

1 2018 figures have been adjusted to reflect the estimated impact of IFRS 16 'Leases' and 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.

2 2017 figures restated for accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.

3 Aer Lingus Group plc results have been consolidated from August 18, 2015.

4 Figures on a pre-exceptional items basis.

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American Depository Receipt program

IAG has a Sponsored Level 1 American Depository Receipt (ADR) facility that trades on the OTC market in the US (see www.otcmarkets.com). Deutsche Bank is the ADR depositary bank.

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Financial calendar

Financial year end: December 31, 2019

Q1 results: May 7, 2020

Half year results: July 31, 2020

Q3 results: October 30, 2020

Other key dates can be found on our website: www.iairgroup.com

ShareGift

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

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

Forward-looking statements often use words such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group, S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group's business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report and speak as of the date of this report. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

There are several factors that could cause actual results to differ from those expressed or implied in forward-looking statements, and it is not reasonably possible to itemise each of them. Further information on the primary risks of the business and the Group's risk management process is set out in the 'Risk management and principal risk factors' section of this report. All forward-looking statements made on or after the date of this document and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section.



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