Independent limited assurance report on the Consolidated Statement of Non-Financial Information for the year ended December 31, 2019

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

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INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL INFORMATION

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

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Statement of Non-Financial Information (hereinafter NFIS) for the year ended December 31, 2019, of International Consolidated Airlines Group, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Management Report of the Group.

The content of the NFIS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section "Table of contents", included in the accompanying NFIS.

Directors' Responsibility

The Directors of the Group are responsible for the approval and content of the NFIS included in the Consolidated Management Report of International Consolidated Airlines Group, S.A. The NFIS has been prepared in accordance with the contents established in prevailing mercantile regulations and following Sustainability Reporting Standards selected criteria of the Global Reporting Initiative (GRI standards), as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of an NFIS that is free from material misstatement, whether due to fraud or error.

The Directors of International Consolidated Airlines Group, S.A. are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

EY

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Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. Our work has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Guidelines on assurance engagements on the Non-Financial Statement issued by the Spanish Institute of Chartered Accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are less extent in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFIS, reviewing the process for gathering and validating the information included in the NFIS, and applying certain analytical procedures and sampling review tests as described below:

▶ Meeting with Group personnel to gain understanding of the business model, policies and management approaches applied, and of the main risks related to these matters, and obtaining the necessary information for our external review.

▶ Analysing the scope, relevance and integrity of the content included in the 2019 NFIS based on the materiality analysis made by the Group and described in section "General Information" of the NFIS, considering the content required by prevailing mercantile regulations.

▶ Analysing the processes for gathering and validating the data included in the 2019 NFIS.

▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFIS.

▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFIS and its correct compilation from the data sources.

▶ Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter has come to our attention that would lead us to believe that the 2019 NFIS of the Group for the year ended December 31, 2019 has not been prepared, in all material respects, in accordance with the contents established in prevailing mercantile regulations and following the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the NFIS.

Use and distribution

This report has been prepared to comply with prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

Antonio Capella Elizalde

March 3, 2020

Consolidated Statement of Non-Financial Information

The present statement was prepared to comply with the requirements of Law 11/2018, of December 28, 2018 on non-financial information and diversity (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), and is part of the Group's Management Report.

We provide information about environmental, social, employee-related, and human rights-related issues, which is relevant to the Company and important for the execution of business activities.

CONTENTS

Business model

Brief description of the Group's business model, including its business environment, organisation and structure

IAG combines leading airlines in Ireland, the UK and Spain, enabling them to enhance their presence in the aviation market while retaining their individual brand's operations.

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

The airlines' customers benefit from a larger combined network for both passengers and cargo and greater ability to invest in new products and services through improved financial robustness. IAG is the parent company of the Group, exerting vertical and horizontal influence over its portfolio of companies. IAG is supported by its Management Committee which is made up of CEOs from across the operating companies and IAG senior management. The portfolio sits on a common integrated platform driving efficiency and simplicity while allowing each operating company to achieve its individual performance targets and maintain its unique identity.

Market presence

Refer to **Business model section on page 38.**

Objectives and strategies

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

Our strategic priorities are:

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

We achieve our priorities through:

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

Main factors and trends that affect the Company's future evolution

Refer to **Risk management and principal risk factors section on page 40.**

General

Reference in the report to the national, European or international reporting framework used to select KPIs

To ensure we disclose relevant and meaningful data about our sustainability performance, we align our reporting with relevant and emerging disclosure standards. This includes compliance with our obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain. Our secondary reference point is the Sustainability Reporting Standards from the Global Reporting Initiative (GRI). We align our reporting with the Airlines Reporting Handbook, which we worked with the International Air Transport Association (IATA) to develop.

IAG's sustainability reporting is also based on an assessment of the most material impacts of IAG operations on the environment. Our most recent assessment was in 2017, when we worked with key stakeholders to identify these impacts in a materiality exercise facilitated by the charitable trust, Business in the Community. The process included workshops, interviews with key stakeholders, benchmarking against external materiality frameworks and the production of our own materiality matrix.

Sixteen material issues were identified. These issues align with the issues identified by IATA and GRI for the airline sector. The issues identified are still material. We will repeat a materiality assessment in 2020.

Water consumption and biodiversity are currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

This Consolidated Statement of Non-Financial Information discloses the information required by Law 11/2018.

Key material issues

Environment	Workforce and community	Governance, integrity and competitiveness
• Climate change[1] • Carbon pricing • Energy use • Waste • Noise • Air quality	• Diversity and equality • Community engagement and charitable support • Local economic impacts • Employee satisfaction • Talent management	• Supply chain management • Compliance with legislation and regulation • Customer satisfaction • Innovation, research and development • Financial performance[2]

1 Including GHG emissions, fleet modernisation, fuel efficiency and sustainable aviation fuels.
2 Short-term investor returns and long-term sustainability.

Data governance

The scope of our environmental performance data includes all our airlines and cargo operations. The workforce and supply chain metrics are full scope unless otherwise stated within the respective commentary section.

There are some caveats for environmental metrics. Some specific data from LEVEL is excluded but this is not considered material, as LEVEL accounts for less than two per cent of our Scope 1 emissions. Similarly, IAG Loyalty and IAG GBS functions are not in scope of our environmental metrics and form less than one per cent of material environmental impacts.

Emissions metrics are calculated using UK and Spanish government greenhouse gas conversion factors for company reporting and International Energy Agency (IEA) national electricity emissions factors. Methods of calculating other metrics are indicated in the respective commentary sections.

Metrics in this Consolidated Statement of Non-Financial Information have been verified to limited assurance aligned with ISAE 3000 (Revised) standards across each IAG operating company and across the Group. Scope 1 emissions data for 2018 and earlier has also been third-party verified for compliance with the European Union Emisions Trading Scheme (EU ETS), which covers flights within the European Economic Area, and for the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) which covers international flights between CORSIA–eligible countries.

If the Company issues a separate non-financial information report, it must be expressly stated that said information is part of the Management Report

The Consolidated Statement of Non-Financial Information is part of the Group's Management Report.

Management approach

A description of the policies implemented by the Company associated with social and employee-related matters

At the end of 2019, 72,268 people were employed across the Group in 83 countries, an increase of 1.6 per cent in the year. Employees across the Group play a vital role in delivering the service experience that customers expect, whether on the ground or in the air. They bring a diverse range of talent and perspectives that contribute to the values and cultures of our operating companies. Creating an environment where employees feel motivated, safe and able to thrive and deliver for customers is central to the continued success of the Group. Our operating companies have responsibility for the policies and procedures relating to their employees, including the identification and assessment of risks and the implementation of appropriate controls and measures.

At the Group level, IAG has a Directors Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the Management Committee of IAG. IAG also has a Group-wide Equal Opportunities policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

Due to the diverse nature of our businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level and each is responsible for determining the specific courses that are mandatory within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates, covering around 95 per cent of the Group's total workforce. There were two full meetings of the EWC in 2019. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. IAG sustainability representatives presented details of the FlightPath net zero plan to the EWC in 2019.

Employee satisfaction is an important matter for all operating companies within the Group. Each company has its own established methods of measuring employee satisfaction.

Talent management is also important across the Group, and this is primarily managed within the operating companies. At the Group level we are focused on the IAG Management Committee and their direct reports and we have a good track record of retaining and promoting talent into these roles. We are currently working to align the talent management framework across the Group.

Across all the markets we serve, our growth continues to lead to improved local employment opportunities and local economic benefits for our supply chain partners. These economic benefits extend to the airports we serve and their related supply chains, partners and tenants.
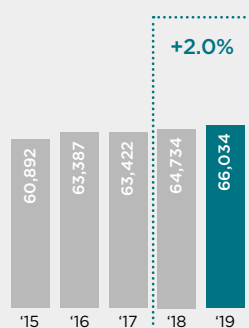
A description of the main risks associated with social and employee-related matters

Refer to **Risk management and principal risk factors section on page 40.**

Results and KPIs

Total number of employees and distribution by country, gender, age and job category

+2.0%

60,892	63,387	63,422	64,734	66,034
'15	'16	'17	'18	'19

+1.6%

71,134	72,268
'18	'19

7% 5% 2% 1%
31%
54%

UK   Spain   Republic of Ireland

Other countries   India   USA

Employment
(average manpower equivalent)

Description
Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average manpower equivalent is the mean of the manpower equivalent captured quarterly to reflect seasonality.

Commentary
Our manpower equivalent increased by 2.0% whilst our ASKs grew by 4.0%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base.
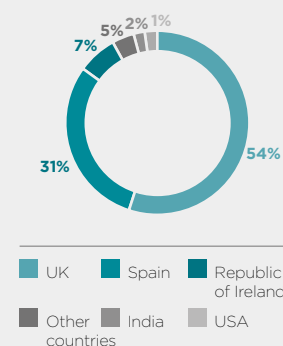
Headcount
(number of people)

Description
Headcount is the actual number of people employed across the Group (employees) as at December 31, 2019.

Commentary
This metric was first reported in 2018.

Overall headcount grew over the year by 1.6%.

Employees by country
(number of people)

Description
This metric depicts the distribution of the Group's employees according to the country where they are based.
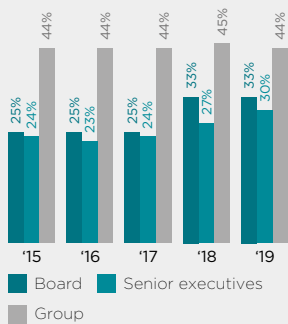
Commentary
This metric was reported for the first time in 2018.

There were no significant changes in 2019.

In 2019 IAG had employees based in 83 countries, with 95% based in the European Economic Area (EEA).

Results and KPIs continued

Total number of employees and distribution by country, gender, age and job category

Gender diversity chart:
'15: 25%, 24%, 44%
'16: 25%, 23%, 44%
'17: 25%, 24%, 44%
'18: 33%, 27%, 45%
'19: 33%, 30%, 44%

Board | Senior executives
Group

Age diversity donut:
29% | 21%
4%
41% | 55%
50%

Managerial staff
<30 | 30-50 | 50+
Non-managerial staff
<30 | 30-50 | 50+

Composition:
Employment type: 26% | 74%
Employment contract: 6% | 94%

Part-time | Full-time
Temporary | Permanent

Employee categories donut:
11%
11%
35%
17%
26%

Cabin crew | Airport
Corporate | Pilots
Maintenance

Gender diversity
(% women at Board, senior executive, and Group level)

Description
The share of women as a proportion of all staff at specific levels of seniority across the Group.

We have published objectives for 33% women on the Board by 2020 and 33% women across the Group's senior executive levels by 2025.

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

Commentary
There were 198 senior executives as at December 31, 2019.

We achieved our 2020 Board target in 2018 and have maintained this level of diversity since.

We continue to increase our proportion of women in senior executive levels, reaching 30% by the end of 2019.
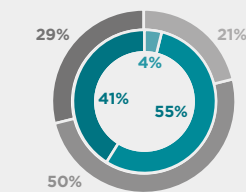
Age diversity
(% of staff in each age band)

Description
The proportion of employees in each age band, for both managerial and non-managerial employees.

Our on the ground (airport, corporate and maintenance categories) managerial population includes all roles equivalent to a manager across the Group.

Our in the air (pilots and cabin crew) managerial population includes all roles equivalent to Captains and Cabin Service Managers.
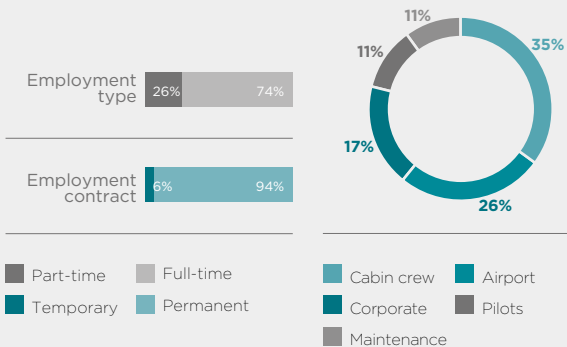
Composition
(% headcount by employment type, contract and employee categories)

Description
Per cent headcount by employment type, contract and employee categories.

The composition is a breakdown of headcount as at December 31, 2019.

The definitions of full-time and part-time vary across the Group.

A temporary employment contract has a defined end date.

Our employee category breakdown portrays the distribution of the major groups within our workforce "in the air" – Pilots and Cabin Crew – and "on the ground" – Airport, Corporate and Maintenance.

Commentary
This metric was reported for the first time in 2018.

There were no significant changes in 2019.

Total number of employment contracts and its distribution by type, annual average of permanent, temporary and part-time contracts distributed by gender, age and job category

	Permanent	Temporary	Full-time	Part-time
Annual average number of contracts	68,104	5,195	54,918	18,381

	Employment contract		Employment type	
Age bands	Permanent	Temporary	Full-time	Part-time
<30	16%	59%	22%	11%
30-50	52%	38%	50%	52%
>50	32%	3%	28%	37%

	Employment contract		Employment type	
Gender	Permanent	Temporary	Full-time	Part-time
Men	54%	50%	60%	36%
Women	46%	50%	40%	64%

	Employment contract		Employment type	
Employee categories	Permanent	Temporary	Full-time	Part-time
Cabin crew	40%	68%	33%	69%
Pilots	12%	1%	13%	8%
Airport	20%	10%	19%	17%
Corporate	19%	18%	24%	5%
Maintenance	9%	3%	11%	1%

Description
The numbers for each employment contract and type are based on an average of four values, each captured at the end of each quarter during the year.
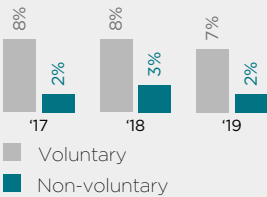
Commentary
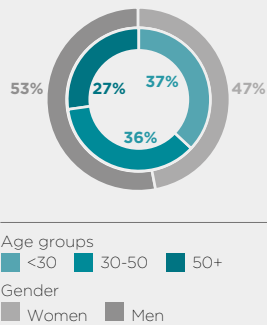This metric was reported for the first time in 2019.

Results and KPIs continued

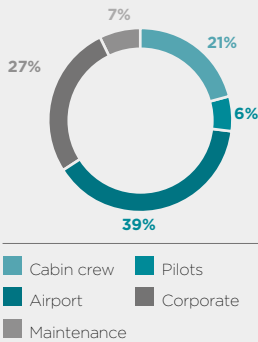## Total number of dismissals and distribution by gender, age and job category
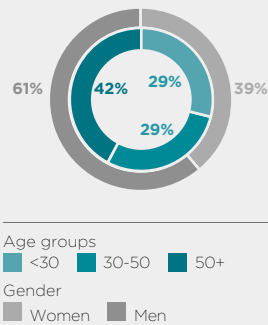
% voluntary and non-voluntary turnover

'17 '18 '19

8% 8% 7%
2% 3% 2%

- Voluntary
- Non-voluntary

Overall turnover by gender and age band

53% 47%
27% 37%
36%

Age groups
- <30 ■ 30-50 ■ 50+

Gender
- Women ■ Men

Non-voluntary turnover by employee category

7%
27% 21%
6%
39%

- Cabin crew ■ Pilots
- Airport ■ Corporate
- Maintenance

Non-voluntary turnover by gender and age band

61% 39%
42% 29%
29%

Age groups
- <30 ■ 30-50 ■ 50+

Gender
- Women ■ Men

Workforce turnover

(% voluntary and non-voluntary turnover)

Description

Workforce turnover is measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service.

Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).

Commentary

In 2019, the overall annual turnover was 9% - a total of 6,206 employees, of which 1,372 were non-voluntary leavers.

Average remuneration broken down by gender, age and job category – salary gap
Remuneration by seniority level (€)

Seniority level	Men	Women	Salary gap
Senior executives	276,900	233,449	15.7%
Other management	81,431	59,676	26.7%
All other employees	46,658	37,346	20.0%
Total workforce	47,597	37,963	20.2%

Remuneration by age band (€)

Age band	Men	Women	Salary gap
<30	31,200	28,868	7.5%
30-50	48,330	40,601	16.0%
>50	55,839	55,147	1.2%
Total workforce	47,597	37,963	20.2%

Remuneration and salary gap
(euros)

Description
The average (median) remuneration broken down by gender, age and seniority level.

The elements in scope for the reported figures include basic salary, shift pay, allowances and employer pension contributions, taxable benefits and annual incentives.

This includes most employees who left or joined the Company during the reporting period (part-time pay adjusted to full-time equivalent). Some exclusions apply (e.g. those employed for less than 20% of the year, employees impacted by special leave).

"Senior executives" includes operating companies management committee members, directors and other senior/executive positions but excludes IAG Management Committee (reported separately).

"Other management" includes all other management roles (excluding pilots and cabin crew managerial roles which are included within "All other employees").

Salary gap refers to the difference between men's and women's median earnings (based on total pay) across the organisation, expressed as a percentage of men's earnings
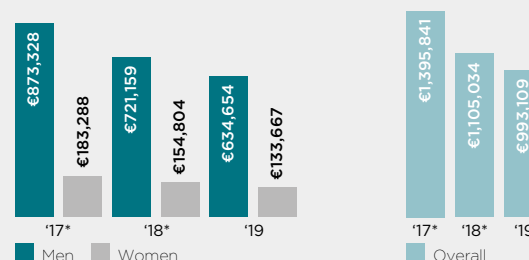
Commentary
This metric is being reported for the first time in 2019.

Approximately 4% of the headcount are not in scope for remuneration. This primarily comprises employees at LEVEL and overseas workforce from other operating companies.

Average remuneration of Board members and directors, including variable remuneration, allowances, professional indemnity, contributions to pension and welfare systems and any other parts of the remuneration broken down by gender

Board

Management Committee

Board:
- '17* Men €873,328 Women €183,288
- '18* Men €721,159 Women €154,804
- '19 Men €634,654 Women €133,667

Men / Women

Management Committee:
- '17* €1,395,841
- '18* €1,105,034
- '19 €993,109

Overall

* Restated.

Description
For 2019, there was only one male Executive Director who was on the Board for the whole year. His remuneration is made up of basic salary, taxable benefits (company car and private health), employer pension contributions, annual incentive, and long-term incentive. Including only members who were on the Board for the whole of 2019, the Board also had eight non-executive directors, comprising five men and three women. Non-executive directors' remuneration is made up of basic fees and travel benefits.

The Management Committee data excludes the Executive Director who is a Board member. Including only Management Committee members who were in employment for the whole of 2019, the Management Committee consisted of six men and two women. Their remuneration is made up of the same elements as for the Executive Director. For 2018, only people who were in service for the whole year are included; the differences being that there were nine non-executive directors (consisting of six men and three women) and ten Management Committee members (consisting of eight men and two women).

The figures for 2018 and 2017 have been restated. We are now using the 2019 methodology as per the Remuneration Report filed with the Spanish National Securities Market Commission (CNMV): a year ago we used the methodology as per the UK Directors' Remuneration Report.

Commentary
The average remuneration for men on the Board is considerably higher than the average for women because the remuneration of executive directors is much greater than that of non-executive directors and the fee for the Chairman is much higher than that of other non-executive directors. The posts of executive director and Chairman are held by men.

Comparing 2019 with 2018, the average remuneration for men and women has fallen because of the fall in the annual incentive payout. This affects the Executive Director on the Board, and all members of the Management Committee.

As there are only two women on the Management Committee the average remuneration by gender has not been shown for reasons of confidentiality.

Work organisation

Working hours organisation; measures to promote work-life balance and co-parenting responsibilities
Refer to **answer to Implementation of policies to allow employees to disconnect from work.**

Implementation of policies to allow employees to disconnect from work

Promoting work-life balance - across the Group, there are a number of policies and initiatives designed to promote a healthy work-life balance. For example, British Airways promotes a healthy work-life balance through policies on flexible working, job share, maternity, adoption, paternity and shared parental leave. They also support many types of informal flexible working, such as working from home, flexible start and finish times, dependent on job role, designed to support colleagues in managing their home and work life. Colleagues are offered lots of information and guidance on creating and managing a healthy work-life balance through a digital colleague portal, and there are active online platforms for working parents and carers to share ideas and to offer support to one another. During 2020, British Airways will share new plans on the benefits of dynamic working with leaders and managers.

Number of employees with disabilities

1.4% '18
1.1% '19

Employees with disabilities
(%)

Description

The percentage of headcount with disabilities at the end of the year. In Spain, the disabilities in scope are medically certified, while in other countries the disabilities in scope are self-declared.

Commentary

The drop is due to a change in scope. The 2018 figure was based on British Airways and Iberia only, whereas this year Vueling and other smaller operating companies were included.

Collecting disability information on employees is not a legal requirement in the UK or Ireland, unlike in Spain. Aer Lingus data is not in scope.

Number of hours of absenteeism

n/a '18
4.8% '19

Absenteeism
(%)

Description

The absenteeism rate measures the proportion of absences relative to total maximum hours in the period, expressed as a percentage.

For the purpose of this metric, only unplanned or unauthorised absences (employees missing part or whole days of work) are included. Examples in scope are short-term and long-term sickness, time off due to injuries, and no-shows (absence without leave or permission).

Commentary

This metric is being reported for the first time in 2019.

The Group's overall absence rate of 4.8% is understood to be around the average amongst airlines globally. It reflects the strict regulatory guidance for operating crew who are prevented from flying with certain conditions (e.g. cough and cold symptoms) which is not applicable to other sectors. As our 'in the air' employees represent 46% of the total workforce, this has a material impact.

In 2019, 4,347,592 hours of absence were recorded. A small percentage of overseas employees of the Group operating companies are not in scope.

Health and safety

## Occupational health and safety conditions

Health and safety is fundamental to our business, whether in the air or on the ground. It is our highest priority. We are committed to operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. This commitment applies equally to our employees, customers and all others affected by our activities.

We have robust governance in place led by the safety committees in each of our operating companies. IAG's Safety Committee, chaired by the Group CEO, monitors all matters relating to the operational safety of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

Our customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

Accident rates, especially frequency and severity, as well as occupational illnesses, broken down by gender

+3.4%

'18* 2.02   '19 2.09

* Restated.

+7.2%

'18 21.12   '19 22.64

'18 1   '19 0
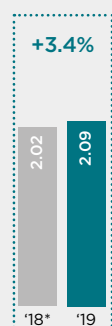
Lost Time Injury (LTI) frequency rate
(LTI per 100,000 hours worked)

Description
A lost time injury (LTI) is a non-fatal injury arising out of, or in the course of, work which will lead to a loss of productive work time.

Commentary
The unit is LTI per 100,000 hours worked, using actual hours worked. The 2018 LTI frequency rate has been restated at year end due to improved method of tracking hours worked.

The LTI frequency rate for men was 2.03 whilst the rate for women was 2.19. During 2019, 1,864 LTIs were recorded.

LTI severity rate
(average days lost per LTI)

Description
This measures the impact of occupational accidents as reflected in time off work by the affected workers.

Commentary
Days lost per LTI is expressed as an average by dividing the total lost days due to injuries by the total number of LTIs in the reporting period.

The LTI severity rate for men was 23.03 whilst the rate for women was 22.09.

No. of fatalities
(number)

Description
Work-related fatalities. Fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business (e.g. company or contracted bus or vehicle) (GRI 403 guidance), except for employees in Spain, as the inclusion of these is a legal requirement.
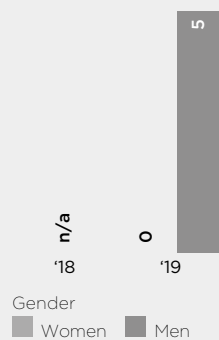
Commentary
There were no fatalities in 2019.

Health and safety continued

Labour relations

Accident rates, especially frequency and severity, as well as occupational illnesses, broken down by gender

n/a
5
0
'18   '19

Gender
Women   Men

Social dialogue organisation, including procedures to inform and consult with employees and to negotiate with them

+1.2pts

n/a   88%   88%   86%   87%
'15   '16   '17   '18   '19

89%   94%   87%   13%   67%   41%

UK   Spain   Republic of Ireland
India   USA   Other countries

Occupational illnesses
(number)

Description
An occupational illness is a medical condition or disease that develops gradually over time as a result of work performed and/or exposure to risk factors in the workplace. The illness must be confirmed by a medical diagnosis.
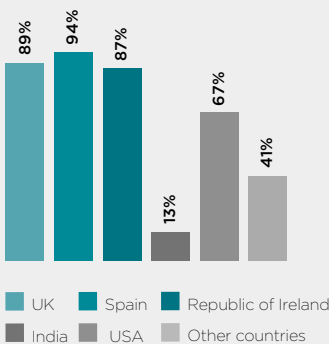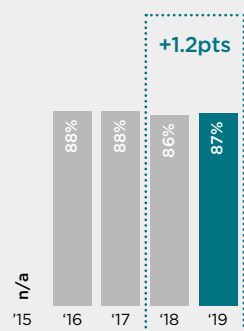
Occupational illnesses in scope for the UK follow Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) standards and can be found at https://www.hse.gov.uk/riddor/ reportable-incidents.htm.

Occupational illnesses in scope for Spain are published in the Royal Decree 1299/2006.

Commentary
This metric is being reported for the first time in 2019.

Social dialogue and trade unions
(% covered by collective bargaining agreements)

Description
Collective bargaining can cover a wide array of issues pertaining to working conditions, such as remuneration, working time, perks and benefits, and occupational safety and health. This coverage rate refers to the proportion of employees who are covered by one or more collective agreements. Calculated using headcounts at the end of the reporting period.

Commentary
There were no significant changes in 2019.

Refer to **Risk management and principal risk factors section on page 40.**

Percentage of employees covered by collective agreements, by country
Refer to **charts above**.

### Results of collective agreements, especially in the field of health and safety
Employee relations are an important factor in improving and maintaining workforce engagement. Most Group employees have the right to representation through a collective bargaining agreement. Our operating companies have well-established mechanisms for negotiation and dialogue with the unions who represent their members. This includes regular review of matters relating to the health and safety of the workforce.
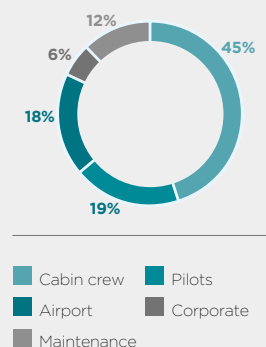
Training

Training policies implemented

Number of hours of training by professional category

+17.6%

36.1 '15
34.9 '16
45.8 '17
41.1 '18*
48.4 '19

* Restated.

12%
6%
45%
18%
19%

Cabin crew Pilots
Airport Corporate
Maintenance

Refer to answer to **A description of the policies implemented by the Company associated with social and employee-related matters.**
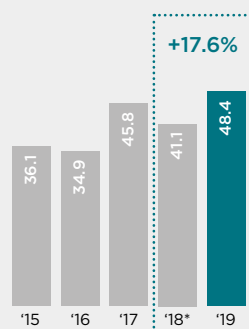
Average hours of training
(average employee training hours per year and training hours by employee category)

Description

Calculated by translating training data for operating companies per full-time equivalent (FTE) into training hours per Group Average Manpower Equivalent (AME). All mandatory and non-mandatory training is in scope.

Breakdown of total training hours by employee category.

Commentary

2018 data was restated. An improvement in data capture during 2019 resulted in re-applying that methodology to 2018.

There was an increase in average hours of training per employee in 2019 explained by the additional number of pilot hours of training during the year. This was due to the introduction of new aircraft types, which in turn meant more conversion courses to train existing and new pilots (employee category with the highest year-on-year headcount increase).

In 2019, 3,193,961 training hours were recorded.

Accessibility

Equality

Universal accessibility of people with disabilities

Across the Group we comply with all relevant legislation regarding accessibility for disabled employees and customers in our buildings and operations. We also work with a variety of external organisations, such as the Business Disability Forum in the UK, to help inform and support our efforts and strategy.

British Airways is particularly active on this issue. In 2019, it reviewed and updated commitments to the Government's Disability Confident Scheme, which demonstrates its commitment to recruit, develop and retain people with disabilities. Having achieved Level 2 of the Scheme, it will be working with resourcing and occupational health teams on streamlining a reasonable adjustment process for new colleagues. A specialist Accessibility team in British Airways' call centre was also introduced to help and support customers with additional needs with booking and pre-travel queries. In 2019, it became the first UK airline to be awarded an Autism Friendly award by the National Autism Society in recognition of its work.

Measures taken to promote equal treatment and equal opportunities for women and men; equality plans; measures taken to promote employment; protocols against sexual harassment and on the basis of gender; integration and universal accessibility for people with disabilities; the Company's policy against any type of discrimination and, when applicable, the diversity management policy

The progression of women into leadership roles is important to IAG and we have set a target to reach 33 per cent women across our senior executive levels (top 200 staff) by 2025. We will monitor and report on our progress, including the management pipeline across the Group. We have put in place an extensive programme of action to help deliver this.

Some key 2019 achievements included:

- 30 per cent women across senior executive levels by the end of year, up from 24 per cent in 2017.
- Recruitment activity across the Group continued to focus on roles where women are underrepresented including pilots, engineering and technology.
- British Airways and IAG Loyalty reported their 2018 gender pay gap data in April 2019. Detailed reports are available at: https://gender-pay-gap.service.gov.uk/.
- Launched a cross-Group female mentoring programme supported by Women Ahead. For the second year, eleven British Airways mentors and mentees joined the 30% Club cross-company mentoring programme.
- International Women's Day was marked with British Airways welcoming 100 young women to its Global Learning Academy to inspire more girls to become commercial airline pilots.
- At Iberia, the "Quiero Ser" (I Want to Be) programme, part of the Diversity and Inclusion Plan, gave young girls once again the opportunity to meet female aviation professionals in person. This programme launched in 2018 to lend greater visibility to female talent and to promote careers in aviation for women at all levels and in all company areas.
- Aer Lingus partnered up with the Irish Girl Guides to create the brand new 'Aviation Badge'. The badge aims to engage girls from a young age with all things aviation, by building interest for future study in STEM subjects and encouraging them to consider future aviation careers.

At British Airways, within the UK, around 16 per cent of our employees have declared a Black, Asian and Minority Ethnic (BAME) background. We recognise that, as in many companies, there are fewer people from a BAME background in more senior roles and this is something we are working to address. In 2019, British Airways joined 80 other organisations in making a public commitment to the Business in the Community (BITC) Race at Work Charter in tackling barriers to BAME recruitment and career progression.

Management approach

A description of the policies implemented by the Company associated with environmental matters

Sustainability governance

IAG's sustainability strategy sets the context and ambition for our sustainability programmes, which are co-ordinated at Group level. It covers our Group policies and objectives, governance structure, risk management, strategy and targets on climate change and noise, sustainability performance indicators, communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy.

The IAG Management Committee provides the forum for review, challenge and setting strategic direction of these programmes. Further oversight and direction are provided by the IAG Board and the IAG Audit and Compliance Committee. The below diagram depicts how sustainability is governed across the Group.

Sustainability overview

Sustainability governance structure

Management approach continued

Sustainability strategy

Sustainability underpins our business strategy and is fundamental to our long-term growth. We have set our vision to be the world's leading airline group on sustainability and are committed to minimising our environmental impact. We are also committed to delivering best practice

solutions and demonstrating thought leadership to drive global improvements in the aviation industry's sustainability performance.

We have aligned our sustainability strategy to IAG's strategic priorities, as indicated in the diagram below.

1
Strengthening a portfolio of world-class brands and operations

2
Growing global leadership positions

3
Enhancing IAG's common integrated platform

1
Ensuring customers have visibility of, and are engaged in, our sustainability programmes

2
Demonstrating industry leadership e.g. through commitment to ambitious carbon reduction targets

Maturing our transition pathway towards a low-carbon economy

see Climate change performance

Leadership in carbon disclosures

3
Investing in efficient aircraft fleet and delivering best practice in operational efficiency

see Sustainable use of resources

Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low-carbon technologies

see Climate change performance

We measure our progress against our vision to be the leading airline group on sustainability against five strategic aims.

1. Clear and ambitious targets relating to our most material issues.
2. Low-carbon transition pathway embedded in business strategy.
3. Management incentives aligned to delivering low-carbon transition plan.
4. Leadership in carbon disclosures.
5. Accelerating progress in sustainable aviation fuels, future aircraft and low carbon technologies.

In 2019 we further embedded our consideration of sustainability issues into core business processes: IAG three-year business plans, one-year financial plans, enterprise risk management, procurement and financial approvals now address climate and sustainability impacts.

We also committed to developing management incentives aligned to our climate targets, to improve the alignment of our business strategy and decarbonisation pathway. We will implement these incentives in 2020.

A description of the main risks associated with environmental matters linked to the Company's operations, including, when relevant and proportional, its commercial relationships, products or services that may cause negative impacts in this area

Overview

The IAG Sustainability team is responsible for identifying and monitoring sustainability and climate-related risks and challenges. These are reviewed by the Enterprise Risk Management (ERM) team and reported at least annually to the IAG Management Committee and the IAG Audit and Compliance Committee. The Sustainability team considers risks over medium-term (two to five years) and long-term (five to 30 years) timescales as part of their risk management processes.

IAG is subject to both risks and opportunities related to sustainability, which are assessed in line with the IAG ERM methodology and are assessed for likelihood and impact considered over different time horizons. The four categories of likelihood are "remote", "possible", "probable" and "likely", and the four categories of impacts are "manageable", "moderate", "serious" and "critical".

Other risks relating to people and employee relations and safety and security are described within the business and operational risks of our ERM framework.

We have identified and assessed longer–term sustainability and climate-related risks and opportunities for IAG through our ERM process, materiality review and applying scenario analysis techniques as set out by the Task Force on Climate-Related Financial Disclosures (TCFD) process. We were one of the early signatories to the TCFD, an initiative led by the Financial Stability Board which complements the Carbon Disclosure Project (CDP) framework and sets guidelines for how to review the resilience of our business strategies in the context of climate change.

Scenario analysis

In 2018, we followed the TCFD process for scenario analysis and analysed the implications of climate change on our business in 2030. 2030 was selected as a nearer-term timeframe en route to 2050. The analysis exercise included an initial qualitative assessment of potential IAG responses in terms of business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans. We considered two scenarios:

- a two-degree temperature rise scenario, consistent with the aims of the Paris Agreement; and
- a four-degree temperature rise scenario, as an alternative high-emission scenario.

We identified that IAG would incur additional operating costs under both a two-degree and four-degree scenario.

Under a two-degree scenario, most of this increase would result from carbon prices or climate-related policy interventions. Under a four-degree scenario, IAG was more likely to face increased costs from operational disruption as a result of extreme weather events becoming more frequent. Key outcomes of this scenario analysis were:

- raising climate change awareness internally and further integrating it into the business planning process;
- driving engagement with the Hangar 51 accelerator programme; and
- identifying and disclosing several new climate-related challenges.

We will review the results of scenario analysis in line with the latest recommendations and guidance and intend to repeat it when relevant.

In 2019, we completed further analysis of climate-related risks and opportunities.

Management approach continued

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.	• Managed by allocating resource to engage with governments, trade associations, IATA and ICAO to lobby for and help deliver a single effective global carbon pricing solution for aviation via CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). Regular updates on progress are provided to the IAG Management Committee and IAG Board
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.	• Supporting implementation of CORSIA through IATA and ICAO and engaging other airlines to ensure CORSIA is adopted successfully • Supporting development of robust rules for CORSIA on Monitoring, Reporting and Verification (MRV), and Emissions Unit Criteria • Lobbying for universal adoption of CORSIA
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.	• 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.	• Set vision to be the world's leading airline group on sustainability with ambitious goals on net emissions and carbon efficiency • Using all the tools at our disposal: modern aircraft, efficient technology, best operational practice and sustainable fuels, as well as influencing global policy and driving industry-wide action, to minimise our carbon footprint • Effective communication of our practices to customers and suppliers
Sustainable aviation fuels 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).	• Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the global, EU and UK levels • British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate sustainable aviation fuel development
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.	• IAG supports ambitious climate targets and effective global regulation and strong policies to meet global climate goals • Continued investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency • Effective procurement strategy for carbon credits to protect against price volatility • Innovation and collaboration on future fuels and carbon technologies through our Hangar 51 accelerator programme

Management approach continued

Climate physical risks and opportunities

Description and potential impact	How we manage it
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.	• IAG climate strategy and our support for strong global action to tackle climate change • Partnerships to mitigate operational disruption. For example, working with the UK National Air Traffic Service (NATS) and other air navigation service providers, a "Linear Holding" system called XMAN was launched at London Gatwick airport in 2019. If arriving aircraft are delayed by more than seven minutes, this system ensures they are slowed down, reducing stack holding and fuel burn and therefore CO_2 emissions
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.	• 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	How we manage it
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.	• 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
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.	• 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
Environment regulation compliance Risk: an inadvertent breach of compliance requirements with associated reputational damage and fines.	• Adopting Group-wide an Environmental Management System, the IATA IEnvA programme • Reviewing and strengthening sustainability governance processes including embedding sustainability into business plans, financial plans, and business cases • Internal governance, training and assigning ownership for environmental compliance obligations • Engaging with carbon market advisors to understand and mitigate compliance challenges and identify future opportunities
Potential target for direct action protests Risk: direct action and civil disobedience protests could disrupt flight operations and/or restrict staff and passenger access.	• Close liaison with government agencies, airport operators and commercial organisations to assess challenges • Contingency planning

1

Results

Environmental management

Information on the current and foreseeable impact of the Company's activities on the environment and, when applicable, on health and safety

See answer to **A description of the policies implemented by the Company associated with environmental matters.**

Environmental assessment and certification procedure

We have continued to progress our environmental management with the adoption of the International Aviation Transport Association (IATA) Environmental Assessment (IEnvA) management system. IEnvA is the airline industry version of ISO14001 (the international standard for environmental management systems) tailored specifically for airlines and is fully compatible with the International Organisation for Standardisation (ISO). British Airways achieved Stage 1 certification in 2019 and all other Group airlines are progressing on Stage 1 certification in 2020.

Resources devoted to environmental risk prevention

We are also allocating significant resource to environmental risk prevention and management. This includes investment of over €2 million euros over five years in Honeywell GoDirect Flight Efficiency software, and over $400 million dollars (€360 million) over 20 years in sustainable aviation fuels infrastructure development and offtake agreements.

See answer to **Inclusion of social, gender equality and environmental matters in the Company's purchasing policy.**

Implementation of the precautionary principle

See answer to **A description of the policies implemented by the Company associated with environmental matters.**

Amount of provisions and warranties for environmental risks

We do not take out any specific insurance to cover our environment risk but we do purchase forward carbon credits to cover our future liabilities.

Pollution

Measures to prevent, reduce or repair emissions

While our focus remains on climate change, we are committed to addressing a range of other sustainability issues. These include local environmental impacts which may affect the quality of life for communities where we operate. For example, minimising the noise impact of our aircraft remains an important focus of our sustainability programme, as well as the impact of these aircraft on air quality.

IAG continues to make progress in reducing aircraft noise over time. Between 2015 and 2019, we reduced the average noise per landing/take-off cycle by ten per cent, meaning that we met our 2020 noise target one year early. All our aircraft meet ICAO Chapter 4 standards for noise and over half now meet the more rigorous ICAO Chapter 14 standards.

In 2019 we continued to invest in quieter aircraft, as part of our fleet modernisation programme. For example, Vueling and Aer Lingus grew their fleet of Airbus A320neos and Airbus A321neos, which have noise levels 50 per cent lower than Airbus A320ceos and Airbus A321ceos that they replace, respectively.

We continue to focus on best operational practices to reduce our local noise impacts. One of these is to carry out continuous descent operations (CDO). Eighty per cent of Vueling's UK flights over the course of 2019 were CDOs, and the Company ran a bi-monthly staff awareness campaign to promote CDOs across their network. Aer Lingus and British Airways also performed strongly in the Heathrow "Fly Quiet and Green" league table of 50 airlines which use Heathrow airport: Aer Lingus has consistently ranked in the top five performing airlines since the ranking began in 2017 and British Airways shorthaul operations topped the league table in the first half of 2019.

All our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible. In 2019, we continued to engage with stakeholders including community groups, regulators and industry partners at our hub airports to share operational insights and participate in research and operational trials.

In 2020 IAG will set new Group-wide noise targets to help support and drive further progress.

-4.9%

'18*	'19
9.71	9.23
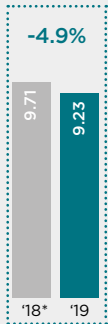
*   Restated.

NO$_x$ per landing/take-off cycle
(kilogrammes NO$_x$ per landing/take-off cycle)

Description
This metric calculates the average emissions of the air pollutant nitrogen oxide (NO$_x$) as aircraft take off and land. The calculation considers the engine certifications and aircraft types of the fleet, using information from the ICAO emissions database.

The calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

We monitor this performance as it is important that we minimise our impacts on local air quality.

Commentary
2018 was the first year we reported this metric.

The 2018 value has been restated due to the inclusion of aircraft which retired before the end of the year, and the resolution of a NO$_x$ calculation error.

The 2019 improvement is driven by our ongoing programme of fleet modernisation.

-6.9%

'15	'16	'17	'18	'19
1.11	1.08	1.06	1.07	1.00
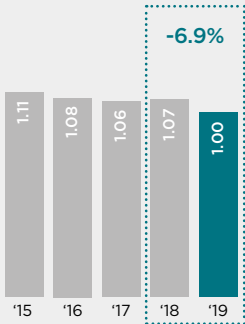
Noise per landing/take-off cycle
**(Quota Count per landing/take-off cycle)**

Description
This metric calculates the average noise per flight considering arrival and departure noise for each aircraft type. UK Government Quota Count (QC) values are used to create a relative categorisation based on certified noise levels. For example, for a single flight, a Boeing 747 would have a score of 6.0 while an Airbus A320 would have a score of 1.0.

The calculation is based on the number of flights of all aircraft which operated during the year, including leased aircraft.

Commentary
A key driver of the 2019 improvement was the use of A320neos on shorthaul routes.

Trends in noise per cycle can fluctuate due to new aircraft, retirements, use of leased aircraft, the balance of shorthaul versus longhaul routes and changes to engine certification.

0pts

'15	'16	'17	'18	'19
99%	99%	99%	100%	100%
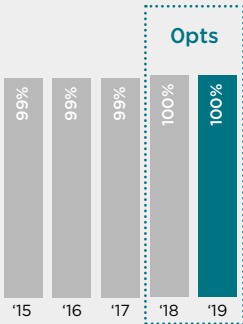
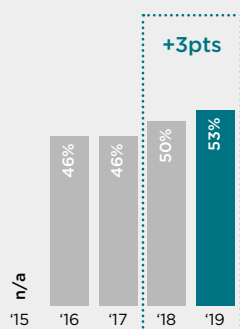### ICAO Chapter 4 noise standard
(% compliance)

Description
ICAO Chapter 4 and Chapter 14 standards relate to noise from aircraft. The certification compares aircraft against standardised limits that are a combination of lateral, approach, and flyover noise levels. The ICAO Chapter 4 technology standard for aircraft noise applies to new aircraft certified from January 1, 2006 and Chapter 14 applies to new aircraft certified from January 1, 2017.

This calculation is based on the IAG fleet position at the end of 2019, excluding leased aircraft.

Commentary
99.8% of our aircraft are now compliant with ICAO Chapter 4 standards.

Chart 1: ICAO Chapter 14 noise standard

+3pts

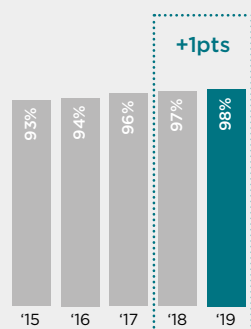| '15	'16	'17	'18	'19
n/a	46%	46%	50%	53%

ICAO Chapter 14 noise standard
(% compliance)

Description
See previous chart.

Commentary
Over half our aircraft are now compliant with ICAO Chapter 14 standards.

Chart 2: ICAO CAEP 4 NOx standard

+1pts

'15	'16	'17	'18	'19
93%	94%	96%	97%	98%

ICAO CAEP 4 NOx standard
(% compliance)

Description
ICAO CAEP standards are for NO_x emissions from aircraft engines. The CAEP 4 standards apply to engines manufactured from January 1, 2004. The standards have become increasingly stringent: CAEP 8 certified engines must emit less than half the NOx of engines certified to the original CAEP 2 standard.

The compliance calculation is based on the IAG fleet position at the end of 2019, excluding leased aircraft.

Commentary
Almost all of our aircraft are now compliant with ICAO CAEP 4 standards.

Chart 3: ICAO CAEP 6 NOx standard

+4pts

'15	'16	'17	'18	'19
65%	68%	69%	74%	78%
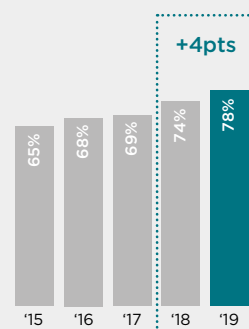
ICAO CAEP 6 NOx standard
(% compliance)

Description
CAEP 6 standards apply to engines manufactured from January 1, 2008.

Commentary
Over three quarters of our aircraft are now compliant with ICAO CAEP 6 standards.

Chart 4: ICAO CAEP 8 NOx standard

+6pts

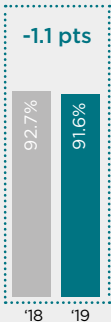| '15	'16	'17	'18	'19
n/a	25%	26%	29%	35%
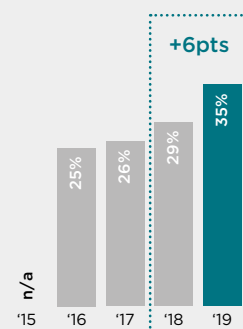
ICAO CAEP 8 NOx standard
(% compliance)

Description
CAEP 8 standards apply to engines manufactured from January 1, 2014.

Commentary
Over a third of our aircraft are now compliant with ICAO CAEP 8 standards.

Pollution continued

Continuous Descent Operations (CDOs)
(% compliance at UK airports)

Description
Continuous descent operations (CDOs) help to minimise noise pollution. Compliant aircraft employ a smooth approach angle when landing, allowing aircraft to fly higher for longer, compared with stepped approaches to airports. This can help reduce fuel consumption as well as noise for those living under approach flightpaths. CDO scores are calculated based on the share of flights employing this approach at UK airports, using data supplied by the National Air Traffic Services (NATS). Data above is for all IAG airlines excluding LEVEL, with 2013 as the baseline year.

Commentary
The 2019 IAG value of 91.6% is above the average for all airlines operating in the UK, which is 88.2%.

Our aim is to have all of our airlines achieve over an 80% average across UK airports. The breakdown for 2019 is as follows:

British Airways – 94.2%

Aer Lingus – 77.8%

Iberia/Iberia Express – 78.9%

Vueling – 82.0%

Circular economy and waste prevention and management

Measures related to prevention, recycling, reuse and other form of waste recovery and disposal

We continue to make progress in recycling and reducing plastic, glass, metal cans, paper and food waste. In 2019, IAG initiatives reduced over 160 tonnes of single-use plastic waste. A new cross airline waste reduction group was also established which involved representatives from all airlines.

Waste reduction initiatives include:
- At the IAG and British Airways Head Office, over 1.5 million single-use plastic items have been removed since 2018;
- British Airways and Iberia replaced plastic swizzle sticks with sustainable bamboo versions, saving 47.5 tonnes of plastic a year;
- Iberia saved 68.5 tonnes of plastic with different plastic reduction measures such as replacing the bags on pillows and blankets with paper bands;
- Aer Lingus reduced plastics on 24 per cent of their Bia and Boutique onboard products;
- Vueling has replaced plastic cups on shorthaul flights with biodegradable alternatives;
- British Airways' new World Traveller Plus amenity kit was designed with sustainability in mind, using material from recycled plastic bottles;
- Iberia is in the EU LIFE+ Zero Cabin Waste programme, which aims to recycle 80 per cent of the cabin waste generated on board, including food waste and plastics. Waste per flight has dropped by 15 per cent since the beginning of this project; and
- LEVEL is using an app to monitor and reduce unnecessary water onboard.

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

We will continue to take steps to reduce and manage waste. From 2020, British Airways will have a target to reduce single-use plastics by 900 tonnes per annum over the next five years. IAG will also explore Group-wide waste targets.

Sustainable use of resources

Actions to avoid food waste

Refer to **measures related to prevention, recycling, reuse and other form of waste recovery and disposal.**

Water consumption and water supply in accordance with local limitations

Water consumption is currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

Shorthaul **0.08kg/pax**

Longhaul **1.16kg/pax**

Overall **0.26kg/pax**

'19 '19 '19
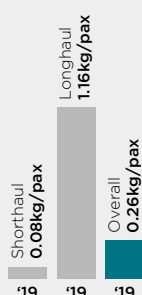
Average aircraft cabin waste
(kilogrammes per passenger)
(kg/pax)

Description

Onboard catering waste generated per passenger, net of recycling, and split between shorthaul and longhaul operations. Some operating companies reported total cabin waste due to limited data availability.

Passenger numbers are based on inbound passengers at base airports e.g. Heathrow, Madrid, Barcelona, Dublin.

Shorthaul and longhaul flights are defined here by distance – for example, UK to Europe as shorthaul.

Commentary

2019 is the first year we are reporting a Group average. We expect to report Group year-on-year trends from 2020.

There are large differences between the waste per passenger metric for individual operating companies due to differences in business model, onboard product, the availability of local waste treatment options, and national waste-related regulations.

Raw material consumption and measures to improve use efficiency

+2.2%

8.28 8.86 9.02 9.41 9.65

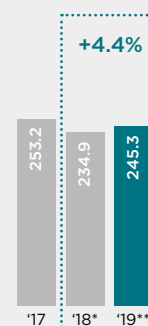'15 '16 '17 '18 '19
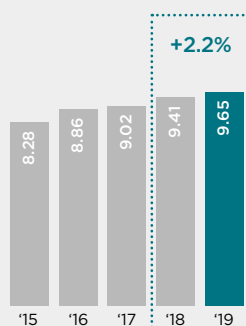
Jet fuel
(million tonnes fuel)

Description

Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.

Commentary

Jet fuel use increased by 2.2% due to business activity, emissions intensity reduced by 1.8%.

Direct and indirect energy consumption

+4.4%

253.2 234.9 245.3

'17 '18* '19**

* Restated.
** Expanded scope.

Electricity
(kWh)

Description

Consumption of electricity across main facilities in millions of kilowatt hours.

This includes usage in main offices, hub airports and maintenance facilities.

Commentary

In 2019 we expanded the scope of our reporting to include overseas offices and ground power to aircraft.

The 2018 value has been restated based on the latest verified data. The previously reported value was based on the best available data but used provisional figures for the final months of the year. The reverified British Airways numbers showed a lower total kWh.

Sustainable use of resources continued

Measures to improve energy efficiency

Operational efficiency

Operational efficiency means changing the way we fly and operate our aircraft, reducing CO_2 by saving fuel. Small improvements can make a big difference, and there are many ways to reduce fuel consumption without negatively affecting passenger experiences or flight schedules.

Fuel efficiency initiatives saved 77,386 tonnes of CO_2e in 2019. Examples of 2019 initiatives include optimised engine washes, reducing the use of Auxiliary Power Units (APUs), reduced time for landing light deployment, reduced engine taxi in and out, continuous descents operations, lighter main wheels and reducing weight onboard. Vueling ran an awareness campaign with flight crew about how operational best practices can reduce CO_2. As part of meeting Group efficiency targets to 2020 and 2025, an expanded programme of initiatives is planned for 2020.

IAG also has a strategic commitment to fuel efficiency. Since 2018 we have been using the GoDirect Flight Efficiency software, developed by Honeywell, in British Airways, Iberia, Vueling and Aer Lingus. This tool enables detailed analysis of fuel use trends to identify savings. In 2019 we launched the Group-wide portal of this tool to enable benchmarking across the Group.

Fleet modernisation

Fleet modernisation means investing in new aircraft and engines as well as upgrading existing aircraft. IAG's fleet modernisation programme will play a major role in reducing our emissions intensity per passenger from 89.8 gCO_2/pkm in 2019 to 87.3 gCO_2/pkm in 2020 and then to 80 gCO_2/pkm in 2025. As a result of our fleet modernisation programme, the age of our fleet is expected to drop from 11.4 years in 2019 to 10.2 years by 2022.

In 2019 we continued to invest in modernising our fleet. Key examples are:

- Across the Group 45 new aircraft were delivered and 18 older aircraft stood down;
- Iberia introduced four new Airbus A350s into the fleet
- Vueling now has the youngest fleet in Southern Europe;
- Aer Lingus added three new Airbus A321neoLRs into its fleet, which showed an average of 23 per cent fuel saving compared with the Boeing 757s replaced;
- British Airways retired three Boeing 747 aircraft and will completely phase out these aircraft by 2024;
- We continued to undertake engine upgrades and weight–saving initiatives; and
- Hangar 51 increased activity focussed on start-ups pioneering low-carbon flight, including electric aircraft development. This activity focused on partnering with, and bringing investment to, new low-carbon technology companies.

IAG fleet planning teams also factor the current and future price of carbon emissions into relevant fleet planning decisions.

+17.5%

65.66 '18 | 77.39 '19
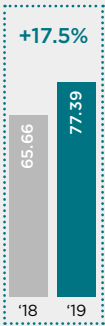
Reduction in GHG emissions from initiatives (thousand tonnes CO_2e)
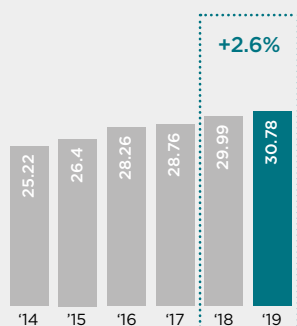
Description

Reductions in emissions as a result of emissions reductions initiatives, excluding externally-driven changes applicable to all airlines e.g. airspace changes. See examples in the Operational efficiency case study.

Commentary

In 2019 we increased the volume of savings achieved through GHG-reduction initiatives, and an expanded programme of initiatives is planned for 2020.

Climate change

Climate change performance

Scope 1 emissions
(million tonnes CO$_2$e)

Chart values by year:
- '14: 25.22
- '15: 26.4
- '16: 28.26
- '17: 28.76
- '18: 29.99
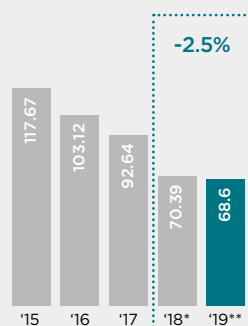- '19: 30.78

+2.6%

Description
Scope 1 emissions are direct emissions associated with our operations including use of jet fuel, diesel, petrol, natural gas, and halons. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines.

These emissions are primarily CO$_2$ but other GHGs such as methane and nitrogen oxide are also reported as part of our CO$_2$-equivalent metric.

Commentary
99.8% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.

While 2019 Scope 1 emissions increased by 2.6% due to growth in business activity, emissions intensity reduced by 1.8%.

Scope 2 emissions
(location-based)
(thousand tonnes CO$_2$e)

Chart values by year:
- '15: 117.67
- '16: 103.12
- '17: 92.64
- '18*: 70.39
- '19**: 68.6

-2.5%

* Restated.
** Expanded scope.

Description
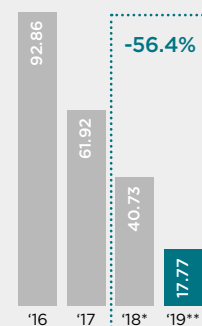Scope 2 emissions are emissions associated with electricity use.

The location-based metric is calculated by multiplying kWh of electricity by the International Energy Agency (IEA) national electricity emissions factors in each country or region of operation.

Commentary
The 2019 increase is due to an expanded scope of reporting, to include electricity use from overseas offices and ground power to aircraft.

If the 2019 scope was the same as in 2018, reported emissions would have dropped by 27%.

2018 Scope 2 emissions have been restated based on the latest verified data. The previously reported values were based on the best available data but used provisional figures for the final months of the year. The reverified British Airways numbers showed a lower total kWh and higher share of renewables.

Scope 2 emissions
(market-based)
(thousand tonnes CO$_2$e)

Chart values by year:
- '16: 92.86
- '17: 61.92
- '18*: 40.73
- '19**: 17.77

-56.4%

* Restated.
** Expanded scope.

Description
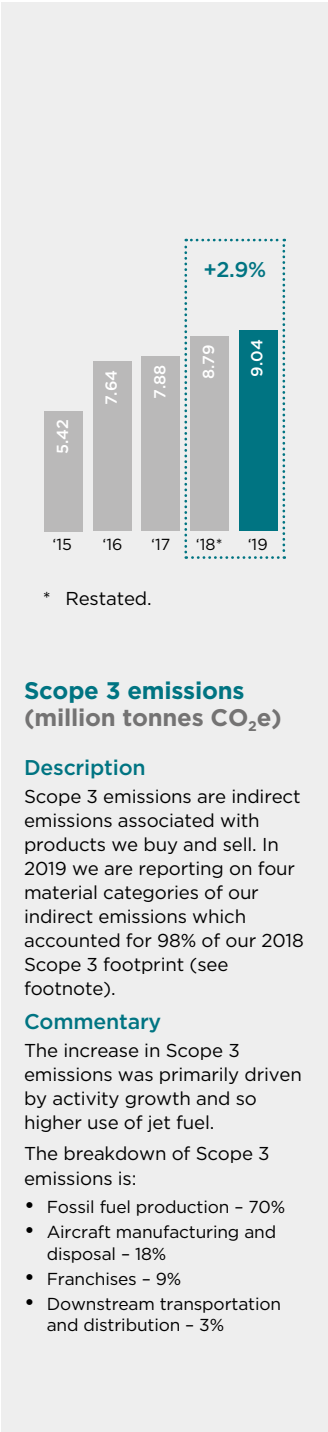Scope 2 emissions are emissions associated with electricity use.

The market-based method is calculated by multiplying kWh by the specific CO$_2$/kWh of the electricity purchased from suppliers. Where renewable certificates are not available, electricity use is multiplied by the IEA national electricity emissions factors for each country or region of operation.

Commentary
Market-based Scope 2 emissions are net of renewables and dropped significantly in 2019 due to increased procurement of renewable electricity at Iberia and Vueling and the airports where we operate.
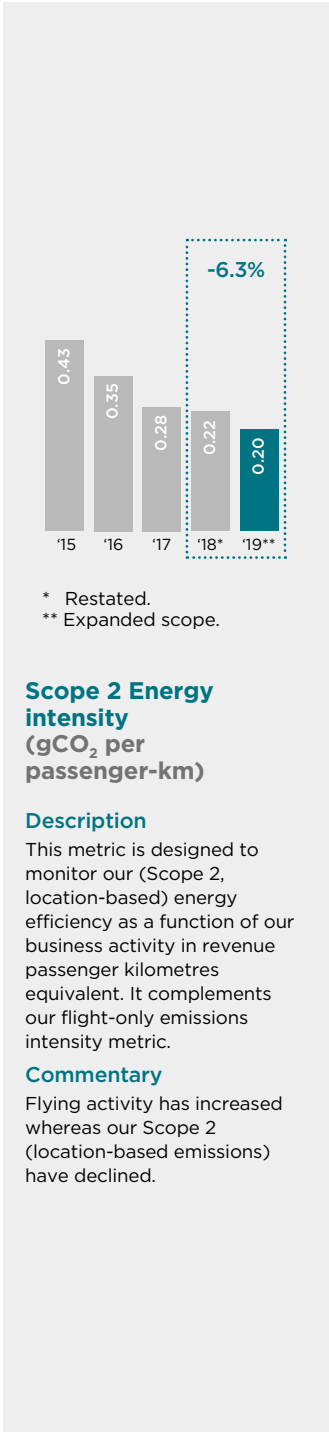
2018 Scope 2 market-based emissions have been restated. See previous commentary.

Climate change continued

+2.9%

5.42	7.64	7.88	8.79	9.04
'15	'16	'17	'18*	'19

* Restated.

-6.3%

0.43	0.35	0.28	0.22	0.20
'15	'16	'17	'18*	'19**

* Restated.
** Expanded scope.

GHG emissions by scope, in CO_2-equivalent

Scope 1
77.1%
30,781,000*

Scope 2
0.2%
69,000*

Scope 3
22.7%
9,043,000*

* Values rounded to the nearest thousand tonnes

Scope 3 emissions (million tonnes CO_2e)

Description
Scope 3 emissions are indirect emissions associated with products we buy and sell. In 2019 we are reporting on four material categories of our indirect emissions which accounted for 98% of our 2018 Scope 3 footprint (see footnote).

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%

Scope 2 Energy intensity (gCO_2 per passenger-km)

Description
This metric is designed to monitor our (Scope 2, location-based) energy efficiency as a function of our business activity in revenue passenger kilometres equivalent. It complements our flight-only emissions intensity metric.

Commentary
Flying activity has increased whereas our Scope 2 (location-based emissions) have declined.

Relevant aspects regarding greenhouse gas emissions

Overview and targets
Climate change is our most material sustainability issue. IAG's main impact on climate change is via the jet fuel consumed by our aircraft. In 2019, the greenhouse gases (GHGs) produced from this activity contribute 98.8 per cent of our Scope 1 emissions and 77.1 per cent of our Scope 1, 2 and 3 emissions. We also have an impact via our ground operations – for example the use of ground vehicles – and from the energy used in terminals, hangers, offices, lounges and other buildings.

We are committed to minimising our CO_2 impacts and non-CO_2 impacts on the climate. Our Scope 1 activities in 2019 emitted 30.47 million tonnes (MT) of carbon dioxide, 0.02 MT of methane, and 0.29 MT of nitrogen oxide, measured in units of CO_2 equivalent. Given that CO_2 is over 99 per cent of this impact, reducing CO_2 is our primary focus.

Footnote:
The four categories of Scope 3 emissions are defined and calculated as follows:
1. Fossil fuel production represents the lifecycle emissions from producing and transporting the fuels that we consume - calculated using conversion factors from the UK Government.
2. Aircraft manufacturing and disposal represents emissions from making and disposing of aircraft at the end of their usable life - calculated using a standardised factor from the EU.
3. Franchises represent emissions from aircraft that are franchises to IAG - calculated based on emissions from fuel use.
4. Downstream transportation and distribution represents emissions from subcontracted air and ground fleets, including for carrying freight - calculated based on the emissions from fuel use.
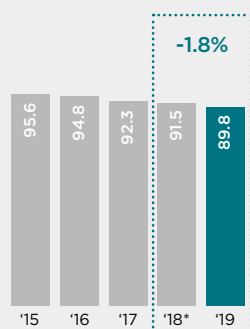
-1.8%

'15	'16	'17	'18*	'19
95.6	94.8	92.3	91.5	89.8

*   Restated.

Flight-only emissions intensity
(grammes of CO_2/pkm)

Description
Grammes of CO_2 per passenger kilometre is a standard industry measure of flight fuel efficiency.

This value is calculated by taking annual jet fuel use and dividing by passenger-km travelled, using a conversion factor to account for the weight of cargo.

Commentary
The 2019 improvement is driven by the strong performance of Airbus A320s and A350s, Boeing 787s, and higher load factors.

The 2018 value has been restated based on the latest verified data.

Between 2011 and 2019, our average annual improvement in grammes of CO_2/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%.

+18.1pts

'17	'18*	'19
54.0%	54.0%	72.1%
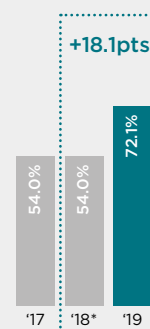
*   Restated.

% Renewable electricity
(% of kWh)

Description
Our electricity use is measured in kilowatt hours (kWh). This metric represents the share of electricity generated by renewable sources such as solar power and wind. It includes the volume procured from renewable electricity suppliers.

In cases where no information was available on electricity sources, the source of electricity is assumed to be the national grid.

Commentary
The 2019 increase is driven by procurement of renewables in Vueling and Iberia and at UK airports where we operate.

Climate change continued

Million tonnes CO$_2$ (MT)

Demand growth

Gross emissions

Net emissions

39%

18%*

43%

Percentage CO$_2$ reductions
(SAF is 30% of fuel in 2050)

27MT

22MT

2020 2025 2030 2035 2040 2045 2050

— Demand growth — Gross emissions ••• Net emissions ⬤ 2025: 80g CO$_2$/pkm

■ New aircraft and operations ▫ Sustainable aviation fuels (SAF) ◺ Carbon offsets and removals
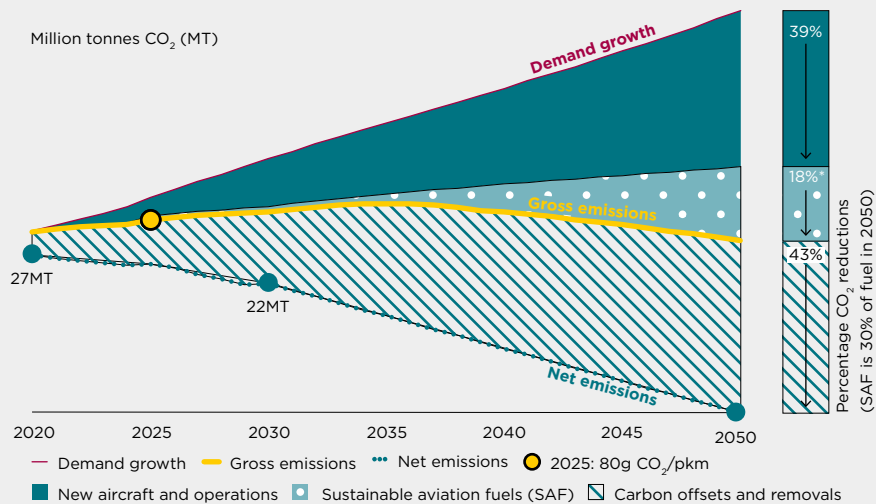
Measures to adapt to climate change

Refer to answer to **A description of the main risks associated with environmental matters linked to the Company's operations, including, when relevant and proportional, its commercial relationships, products or services that may cause negative impacts in this area.**

Voluntary medium- to long-term greenhouse gas emission reduction targets and resources

IAG is committed to IATA industry targets, which are:

- 1.5 per cent per annum fuel efficiency improvement until 2020; we have averaged 1.6 per cent per annum between 2011-2019;
- Carbon-neutral growth from 2020 onwards; and
- 50 per cent reduction in net CO$_2$ emissions by 2050, versus a 2005 baseline.

We have been working towards a fuel efficiency target of 87.3 grammes of CO$_2$ per passenger-km (gCO$_2$/pkm) by 2020. This represents a 10 per cent reduction from 97.5g CO$_2$/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 CO$_2$ emissions. "Net zero" means that by 2050 any CO$_2$ which IAG operations emit in a year will be balanced by an equivalent amount of CO$_2$ reduction. This is in line with UN science requirements to keep global average temperatures below a 1.5 degree Celsius rise.

As part of the Flightpath net zero programme, we set new short-, medium- and long-term targets at Group level:

- 10 per cent improvement in fuel efficiency between 2020 and 2025, equating to 80 gCO$_2$/pkm in 2025;
- 20 per cent reduction in net CO$_2$ emissions by 2030, equating to 22 million tonnes (MT) of CO$_2$ in 2030;
- Net zero CO$_2$ emissions by 2050; and
- Net zero CO$_2$ emissions for British Airways UK domestic flights from 2020.

In addition, in December 2019 we became one of 185 companies worldwide to sign the Business Ambition for 1.5°C pledge from the UN Global Compact and Science-Based Targets initiative (SBTi). As part of this pledge, we committed to climate targets and decarbonisation pathways which are consistent with keeping global temperatures below a 1.5 degree Celsius rise. In 2020 we intend to support efforts to develop guidance on decarbonisation pathways for aviation.

We rely on four areas to achieve our Flightpath net zero 2050 programme: operational efficiency, fleet modernisation, sustainable aviation fuels, and structured schemes to deliver carbon reductions in other sectors. We have created a detailed carbon reduction roadmap to quantify the impact of each aspect of our plan and this is shown above. Compared with a scenario of growth at today's efficiency, 39 per cent of reductions in 2050 will come from new aircraft and operations, and 43 per cent from market-based measures and carbon-removal projects such as carbon capture, utilisation and storage (CCUS) technology. We expect 30 per cent of IAG fuel in 2050 will be from sustainable aviation fuels.

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

Sustainable aviation fuels

Sustainable aviation fuels (SAF) are made from materials which have previously absorbed carbon e.g. waste from plastics and food items. These fuels are chemically almost identical to jet fuel made from fossil fuels but over their recent lifecycle emit 70 to 100 per cent less CO_2. SAFs will play a key role in enabling IAG to reduce our impact on climate change.

We remain at the forefront of SAF development and of influencing domestic, regional and international policy to support these fuels. We have committed to invest $400 million (€360 million) in SAF over 20 years from 2017. In August 2019, the British Airways' partnership with Velocys and Shell submitted a planning application for Europe's first household-waste-to-jet-fuel plant in Immingham, England. Construction of the plant is due to start in 2021 and the plant will be operational in 2024. It is expected to produce over 32,000 tonnes of sustainable jet fuel per year.

IAG continues to work with several technology developers to establish a range of SAF supply options for the future. We participate in academic boards and public-private partnerships to support new technologies and innovation. We are also exploring options to use carbon capture, utilisation and storage (CCUS) technology as part of our Velocys project in the near term.

We also support wider innovation on SAF. In 2019, British Airways ran a Future of Fuels competition, open to academics at UK universities. The winners were announced in May and awarded a £25,000 grant to further their research, along with presenting their winning proposal at the industry-leading IATA Alternative Fuels Symposium and ATAG Global Sustainable Aviation Summit.

IAG contributes to the Fuels Task Group at the UN International Civil Aviation Organisation (ICAO), which is helping to shape new legislation for SAF as part of the upcoming CORSIA scheme. We are working on new government policy options for recycled fuels – i.e. nonbiogenic, like plastics which cannot be recycled – which we believe have great potential to offer additional CO_2 reductions. We are also calling for the UK Government to set up a dedicated cross-government body to provide policy support to accelerate UK SAF development.

Carbon fund, offsets and removals

Carbon reductions can be achieved through market-based measures and offsets, such as:

- Contributing to emission reductions in Europe through the European Emissions Trading Scheme (ETS);
- Through the global CORSIA scheme, preparing to purchase verified carbon reduction units to offset our emissions growth;
- Voluntarily purchasing offsets for emissions from specific groups of flights, events and staff activities;
- Offering customers the option to fund carbon reduction projects to make their flights carbon neutral; and
- Investing in technology to capture carbon dioxide out of the air and store it underground – not yet implemented by IAG but being explored.

IAG reduced its net emissions by 3.2 million tonnes of CO_2 in 2019, largely through participation in the EU ETS. All British Airways' UK domestic flights will be net zero carbon from 2020 onwards; a volume of around 400,000 tonnes achieved through emission reductions under the EU ETS and carbon reductions from investment in projects supporting forest protection and renewable energy.

The British Airways Carbon Fund continues to offer passengers the option to voluntarily invest in community energy efficiency projects in the UK and Africa. Our partnership with charity Pure Leapfrog completed nine projects in 2019 including the installation of solar panels and high-efficiency lighting, peat restoration and renewable energy.

In 2019, IAG continued to build support for smart market-based measures to reduce emissions. Representatives worked with IATA and ICAO to help finalise the rules governing the CORSIA scheme, the treatment of SAF and the rules for airlines and carbon offsetting programmes relating to eligible carbon offsets. We continue to work with IATA, trade associations and national governments to call for effective carbon regulation and effective regulatory reforms.

In 2019, IAG selected two carbon offset and removal start-ups to work with as part of our Hangar 51 innovation accelerator programme. Mosaic Materials has created a material to absorb CO_2 emissions from the atmosphere. ClimateTrade uses blockchain technology to track carbon offset projects. These partnerships have improved our understanding of how we can incorporate these technologies into our business.

In 2020 we plan to expand our voluntary carbon reduction programmes and continue to support smart market-based measures to reduce emissions. We expect the price of carbon per tonne to rise over time and we are liaising with the UK Government on options for the treatment of aviation after the UK exits the EU.

Biodiversity

Measures to preserve or restore biodiversity

Biodiversity is currently not assessed as material for IAG based on the small scale of impacts in this area and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

Management approach

Description of the policies implemented by the Company associated with human rights matters

All directors and employees are expected to act with integrity and in accordance with the laws of the countries they operate in. Resources are available across the Group for employees to get advice, report grievances or any alleged or actual wrongdoing.

IAG and its operating companies have policies in place setting out the general guidelines that govern the conduct of directors and employees of the Group when carrying out their duties in their business and professional relationships. Various training and communications activities are carried out for directors, employees and third parties to support awareness of the principles that govern the conduct of the Group and its employees. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers.

In 2019, IAG implemented a new Code of Conduct that applies to all directors, managers and employees of the Group. A new e-learning training to support the new Code of Conduct, applicable to all employees, was also rolled out.

Refer to answer to **Non-financial KPIs associated with corruption and bribery matters.**

A description of the main risks associated with human rights matters

Human Trafficking is of real concern in the airline industry.

Transporting over 118 million passengers per year and with tens of thousands of suppliers, Group Slavery and Human Trafficking is relevant to IAG. We have no known cases of human rights violations within our organisation and we are increasing our screening of our suppliers to ensure that this is also the case in their organisations. We work closely with governments and the airports in which we operate to ensure that any suspected trafficking on our flights are reported and dealt with appropriately. We train our staff to recognise the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected.

In 2019, we published our third Group Slavery and Human Trafficking Statement. This statement is made under section 54, part 5 of The Modern Slavery Act 2015 (MSA) and outlines the steps taken by IAG to prevent modern slavery within the Group and ensure it does not take place in our business and supply chains. We ask our suppliers to adhere to this statement. Modern slavery clauses feature in all new supplier contracts as well as those coming up for renewal.

IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

In addition, British Airways, Aer Lingus and Vueling carry out training for pilots and cabin crew on identifying and responding to human trafficking. Guidance and procedures for flight crews and cabin crews are also included in the Aer Lingus and Vueling Operations Manuals.

Due diligence procedures

Implementation of human rights due diligence procedures; measures to prevent and manage potential human rights abuses and, when applicable, measures to mitigate, manage and repair potential human rights violations

Refer to answer to **A description of the main risks associated with human rights matters.**

Reported cases of human rights violations

Refer to answer to **A description of the main risks associated with human rights matters.**

Promotion and compliance with ILO's (International Labour Organization) provisions related to freedom of association and collective bargaining; the elimination of work discrimination, forced or compulsory labour and the effective abolition of child labour

Over 95 per cent of our employees are based in European countries which comply with the conventions of the ILO covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

Management approach

A description of the policies implemented by the Company associated with corruption and bribery matters

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our Group policies which are available to all directors and employees. Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks. In 2019, the main risks identified were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality.

Anti-bribery and corruption training is mandatory for all IAG operating companies and takes the form of either e-learning or classroom sessions. Individual training requirements are set by each operating company and are determined by factors such as the level and responsibilities of an employee. In 2019, a new anti-bribery and corruption e-learning course was rolled out across the Group.

The programme's risk-based third-party due diligence includes screenings, external reports, interviews and site visits depending on the level of risk that a third-party presents. In 2019 a new third-party management tool for higher-risk third-parties was implemented, together with updated Group-wide Know Your Counterparty procedures. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty.

The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

A description of the main risks associated with corruption and bribery matters

Refer to answer to **Risk management and principal risk factors section on page 40.**

Non-financial KPIs associated with corruption and bribery matters

There are Speak Up channels provided by Safecall and Ethicspoint available throughout the Group, where concerns can be raised on a confidential basis. The IAG Audit and Compliance Committee reviews the effectiveness of the Speak Up channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements. The annual review is co-ordinated by the Head of Group Audit.

In 2019, a total of 282 Speak Up reports were received compared with 201 in 2018. These reports concerned issues relating to Employment Matters (62%), Dishonest Behaviour/Reputation (23%), Health & Safety (14%) and Regulatory Matters (1%). All reports were followed up and investigated where appropriate.

Information related to corruption and bribery

Measures to prevent corruption and bribery

Refer to answer to **Non-financial KPIs associated with corruption and bribery matters.**

Measures to prevent money laundering

IAG has various processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls which help to combat money laundering in the business.

Contributions to not-for-profit organisations

Community giving is a key way that IAG operating companies contribute to their wider communities. These efforts are often longstanding and continue to support a variety of causes. Here are some key 2019 achievements:

- Across the Group, over €4.2 million was raised for charitable causes;
- The British Airways "Flying Start" global charity programme, in partnership with Comic Relief, raised over £3.4 million in 2019 and has raised over £24 million since 2010. Customer collections and fundraising have helped over 800,000 people in some of the world's poorest communities;
- British Airways continued its commitment to international humanitarian response and launched a new partnership with the British Red Cross focusing on support for UK community preparedness and crisis response work;
- Aer Lingus staff continued their commitment to "Make a Difference" Day, where they volunteered one day's annual leave to help their local communities. In 2019, the eighth year of this programme, 140 employees from across all departments transformed the outdoor grounds of St Monica's School in Dublin, benefiting 150 pupils;
- Since 2013, Iberia has been collecting customer donations through the Iberia website for UNICEF children's vaccination programmes. Over €1 million has been raised so far, which has paid for the vaccinations for more than a million children in Chad, Angola and Cuba. €110k was raised in 2019; and
- Since 2016, Vueling has collected €950k in donations for Save the Children, being the second-largest sponsor of this NGO in Spain. €194k was raised in 2019.

Management approach

Commitment to sustainable development

A description of the policies implemented by the Company associated with society matters

The UN has identified 17 Sustainable Development Goals (SDGs) for all sectors to work towards as part of a 2030 Agenda for Sustainable Development. The aim of this agenda is to "end poverty, protect the planet and improve the lives and prospects of everyone, everywhere".

We draw links to nine SDGs which align with those identified by IATA and UK trade association Sustainable Aviation. Four priority SDGS – **5,7, 8 and 13** – were identified by IAG as part of our materiality assessment and are indicated in grey. How our initiatives align with and support these goals is also indicated.

How IAG activities align with the SDGs

Goal 3: Good health and wellbeing	Goal 4: Quality education	Goal 5: Gender equality
Initiatives on: • Operational efficiency • Fleet modernisation • Noise • Air quality • Health and safety • Modern slavery • Accessibility	Initiatives on: • Work experience programmes • Modern slavery	Initiatives on: • **Work experience programmes** • **Workforce diversity** • **Modern slavery**
Goal 7: Affordable and clean energy	**Goal 8: Decent work and economic growth**	**Goal 9: Industry, innovation and infrastructure**
Initiatives on: • **Climate change** • **Sustainable aviation fuels (SAF)**	Initiatives/metrics on: • **Work experience programmes** • **Revenue per tonne CO_2**	Initiatives on: • SAF • Fleet modernisation • Hangar 51 • Carbon capture, utilisation and storage (CCUS)
Goal 11: Sustainable cities and communities	**Goal 12: Responsible consumption and production**	**Goal 13: Climate action**
Initiatives on: • Noise • Air quality • Community giving • Accessibility	Initiatives on: • Waste • Supply chain	Initiatives on: • **Climate change** • **Operational efficiency** • **Sustainable aviation fuels** • **Carbon offsets and removals**

A description of the main risks associated with society matters linked to the Company's operations

Refer to **Risk management and principal risk factors section on page 40.**

Impact of the Company's activity on employment and local development

IAG sees work experience as a valuable way of engaging young people with our business and preparing them for potential careers in aviation.

British Airways launched the Flying Experience Days across the summer holidays as a way to engage more young people with a career in the flight deck, in partnership with The Air League Trust. Trial flights were offered to 200 students (of which 25 per cent were girls) at Booker Gliding Club and Airfield in High Wycombe in either a glider or motor-powered aircraft, as well as other activities that are focused around becoming a pilot. As a result of the Flight Experience Day, the share of students set on becoming a pilot rose from 68 to 95 per cent.

In the August summer holidays, British Airways invited 45 former Inspire Work Experience students to undergo a training programme that looks at developing their presenting skills and building confidence; as well as techniques for representing British Airways at external events. There are now 145 Inspire Student Ambassadors in the programme. The award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry and develop their employability skills.

Similarly, the Aer Lingus Transition Year Programme has been developed to provide second-level transition year students with a structured 'behind the scenes' glimpse into the daily operations in Dublin and the various potential career paths available within the airline.

Impact of the Company's activity on local populations and territories

While our focus remains on climate change, we are committed to addressing a range of other sustainability issues. These include local environmental impacts which may affect the quality of life for communities where we operate. For example, minimising the noise impact of our aircraft remains an important focus of our sustainability programme, as well the impact of these aircraft on air quality.

Refer to answer to **Measures to prevent, reduce or repair emission.**

Company's relations with local communities, agents and dialogue channels; partnerships and sponsorship actions

Refer to **answer above.**

Sustainable supply chain

Inclusion of social, gender equality and environmental matters in the Company's purchasing policy

On behalf of IAG and its operating companies, IAG Global Business Services (GBS) works with approximately 27,000 suppliers. We aim to do business and build relationships with suppliers who share our Group values: acting with honesty and integrity in all business dealings, reducing our supply chain environmental footprint, improving safety, and strengthening contributions to building better societies, locally and globally.

From 2019, our Supplier Code of Conduct, which lays out expectations for suppliers working with all IAG operating companies, has been included as part of our supplier onboarding process. This means all new suppliers are asked to sign up to and acknowledge the Code before we establish any trading relationship and helps ensure that established standards are accepted and followed by all our supply chain partners.

We have built on our sustainable supply chain strategy throughout 2019 and have screened an additional 13,000 existing suppliers in the Group. This includes third-party assessments of legal, social, environmental and financial risk.

As part of our Procurement Sustainability Programme, we have built a Corporate Social Responsibility (CSR) audit plan and are increasing the number of audits carried out each year, focusing on those suppliers located in countries where there may be human rights or environmental concerns. These audits are carried out by trusted third-party inspectors with CSR expertise, who are aligned with the world-class Sedex Members Ethical Trade Audit (SMETA) methodology.

In 2019, the number of on-site supplier audits was tripled compared with the same period in 2018. Audits carried out with our business partners did not show any significant violations. However, the findings that potentially deviated from our supplier standards are being reviewed to determine what, if any, corrective actions are required.

We also have collaboration projects with key suppliers to encourage sustainability innovation and identify ways to reduce emissions. Examples include shifting the transport of jet fuel from road to rail, and the Catering 2020 Project, which resulted in sourcing suppliers from a 5-to-7 mile radius of each London hub therefore reducing transport emissions.

In 2020, we will continue to invest in the development of our Procurement Sustainability Programme. This means we will focus on supply chain sustainability, assessment, performance and control by implementing new tools, continuing to increase the number of CSR audits, and introducing supplier self-assessment and projects that recognise sustainability contributions.

Key performance indicators (KPIs)

To date, approximately 18,400 suppliers – 68% – have been vetted, compared with a total of 5,500 in 2018.

Total number of suppliers	Suppliers third-party screened	Suppliers to be reviewed
27,033	18,369	8,664

We will continue screening our supply base and increase the number of third-party vetted suppliers over the coming year. However, the level of scrutiny will start to diminish as smaller suppliers, who have minimal financial and CSR data, typically fall into the 8,664 still to be assessed, and these smaller suppliers often have a lower risk to the business.

Risk type	Measurement	Typical issues	Meaning of a high score
Environment	Trucost	Environmental damage resulting from company's business activities caused by pollution; greenhouse gases, water waste, air, land and water pollutants, and natural resource use. The score is based on industry sector and location, which can be country, region, or global.	The potential percentage of turnover at risk, should a company be liable for environmental damage resulting from business activities. Components of the score are compared to peers on a yearly basis.
CSR	Risk rating	Risk exposure to environmental, social and governance issues. Combines a company's own potential ESG risk with the ESG risk of the countries and sectors in which the company has been exposed.	High- to very high-risk exposure. Combines environmental, social and governance risk.
Compliance	Compass	Predicts the likelihood a supplier will violate payment processing regulations, regional or international laws, or commit fraud. Based on merchant risk and fraud history.	High risk of non-compliant or illegal activity. It is based on the probability that a prospective supplier will commit a violation in the next 24 months. Scores are used to make informed decisions when considering onboarding new suppliers, and/or identifying areas for closer inspection.

Attention given to the social and environmental responsibility of subcontractors and suppliers

Refer to **answer above.**

Supervision and audit systems and their results

Refer to **answer above.**

Consumer relationship management

Measures to protect consumers' health and safety

Refer to **Health and Safety - Occupational health and safety conditions**.

Complaint systems and claims

IAG airline customers are able to provide feedback and details of complaints in multiple ways, including via our websites, by mail, or by phoning our customer contact centres. The types of customer complaint received vary significantly but typically relate to delays and cancellations, baggage, journey experience and bookings and reservations. To handle customer complaints our airlines have dedicated customer relations teams who are specially trained to deliver excellent customer service and resolve issues quickly and in a satisfactory manner.

In 2019, across the IAG airlines, on average 3.2 complaints were received per 1,000 flown passengers.

Public subsidies received

As part of the EU Emissions Trading Scheme (ETS), airlines in the Group receive part of their emission allowances at zero cost and purchase the remainder in the ETS market. The value of the allowances at zero cost represents the substantial majority of amounts included as public subsidies, which for the Group amounted to €94 million in 2019; ETS allowances were valued at the December 31, 2019 carbon market price. The 2018 information did not include emission allowances and has not been restated.

Tax information

Profits obtained per-country, taxes paid on profits

UK | Spain | Republic of Ireland | Other countries

2018: 2,770 | 512 | 272 | -67
2019: 1,618 | 489 | 240 | -72

Accounting profit/loss before tax
(€ million)

Description

Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable.

Commentary

The decrease in profits taxable in our main countries of operation in 2019 reflects an exceptional loss arising in the UK in relation to British Airways pension schemes.

UK | Spain | Republic of Ireland | Other countries

2018: 191 | 92 | 61 | -1
2019: 161 | -71 | 27 | 2

Income tax paid
(€ million)

Description

Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.

Commentary

Total tax payments of €119 million are lower than the expected tax charge for the Group of €440 million primarily because tax relief for pensions in British Airways arises on a cash basis and is not based on accounting profits and losses.

The decrease in taxes paid by country in our main countries of operation in 2019 reflects the one-off repayment of UK tax arising on the deferral of revenue on the adoption of IFRS 15, the early receipt in Spain of part of the 2018 tax deposit and the making of standard instalment payments in Ireland after having made extra payments in 2018 on transition into the instalment payment regime. The decrease in the UK is not in proportion to the decrease in profits because the latter relates to exceptional gains and losses on British Airways' pensions, which are not cash tax items.

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Footnotes:
1 Internal framework: qualitative description
2 Internal framework: see the methodology used in the corresponding pages

* Water consumption and biodiversity are currently not assessed as material for IAG based on the small scale of impacts in these areas and the relative importance of other issues as assessed by our stakeholders. However, we keep this under regular review.

Sections extracted from the Management Report

Our business model is built to maximise choice and value creation

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

What we do

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

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

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

Our vision is to be the leading airline group on sustainability. We are committed to reducing our carbon footprint and to reach the goal of net zero CO_2 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.

BRITISH AIRWAYS   IBERIA   vueling

Aer Lingus   LEVEL

Global leadership positions

598
fleet

779
routes

279
destinations
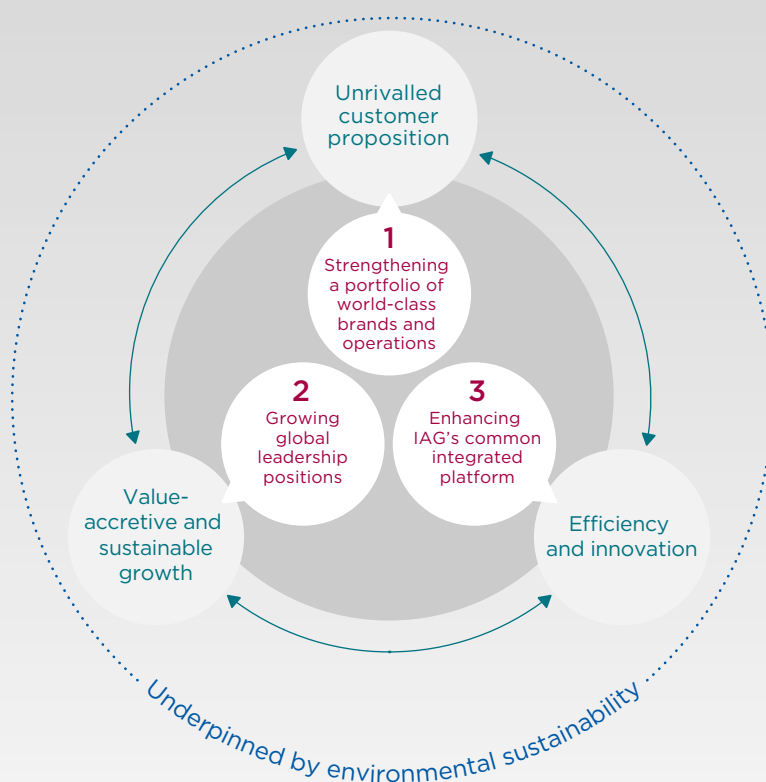
4
joint businesses

A common integrated platform

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

IAG Cargo   IAG Loyalty   IAG GBS

IAG Connect   IAG Tech   MRO

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 under-served
- Deepen customer centricity to win a disproportionate share in each customer segment

Unrivalled customer proposition

1 Strengthening a portfolio of world-class brands and operations

2 Growing global leadership positions

3 Enhancing IAG's common integrated platform

Value-accretive and sustainable growth

Efficiency and innovation

Underpinned by environmental sustainability

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 CO_2/pkm

Carbon efficiency

-1.8% vly

Commitment to net zero CO_2 emissions by 2050

Sustaining the risk management culture

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. The Board has oversight of the Group's operations to ensure that internal controls are in place and operate effectively. Management is responsible for the execution of the agreed plans.

The Group has an Enterprise Risk Management (ERM) policy which has been approved by the Board. This policy sets the framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks facing the Group, including emerging risks. This process is led by the Management Committee and best practices are shared across the Group.

Risk owners are responsible for identifying and managing risks in their area of responsibility within the key underlying business processes. All risks are assessed for likelihood and impact against the Group Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans. Every risk has clear Management Committee oversight.

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends, regulations or business disruptors that could impact the Group's business strategy and plans. These emerging risks are monitored within the overall risk framework until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact can be made, and appropriate mitigations can be put in place.

IAG considers risks to the strategic business plan over the short-term up to two years, medium-term from three to five years and in the longer-term beyond five years.

Risk management professionals ensure that the framework is embedded across the Group. They maintain risk maps for each operating company and at the Group level, and ensure consistency over the risk management process.

Risk maps are reviewed by each operating company's management committee, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Each operating company's management committee confirms to its operating company board as to the identification, quantification and management of risks within its operating company as a whole annually.

The management committee of each operating company escalates risks that have a Group impact or require Group consideration in line with the Group ERM framework.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. The IAG Management Committee reviews risk during the year including the Group risk map semi-annually in advance of reviews by the Audit and Compliance Committee in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Board of Directors discusses risk at a number of meetings in addition to the risk map review, including a review of the assessment of IAG's performance against its risk appetite.

IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalises how performance is monitored either on a Group-wide basis or within major projects. These statements were reviewed for relevance and appropriateness of tolerances at the year end and it was confirmed to the Board that the Group continued to operate within each of the risk appetite statements.

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. IAG remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government regulation, external events causing operational disruption including civil

unrest, adverse weather or pandemic, fuel price and foreign exchange volatility and changes in the competitive landscape.

Risks are grouped into four categories: strategic, business and operational, financial including tax, compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

The list is not intended to be exhaustive.

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and consumers. IAG has a high appetite for continued deregulation and consolidation. The Group seeks to mitigate the risk from government intervention or changes to the regulations that can have a significant impact on operations.

In general, the Group's strategic risks were stable during the year with competitor capacity being monitored and assessed within the Group. IAG continues to support deregulation, manage its supplier base and explore opportunities for consolidation.

Business and operational risks

The safety and security of customers and employees is a fundamental value. The Group balances the resources devoted to building resilience into operations and the impact of disruption on customers. The Group airlines are still highly exposed to the significant level of Air Traffic Control (ATC) airspace restrictions in Europe, requiring additional resilience to be built into the networks.

Strike action impacted British Airways, Iberia and Vueling operations this year. IAG continues to engage with the trade unions representing our workforces to agree collective bargaining agreements and minimise disruption.

The cyber threat environment remains challenging for all organisations including the airline industry. The Group continues to prioritise investment in the security controls framework, to mitigate and control these risks.

The political and economic environment remained volatile across the year, with the risk of demand impact from changes in trade relationships which could drive the imposition of tariffs, increasing costs.
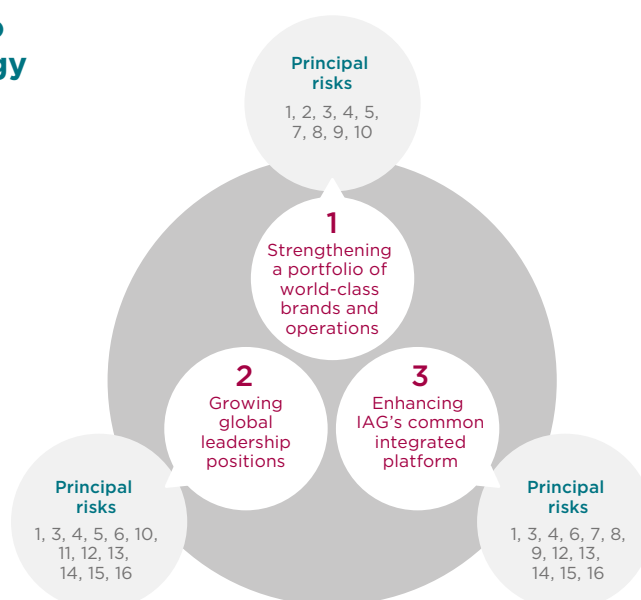
Financial risks

IAG balances the relatively high business and operational risks inherent in its business through adopting a low appetite for financial risk. This conservative approach involves maintaining adequate cash balances and substantial committed financing facilities. There are clear hedging policies for fuel price and currency risk exposure which explicitly consider appetite for fluctuations in cash and profitability resulting from market movements.

However, the Group is also careful to understand its hedging positions compared to competitors to ensure that it is not commercially disadvantaged by being over-hedged in a favourable market.

Compliance and regulatory

The Group has no tolerance for breaches of legal or regulatory requirements.

Link to strategy

Principal risks
1, 2, 3, 4, 5, 7, 8, 9, 10

1
Strengthening a portfolio of world-class brands and operations

2
Growing global leadership positions

3
Enhancing IAG's common integrated platform

Principal risks
1, 3, 4, 5, 6, 10, 11, 12, 13, 14, 15, 16

Principal risks
1, 3, 4, 6, 7, 8, 9, 12, 13, 14, 15, 16

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

⬌   ① ② ③

Status The Group has been impacted by ongoing issues with Rolls-Royce Trent engines in the year, as well as the impact of the new aircraft delivery delays from Airbus. The Group continues to lobby and raise awareness of the negative impacts of ATC airspace restrictions and performance issues on the aviation sector and economies across Europe. In October 2016, the UK Government confirmed a third runway expansion proposal at London Heathrow and IAG continues to promote an efficient, cost-effective, ready-to-use and fit-for-purpose solution. The Group is also dependent on the timely delivery of appropriate facilities by the Dublin Airport Authority.

Risk description	Strategic relevance	Mitigations
IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and support the delivery of the Group sustainability programme.	Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers.	• The Group mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.	Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.	• The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
IAG is dependent on resilience within the operations of ATC services to ensure that our flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity.	• The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.
IAG is dependent on the performance and costs of critical third party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers.	An uncontrolled increase in the planned cost of expansion could result in increased landing charges.

Airport charges represent a significant operating cost to the airlines and have an impact on operations. | • There is active supplier management including contingency plans and the Group also enters into long-term contracts with fuel suppliers. |

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.	• All IAG airlines are considered within the brand portfolio review. • Brand initiatives for each operating company have been identified and are aligned to the Strategic Business plan. • Product investment to enhance the customer experience supports the brand propositions. • All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.	IAG will continue to strengthen its customer propositions to ensure competitiveness in its chosen priority customer demand spaces. The Group is clear on the key levers to improve brand perception and satisfaction and has specific initiatives in place to achieve leadership for each of its operating company brands.	• The Group's global loyalty strategy builds customer loyalty within IAG airlines. • The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.

3. Competition, consolidation and government regulation

Status The Group announced plans in 2019 to acquire Air Europa, subject to regulatory approvals. In May 2019, Chile's Supreme Court rejected an appeal for the proposed South American joint business between IAG and LATAM. IAG and LATAM subsequently confirmed the termination of plans to develop a joint business agreement. LATAM has announced its intention to leave the **one**world alliance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).

Risk description	Strategic relevance	Mitigations
Competitor capacity growth in excess of demand growth could materially impact margins.	The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.	• The IAG Management Committee devotes one weekly meeting per month to strategic issues. • The Board of Directors discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. • The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.
Any failure of a joint business or a joint business partner could adversely impact our business operations and financial performance.		• 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.
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.	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.	• The 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.

4. Digital disruption

Status The Group's focus on the customer experience, together with the Group's exploitation of technology, reduces the impact digital disruptors can have.

In the year, IAG Loyalty launched its Global Loyalty Platform first phase.

Risk description	Strategic relevance	Mitigations
Technology disruptors may use tools to position themselves between our brands and our customers.	Competitors and new entrants to the travel market may use technology more effectively and disrupt the Group's business model.	• The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels • The Hangar 51 programme continues to create early engagement and leverages new opportunities with start-ups and technology disruptors

5. Sustainable aviation

NEW

Status Aviation represents 2.4 per cent of carbon emissions. IAG is the first airline group to commit to a target of net zero carbon emissions by 2050, including adding management targets. There is an emerging trend of aviation "eco taxes" in Europe and governments are also targeting net zero emissions by 2050 including the UK and France.

Risk description	Strategic relevance	Mitigations
Increasing global concern about climate change and the impact of carbon affect Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel. New taxes and increasing price of carbon costs impact on demand for air travel. Customers may choose to reduce the amount they fly.	IAG is committed to be the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.	• IAG Climate Change strategy to meet target of net zero carbon emissions by 2050. • British Airways plans to offset UK domestic flight carbon emissions from 2020. • Fleet replacement plan introducing aircraft into the fleet that are up to 40 per cent more carbon efficient. • IAG investment in sustainable aviation fuels of $400 million in the next 20 years, including British Airways' partnership with Velocys. • Management incentives under development to align to IAG's new targets. • Partnering with Mosaic Materials to explore carbon capture technology. • Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.

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. If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.	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. The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.	• The Group has a Board approved Cyber Strategy that drives investment and operational planning. This is regularly reviewed by the IAG Board, IAG Management Committee and the IAG Tech leadership. • There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure and regulations are adhered to. • A cyber risk management framework reviews the risk across all operating companies. • The Group Cyber Governance Board assesses the portfolio of cyber projects quarterly and each operating company reviews their own cyber projects. • Threat Intelligence is used to analyse cyber risks to the Group. • Data Protection Officers are in place where required in all operating companies.

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.	• 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.	• 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 failure to attract, motivate or develop our people to deliver service and brand excellence.	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. 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.	• 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.

10. Political and economic environment

Status Wider macro-economic trends are being monitored such as tensions between the US and China, US and Iran, currency devaluation in Argentina and the changing political landscape. Following the referendum decision in 2016, the UK left the EU on January 31, 2020 under the terms of the Withdrawal Agreement. The completion of the agreement preserves current aviation arrangements until the end of the transition period in December 2020. The UK/EU political declaration envisages that the future relationship would be set out in a comprehensive air transport agreement. The EU Council's negotiating mandate of February 3, 2020 summary sets out the aspiration to agree a reciprocal partnership in aviation.

See the Regulatory environments section.

Risk description	Strategic relevance	Mitigations
Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.	IAG remains sensitive to political and economic conditions in the markets globally.	• The Board of Directors and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts.
Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group, including Brexit.		• 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.

11. Safety or security incident

Status See the Safety Committee report.

Risk description	Strategic relevance	Mitigations
A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brands, operations and financial performance.	The safety and security of our customers and employees are fundamental values for the Group.	• The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. • Incident centres respond in a structured way in the event of a safety or security incident.

Financial

12. Debt funding

Status The Group continues to have good access to a range of financing solutions.

Risk description	Strategic relevance	Mitigations
Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.	The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.	• The IAG Management Committee regularly reviews the Group's financial position and financing strategy. • The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.

13. Financial risk

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. 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. Failure to manage interest rate risk. Failure of financial counterparties may result in financial losses.	Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. 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. Interest rate risk arises on floating rate debt and floating rate leases. The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging.	• 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.

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.	• 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. IAG could face a challenge to its ownership and control structure.	Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences and therefore comply with aviation regulations, the airline must be majority owned and effectively controlled by EU members and/or member states under the Group structure, British Airways remains a UK carrier.	• IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

16. Non-compliance with key regulation and laws

Status A new Group-wide Code of Conduct was launched in 2019, supported by employee e-learning and additional management training.

Risk description	Strategic relevance	Mitigations
The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.	Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.	• The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. • There are mandatory training programmes in place to educate employees as required for their roles in these matters. • Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses. • IAG Code of Conduct framework and training. • Data Protection Officers are in place where required in all operating companies.

Long-term viability assessment

Key trends defining the industry, emerging risks and risks that are longer-term in nature (including changes in regulation and infrastructure developments that impact our operations) are considered by the IAG Management Committee as part of the annual Strategic Business planning process. The Board also conducts an annual strategy session where these longer-term considerations are assessed, opportunities are identified and action agreed.

More detail see the Investment case section.

When considering the viability of the Group, the directors evaluated the impact of severe but plausible downside scenarios (as described below) on the three year Group Business Plan and assessed the likely effectiveness of the mitigations that management reasonably believes would be available over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing. In addition, the directors reviewed the results of reverse stress testing, which demonstrated the level of margin decline (before mitigations) that would result in the Group using all available cash balances. The directors therefore believe that the Group could withstand further stresses beyond those modelled under the severe but plausible assumptions.

IAG has assessed the longer-term sustainability and climate related risks, applying scenario analysis techniques as set out by the Task Force on Climate related Financial Disclosures (TCFD) process. For more details of the Group's sustainability risks and opportunities, see Sustainability section.

Scenarios modelled

No.	Title	Link to principal risks
1	A multi-year global economic downturn impacting all regions starting with margin decline from the first year. This scenario assumes a downturn that stressed all of the Group airlines with the greatest margin decline experienced by any of them during the Global Financial Crisis. This scenario was considered to be the most impactful scenario that could threaten the Group.	3, 10, 12, 13
2	A fuel price shock resulting in sustained fuel price increase in a weak economic environment, across the duration of the Group Strategic three-year plan, with a material increase above the fuel price assumption within the plan.	13
3	A fuel price increase combined with different and multiple disruptive events within the Group airlines, occurring across the three-year period impacting their results. As none of these individual events would materially threaten the viability of the Group, the combined impact of these and the consequent impact to the Group Strategic plan and targets has been evaluated.	1, 2, 3, 7, 8, 9, 10, 12, 13

Viability Statement

The directors have assessed the viability of the Group over three years to December 2022 considering the external environment, strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the directors have determined that a three-year period is an appropriate time frame for assessment as it is in line with the Group Business Plan strategic planning period and recognises the pace of change in the competitive landscape and the Group's flexibility to adjust fleet plans to market conditions.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2022.