ANNUAL FINANCIAL STATEMENTS

2018

LIABILITY STATEMENT OF DIRECTORS

LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2019, the Directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the individual and consolidated financial statements for the year to December 31, 2018, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the individual and consolidated management reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

February 27, 2019

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Patrick Jean Pierre Cescau

Enrique Dupuy de Lôme Chávarri

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Marjorie Morris Scardino

Lucy Nicola Shaw

Alberto Terol Esteban

Audit Report on Financial Statements
issued by an Independent Auditor

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2018

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working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Report on the financial statements

Opinion

We have audited the financial statements of International Consolidated Airlines Group, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

Key audit matters

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

Risk	Our response to the risk
Recoverability of investments in subsidiaries (€7,631 million, FY17: €7,485 million) Management's assessment of the recoverable amount of investments in subsidiaries requires significant judgment in forecasting cash flow projections of each investment, together with the discount rates, long-term economic growth rates, fuel prices and exchange rates. Changes to these assumptions can have a significant impact on the available headroom and any impairment that may be required. *Refer to notes 4 and 8 of the financial statements.*	Our procedures included the following: ► We considered the reasonableness of management's business plans. Specifically, whether fuel price and foreign exchange assumptions are reasonable in light of current market data. ► We tested the appropriateness of management's key assumptions. We performed an evaluation of the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the different investments operate and considered whether discount rates were within acceptable ranges. We involved a valuation specialist to assist in the evaluation of the discount rates used to discount future cash flows in each of the different investment. ► We considered the potential impact of uncertainties related to the UK exit from the European Union and the effect on key assumptions within management's business plans. ► We considered the accuracy of forecasts used in previous years against actual results. ► We verified the impairment calculations adjusted for net debt to determine the equity value. We have reviewed and challenged management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the investments would cause the carrying amounts to exceed the recoverable amounts. ► We assessed the appropriateness of the related disclosures.

Other information: management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the parent Company's directors and is not an integral part of the financial statements.

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

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

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

Based on the work performed, as described in the above paragraph, we have verified that the specific information referred to in paragraph a) above has been provided in the management report, and that the remaining information contained therein is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the audit and compliance committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and compliance committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report to the audit and compliance committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit and compliance committee on March 4, 2019.

Term of engagement

The general shareholders' meeting held on June 14, 2018 appointed us as auditors for financial year 2018.

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

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

Hildur Eir Jónsdóttir

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

March 4, 2019

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Financial statements for the year to December 31, 2018

CONTENTS

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Balance sheet at December 31, 2018
(Expressed in thousands of euros)

	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS		**7.828.628**	7.727.730
Intangible assets	**6**	1.705	1.253
Property, plant and equipment	**7**	17.251	51.936
Investments in Group companies			
Equity instruments	**8**	7.631.193	7.485.461
Loan receivable from Group companies	**9,16**	161.797	179.720
Non-current financial assets			
Equity instruments	**9**	8.120	605
Other financial asset	**9**	1.807	2.351
Deferred tax asset	**12**	6.755	6.404
CURRENT ASSETS		**668.447**	645.889
Trade and other receivables			
Clients, Group companies	**9,16**	87.185	93.206
Current tax receivable	**12**	216.874	193.460
Other receivables	**9**	5.045	4.703
Investments in Group companies			
Loan receivable from Group companies	**9,16**	13.540	2.814
Current financial investments			
Derivatives	**9**	8.099	9.139
Cash and cash equivalents			
Cash	**9,10**	195.548	207.991
Cash equivalents	**9,10**	142.156	134.576
TOTAL ASSETS		**8.497.075**	8.373.619
EQUITY AND LIABILITIES			
EQUITY		**6.730.306**	7.129.327
SHAREHOLDERS' FUNDS			
Capital			
Registered share capital	**11**	996.016	1.028.994
Share premium	**11**	6.021.802	6.021.802
Reserves			
Legal and statutory reserves	**11**	205.799	179.196
Other reserves	**11**	(983.770)	(536.749)
Own shares and equity holdings	**11**	(67.292)	(76.737)
Profit for the year	**3**	662.180	596.469
Interim dividend	**3**	(287.580)	(256.178)
Other equity instruments	**11**	186.752	172.867
VALUATION ADJUSTMENTS			
Currency differences	**11**	(3.601)	(337)
LIABILITIES			
NON-CURRENT LIABILITIES		**1.561.081**	1.121.239
Non-current debt			
Bond and other marketable securities	**9**	937.437	918.239
Group companies, non-current	**9,16**	620.644	200.000
Deferred tax liability	**12**	3.000	3.000
CURRENT LIABILITIES		**205.688**	123.053
Current Provisions	**12**	4.576	600
Current debt			
Bond and other marketable securities	**9**	4.375	4.375
Group companies, current	**9,16**	86.599	-
Trade and other payables			
Suppliers, Group companies	**9,16**	27.632	42.780
Various creditors	**9**	7.917	5.096
Payroll accruals	**9**	7.498	14.139
Current tax payable	**12**	1.039	-
Other amounts due to tax authorities	**12**	66.052	56.063
TOTAL EQUITY AND LIABILITIES		**8.497.075**	8.373.619

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Income statement for the year to December 31, 2018
(Expressed in thousands of euros)

	Note	2018	2017
Continuing operations			
Revenue from operations		**760.104**	701.348
Rendering of services to Group companies	**13,16**	67.233	65.425
Dividend income	**16**	692.871	635.923
Employee costs	**13**	**(50.160)**	(53.807)
Wages, salaries and other costs		(41.240)	(45.590)
Social security costs		(8.920)	(8.217)
Other operating expenses		**(23.992)**	(18.132)
External services received		(22.799)	(16.005)
Other operating expenses		(1.193)	(2.127)
OPERATING PROFIT		**685.952**	629.409
Finance income		**5.524**	2.261
Marketable securities and other financial instruments			
Receivable from debt with Group companies and associates	**13**	5.350	2.164
Receivable from third parties	**13**	174	97
Finance costs		**(34.078)**	(28.050)
Payable on debt with Group companies and associates	**13**	(8.190)	(2.567)
Payable on debt with third parties	**13**	(25.888)	(25.483)
Change in fair value of financial instruments		**3.696**	(14.814)
Currency differences		**75**	(1.367)
NET FINANCE EXPENSE		**(24.783)**	(41.970)
PROFIT BEFORE TAX		**661.169**	587.439
Taxes	**12**	**1.011**	9.030
PROFIT FOR THE YEAR		**662.180**	596.469

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Statement of changes in equity for the year to December 31, 2018

(Expressed in thousands of euros)

A) Statement of other comprehensive income

	Note	2018	2017
PROFIT FOR THE YEAR	**3**	**662.180**	596.469
Income and expenses recognised directly in equity			
Currency differences		(3.264)	(1.107)
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY	**11**	**(3.264)**	(1.107)
TOTAL INCOME AND EXPENSES RECOGNISED		**658.916**	595.362

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
Statement of changes in equity for the year to December 31, 2018
(Expressed in thousands of euros)

B) Statement of changes in equity

	Issued Share capital	Share premium	Reserves	Own shares and equity holdings	Profit for the year	Interim dividend	Other equity instruments	Valuation adjustments[1]	TOTAL
BALANCE AT DECEMBER 31, 2016	**1.066.494**	**6.103.978**	**(41.426)**	**(95.335)**	**559.221**	**(233.251)**	**172.730**	**770**	**7.533.181**
Total recognised income and expense	-	-	-	-	596.469	-	-	(1.107)	595.362
Transactions with shareholders and owners	(37.500)	9	(724.282)	18.598	-	(256.178)	(32.166)	-	(1.031.519)
Capital reductions	(37.500)	-	(463.726)	500.000	-	-	-	-	(1.226)
Acquisition of treasury shares	-	-	-	(500.000)	-	-	-	-	(500.000)
Vesting of share-based payment schemes	-	-	1.038	18.598	-	-	(32.166)	-	(12.530)
Equity portion of convertible bond issued	-	9	-	-	-	-	-	-	9
Dividend	-	-	(261.594)	-	-	(256.178)	-	-	(517.772)
Other movements in equity	-	-	-	-	-	-	32.303	-	32.303
Cost of share-based payments (note 17)	-	-	-	-	-	-	32.303	-	32.303
Appropriation of prior year profit	-	-	325.970	-	(559.221)	233.251	-	-	-
Compensation of prior year losses	-	(82.185)	82.185	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2017	1.028.994	6.021.802	(357.553)	(76.737)	596.469	(256.178)	172.867	(337)	7.129.327
Total recognised income and expense	**-**	**-**	**-**	**-**	**662.180**	**-**	**-**	**(3.264)**	**658.916**
Transactions with shareholders and owners	**(32.978)**	**-**	**(760.709)**	**9.445**	**-**	**(287.580)**	**(16.839)**	**-**	**(1.088.661)**
Capital reductions	(32.978)	-	(467.577)	500.000	-	-	-	-	(555)
Acquisition of treasury shares	-	-	-	(500.000)	-	-	-	-	(500.000)
Vesting of share-based payment schemes	-	-	1.577	9.445	-	-	(16.839)	-	(5.817)
Dividend	-	-	(294.709)	-	-	(287.580)	-	-	(582.289)
Other movements in equity	**-**	**-**	**-**	**-**	**-**	**-**	**30.724**	**-**	**30.724**
Cost of share-based payments (note 17)	-	-	-	-	-	-	30.724	-	30.724
Appropriation of prior year profit	**-**	**-**	**340.291**	**-**	**(596.469)**	**256.178**	**-**	**-**	**-**
BALANCE AT DECEMBER 31, 2018	**996.016**	**6.021.802**	**(777.971)**	**(67.292)**	**662.180**	**(287.580)**	**186.752**	**(3.601)**	**6.730.306**

[1] Relates to currency translation adjustments only.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Cash flow statement for the year to December 31, 2018

(Expressed in thousands of euros)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax			
Profit from continuing operations		661.169	587.439
Adjustments to profit			
Finance income	13	(5.524)	(2.261)
Dividend income	16	(692.871)	(635.923)
Finance expenses	13	34.078	28.050
Change in fair value of financial instruments		(3.696)	14.814
Currency differences		(75)	1.367
Share-based payments	17	12.689	12.138
Changes in working capital			
Trade and other payables		15.166	16.370
Trade and other receivables		15.852	(58.705)
Other current liabilities		(6.641)	(138)
Other current assets		342	15.480
Other cash flows from operating activities			
Interest paid		(8.085)	(2.467)
Taxation paid		(29.562)	(60.039)
Dividend received from Group companies		692.871	502.450
CASH FLOW FROM OPERATING ACTIVITIES		**685.713**	418.575
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts paid			
Purchase of other equity instruments	9	(7.621)	-
Purchase of property, plant and equipment	7	(34.527)	(51.156)
Purchase of intangibles		(488)	(1.220)
Amount paid to Group companies		(219.484)	(97.146)
Amounts received			
Transfer of property, plant and equipment to Group companies	7	69.212	-
Decrease in other current financial assets		-	70.010
Investment in Group companies		75.374	84.088
Interest received		541	148
Amount received from Group companies		3.281	200.000
CASH FLOWS FROM INVESTING ACTIVITIES		**(113.712)**	204.724
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts and payments on equity instruments			
Acquisition of treasury shares		(500.000)	(500.000)
Repayment of equity instruments		(4.375)	(4.375)
Receipts and payments on financial liabilities			
Issue			
Debt with Group companies		508.000	200.000
Repayment			
Debt with Group companies		(3.634)	-
Dividend payments and receipts from other equity instruments			
Dividend paid		(576.550)	(512.360)
CASH FLOWS FROM FINANCING ACTIVITIES		**(576.559)**	(816.735)
IMPACT OF EXCHANGE DIFFERENCES		**(305)**	(2.401)
DECREASE IN CASH AND CASH EQUIVALENTS		**(4.863)**	(195.837)
Cash and cash equivalents at the beginning of the year	**9,10**	342.567	538.404
Cash and cash equivalents at the end of the year	**9,10**	**337.704**	342.567

1. CORPORATE INFORMATION AND ACTIVITY

International Consolidated Airlines Group S.A. (hereinafter the 'Company' or 'IAG') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines, S.A. (hereinafter 'Vueling') was acquired on April 26, 2013 and Aer Lingus Group DAC (hereinafter 'Aer Lingus') was acquired on August 18, 2015. During 2017, the Group incorporated FLY LEVEL S.L. and FLYLEVEL UK Limited (hereinafter 'LEVEL') and IAG Connect Limited (hereinafter 'IAG Connect'), with a 100 per cent investment by the Company. The objective and main activity, among others, of the Company is the acquisition, ownership, management and disposal of shares or other equity interests in other companies, provision of management services to those companies, and significant Group investments including aircraft procurement.

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

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

During the year the Company carried out a share buyback programme as part of its corporate finance strategy to return cash to its shareholders while reinvesting in the business and managing leverage. The programme total was €500.000.000 and it was completed in October 2018. Under this programme, the Company acquired 65.956.660 ordinary shares, which were subsequently cancelled.

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

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

Applicable financial reporting framework

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

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

The Company has net assets of €6.730.306.000 (2017: €7.129.327.000) on the Balance sheet and recorded a €662.180.000 profit for the year (2017: €596.469.000 profit). The Directors are of the opinion that the working capital available to the Company is sufficient for the foreseeable future. The Directors have prepared the financial statements on the going concern basis.

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

2.1 True and fair view

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

2.2 Comparative information

According to corporate law the prior year information in the Balance sheet, Income statement, Statement of other comprehensive income, Statement of changes in equity and Cash flow statement is presented for comparison purposes, in addition to figures for 2018. The notes to the financial statements also include quantitative information for the prior year, unless an accounting standard specifies that it is not necessary. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation that are not significant.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

2.3 Critical accounting estimates and assumptions

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

Impairment of investments in Group companies

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

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

Share-based payments

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

3. APPROPRIATION OF PROFIT

The Company recorded a profit of €662.180.000 (2017: €596.469.000).

Accordingly, the Company's Directors will submit the following proposed appropriation of the 2018 result for approval at the Shareholders' Meeting:

	2018	2017
Proposed appropriation:		
Profit for the year	662.180	596.469
	662.180	596.469
Appropriation to:		
Legal reserves	-	26.603
Interim dividend	287.580	256.178
Final dividend (corresponding to a fixed dividend of 16.5 € cents per share;	327.195	298.408
(total amount considering all the 1.992.032.634 shares outstanding on the date hereof)		
Voluntary reserve (remaining amount of the profit for the year after the above referred distributions)	47.405	15.280
	662.180	596.469

3. APPROPRIATION OF PROFIT continued

3.1 Interim dividend

On October 25, 2018 the Board of Directors approved an interim dividend of 14,5 € cents per share. The interim cash dividend was paid on December 3, 2018 for a total amount (net of withholding tax of €54.640.000) of €232.940.000. The withholding tax was paid from December 2018.

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

Accounting statement	**Nine months to September 30, 2018** **Amount (€ thousand)**
Net profit (after estimated tax) for the period from January 1 to September 30, 2018	509.790
Losses from prior years	Nil
Mandatory allocations to reserves	Nil
Distributable income for the period	**509.790**
Proposed interim dividend (maximum amount)	**288.760**
Liquidity statement (funds available for distribution)	
Cash and cash equivalents	524.844
Available credits	100.000
Estimation of additional net funds available until the payment date of the proposed interim dividend	21.000
Total estimated funds available at the payment date of the proposed interim dividend	**645.844**

3.2 Final dividend

On February 27, 2019 IAG's Board of Directors proposed a distribution in cash of a final dividend of 16.5 € cents per share.The Board of Directors also proposed a special dividend of 35.0 € cents per share. Both the proposed final and special dividends are subject to approval at the annual general meeting and subject to approval, will be recognised as a liability on that date.

The proposed final dividend would be distributed from net profit for the year to December 31, 2018.

	2018	2017
Cash dividends on ordinary shares declared		
Interim dividend for 2018 of 14.5 € cents per share (2017: 12,5 € cents per share)	287.580	256.178
Final dividend for 2017 of 14,5 € cents per share (2016: 12,5 € cents per share)	294.709	261.594
Proposed dividends on ordinary shares		
Final dividend of 16.5 € cents per share	327.195	
Special dividend of 35.0 € cents per share	700.000	

3.3 Limitations on the distribution of the profit

The Company is obliged to transfer 10 per cent of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20 per cent of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders. The distributable reserves at December 31, 2018 are €5.734.290.000 (2017: €6.100.333.000).

Once the guidance provided by the law or the statutes has been covered, dividends can only be distributed from profit for the year, or from distributable reserves, if the value of equity is not or, does not become as a result of the distribution, lower than share

3. APPROPRIATION OF PROFIT continued

3.3 Limitations on the distribution of the profit continued

capital. In this case, the profit charged directly to equity cannot be distributed, directly or indirectly. If losses from previous years existed, that make the Company's equity lower than share capital, the profits would be used to compensate those losses.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2018 financial statements are the following:

4.1 Leases

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

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

4.2 Intangible assets

Intangible assets are stated at acquisition price or development cost, less accumulated amortisation and impairment losses.

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

4.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses.

The Company depreciates property, plant and equipment on a straight-line basis at annual rates over their useful economic lives. The estimated useful economic lives of property, plant and equipment are as follows:

Computer equipment: 4 years

Fixtures and fittings: 15 years

4.3.1 Pre-delivery payments

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

4.4 Impairment of non-financial assets

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

4.5 Financial assets and financial liabilities

4.5.1 Financial assets

a) Other current interest-bearing deposits

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

b) Investments in Group companies

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

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.5 Financial assets and financial liabilities continued

4.5.1 Financial assets continued

c) Available-for-sale financial assets

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

d) Derivatives

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gain or loss arising from remeasurement is recognised in the Income statement unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow and is assessed as effective, when gains and losses are recognised in equity.

e) Impairment of financial assets

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

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

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

Debt instruments

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

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

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

Equity instruments

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

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

4.5.2 Financial liabilities

Trade and other payables and borrowings

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

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

4.5.3 Derecognition of financial assets and liabilities

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

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.5 Financial assets and financial liabilities continued

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

4.5.4 Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the convertible bonds, and is recognised within Bond and other securities payable. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Other equity instruments on the Balance sheet and is not subsequently remeasured.

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

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the liability.

4.6 Treasury shares

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

4.7 Cash and cash equivalents

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

4.8 Foreign currency translation

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

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

4.9 Corporate tax

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

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

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

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

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

4.10 Deferred tax

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on legislation in force.

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

4.11 Revenue and expense recognition

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

4.12 Provisions for liabilities and charges

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

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

4.13 Long-term liabilities with personnel

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

4.14 Share-based payment transactions

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

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

4.15 Dividends

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

4.16 Related parties

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

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

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

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

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

4.18 Offsetting financial instruments

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

5. LEASES

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

The annual cost of the leases is €694.000 (2017: €749.000). The amount of future minimum lease payment is €562.000 (2017: €745.000) for less than one year.

6. INTANGIBLE ASSETS

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

	System development
Cost	
Balance at January 1, 2017	33
Additions	1.220
Balance at December 31, 2017	1.253
Additions	488
Exchange movements	(36)
Balance at December 31, 2018	**1.705**

In 2018 and 2017, the system development intangible assets are not yet ready for use and therefore have not been amortised. The above intangible assets are located in UK.

7. PROPERTY, PLANT AND EQUIPMENT

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

	Furniture and fittings	Equipment	Work-in-progress[1]	Total
Cost				
Balance at January 1, 2017	45	99	1.171	1.315
Additions	-	-	51.156	51.156
Transfer to Group companies	-	-	(391)	(391)
Balance at December 31, 2017	45	99	51.936	52.080
Additions	-	-	34.527	34.527
Transfer to Group companies	-	-	(69.212)	(69.212)
Balance at December 31, 2018	**45**	**99**	**17.251**	**17.395**
Depreciation				
Balance at January 1, 2017	(45)	(99)	-	(144)
Charge for the year	-	-	-	-
Balance at December 31, 2017	(45)	(99)	-	(144)
Charge for the year	-	-	-	-
Balance at December 31, 2018	**(45)**	**(99)**	**-**	**(144)**
Net book value at December 31, 2017	**-**	**-**	**51.936**	**51.936**
Net book value at December 31, 2018	**-**	**-**	**17.251**	**17.251**

7. PROPERTY, PLANT AND EQUIPMENT continued

[1] Relates to pre-delivery payments and options made on aircraft. During the year, the Company transferred options on 4 aircraft to Group companies (2017: 2) and made 2 new pre-delivery payments on aircraft (2017: 3). The asset is located in UK.

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €60 million (December 2017: €178 million. The capital expenditure is denominated in US dollars, and as such is subject to changes in exchange rates. The outstanding commitments relate to fleet purchases.

The transfer to Group companies is made at cost.

8. EQUITY INVESTMENTS IN GROUP COMPANIES

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

	January 1	Additions	Distribution received	December 31
2018				
Equity instruments				
Cost	7.752.853	221.106	-	7.973.959
Distribution received	(267.392)	-	(75.374)	(342.766)
	7.485.461	**221.106**	**(75.374)**	**7.631.193**
2017				
Equity instruments				
Cost	6.906.851	846.002	-	7.752.853
Distribution received	(183.163)	-	(84.229)	(267.392)
	6.723.688	**846.002**	**(84.229)**	**7.485.461**

8.1 Description of the main movements

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

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

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

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

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

Prior year movements

On October 19, 2017 and December 29, 2017, the Company received €57.336.000 and €26.893.000 respectively from Iberia which were recognised against the cost of investment.

On March 21, 2017 the majority of the outstanding loan balance between the company and AERL Holding was extinguished with AERL Holding issuing 760 million ordinary shares of €1 at a premium of 10 cents per share in consideration for the release of AERL Holding's obligation to repay the loan principal amount of €836 million.

On November 3, 2017 and December 19, 2017 the Company invested €3.000 and €10.000.000 in the equity of FLY LEVEL S.L. which is a 100 per cent owned subsidiary.

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.2 Overview of investments

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

	Business activity	**Percentage of ownership[1]**	**Capital**	**Reserves**	**Profit/(loss) after tax for the year**	**Total shareholders' equity**	**Operating profit/(loss)**	**Dividend received during the year**	**Net book value €'000**
2018 €'000									
Iberia	Passenger air transport	100%	743.420	619.548	414.466	1.777.434	435.777	28.986	2.388.548
Aer Lingus	Passenger air transport	Indirect[3]	27.015	557.586	259.197	843.798	304.598	-	-
Vueling	Passenger air transport	Indirect[2]	29.905	55.930	148.335	234.170	220.078	-	-
Veloz	Holding company	100%	33	185.495	75.020	260.548	-	-	166.139
AERL Holding	Holding company	100%	760.000	38.070	218.710	1.016.780	(2)	74.000	836.000
LEVEL	Passenger air transport	100%	3	39.938	(8.376)	31.565	(27.469)	-	58.003
£'000									
British Airways	Passenger air transport	100%	289.689	3.322.480	2.055.230	5.667.399	2.346.450	575.000	4.155.397
IAG Cargo	Cargo air transport	100%	-	1.769	2.501	4.270	3.359	-	-
IAG GBS	Business services	100%	20.000	(17.516)	1.276	3.760	1.266	-	22.218
IAG Connect	eCommerce platform	100%	-	3.483	(2.250)	1.233	(2.778)	-	4.888
Polish złoty '000									
IAG GBS Poland	Business services	1%[4]	5	2.216	1.188	3.409	1.182	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	-
									7.631.193

	Business activity	Percentage of ownership[1]	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Dividend received during the year	Net book value €'000
2017 €'000									
Iberia	Passenger air transport	100%	743.420	732.286	250.418	1.726.124	208.218	-	2.463.921
Aer Lingus	Passenger air transport	Indirect[3]	32.662	657.907	239.074	929.643	269.333	-	-
Vueling	Passenger air transport	Indirect[2]	29.905	111.252	120.481	261.638	188.294	-	-
Veloz	Holding company	100%	33	(21.261)	60.756	39.528	-	31.000	20.139
AERL Holding	Holding company	100%	760.000	(80.018)	192.090	872.072	1.679	125.000	836.000
LEVEL	Passenger air transport	100%	3	10.000	(6.357)	3.646	(7.872)	-	10.003
£'000									
British Airways	Passenger air transport	100%	290.000	4.281.000	1.403.000	5.974.000	1.680.000	420.000	4.155.398
IAG Cargo	Cargo air transport	100%	-	(35)	1.555	1.520	2.020	-	-
IAG GBS	Business services	100%	1	170	(17.977)	(17.806)	(16.517)	-	-
IAG Connect	eCommerce platform	100%	-	-	(917)	(917)	(1.135)	-	-
Polish złoty '000									
IAG GBS Poland	Business services	1%[4]	-	(13.909)	15.932	2.023	14.985	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	-
									7.485.461

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.2 Overview of investments continued

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

The Company holds 49,9 per cent of the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100 per cent of the economic rights in these companies. The remaining shares, representing 50,1 per cent of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

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

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

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

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

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

IAG holds a direct investment of 100 per cent in FLY LEVEL S.L. During the year, IAG transferred its investment in FLYLEVEL UK Limited to FLY LEVEL S.L.

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

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

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

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

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

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

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

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

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

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

8.3 Impairment review

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

Basis for calculating recoverable amount

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

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

8. EQUITY INVESTMENTS IN GROUP COMPANIES continued

8.3 Impairment review continued

Annually the Group prepares and approves five year business plans. Business plans were approved in the fourth quarter of the year. The Business plan cash flows reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

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

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

	2017			
Per cent	British Airways	Iberia	Veloz	AERL Holding
Lease adjusted operating margin	15	10-14	12-15	15
Average ASK growth per annum	2	8	10	5
Long-term growth rate	2,3	2,0	2,0	2,0
Pre-tax discount rate	8,5	9,8	10,6	7,8

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan to 2023. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

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

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airlines' network plans are reviewed annually as part of the business plan and reflect Management's plans in response to specific market risk or opportunity.

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

Summary of results

No impairment of the Company's investments was considered necessary in 2018 or 2017. Additional sensitivities have been considered for each CGU. No reasonable possible change in the key assumptions for any of the CGUs would cause the carrying amounts of the investments to exceed the recoverable amounts.

9. FINANCIAL INSTRUMENTS

9.1 Financial assets

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

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

At December 31, 2017	Loans and receivables	Assets at fair value through profit or loss	Available-for-sale	Total
Non-current assets				
Loan receivable from Group company (note 16.1)	179.720	-	-	179.720
Investments in other equity instruments (note 9.1.2)	-	-	605	605
Other financial assets	2.351	-	-	2.351
	182.071	-	605	182.676
Current assets				
Trade and other receivables (note 9.1.1)	97.909	-	-	97.909
Loan receivable from Group company (note 16.1)	2.814	-	-	2.814
Derivatives	-	9.139	-	9.139
Cash and cash equivalents (note 10)	342.567	-	-	342.567
	443.290	**9.139**	**-**	**452.429**

9.1.1 Trade and other receivables

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

	2018	2017
Current		
Receivables from Group companies (note 16.1)	87.185	93.206
Other receivables	5.045	4.703
	92.230	97.909

9.1.2 Non-current investments in other equity instruments.

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

	2018	2017
Cost		
Unlisted investments	8.120	605
	8.120	605

9. FINANCIAL INSTRUMENTS continued

9.2 Financial liabilities

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

	Loans and payables 2018	Loans and payables 2017
Non-current liabilities		
Bond and other marketable securities	937.437	918.239
Group companies (note 16.1)	620.644	200.000
	1.558.081	1.118.239
Current liabilities		
Trade and other payables (note 9.2.1)	15.415	19.235
Group companies (note 16.1)	114.231	42.780
Bond and other marketable securities	4.375	4.375
	134.021	66.390

Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0,25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0,625 per cent raising net proceeds of €494 million and due in 2022. The conversion price for both tranches was set at a premium of 62,5 per cent over the Group's share price on the date of issuance. The Group holds an option to redeem each convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. Upon issue of these convertible instruments, the Company recorded a debt of €883.690.000, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar convertible bond without a conversion option. At December 31, 2018, the debt value amounts to €941.812.000. The option value was evaluated by deducting the debt value on issue from the total nominal amount and was recorded in Other equity instruments on the Balance sheet.

9.2.1 Trade and other payables

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

	2018	2017
Current Trade and other payables		
Various creditors	7.917	5.096
Payroll accruals	7.498	14.139
	15.415	19.235

9.2.2 Average payment days to suppliers

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

Days	**2018**	2017
Average days for payment to suppliers	60	45
Ratio of transactions paid	58	46
Ratio of transactions outstanding for payment	80	31

	2018	2017
Total payments made	43.470	69.598
Total payments outstanding	4.242	2.461

10. CASH AND CASH EQUIVALENTS

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

	2018	2017
Cash at bank	195.548	207.991
Cash equivalents	142.156	134.576
	337.704	342.567

At December 31, 2018 and 2017, the Company had no outstanding bank overdrafts.

There are no restrictions for the disposal of these amounts.

11. EQUITY – CAPITAL AND RESERVES

11.1 Share capital

At December 31, 2018, the share capital of the Company amounts to 996.016.317 euros, divided into 1.992.032.634 ordinary shares of the same class and series and with a nominal value of 0,50 euro each, fully subscribed and paid.

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

Per cent	**2018**	2017
Significant shareholders:		
Qatar Airways (Q.C.S.C.)	21,426	20,739
Capital Research and Management Company	10,722	10,378
Europacific Growth Fund	5,388	5,215
BlackRock Inc	3,128	3,235
Lansdowne Partners International Limited	1,712	2,032
Invesco Limited	0,984	2,059
Other shareholders	56,640	56.342
	100	100

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

	Number of shares '000s	**Share capital €'000**	**Share premium €'000**
At December 31, 2017	2.057.989	1.028.994	6.021.802
Capital reductions	(65.956)	(32.978)	-
At December 31, 2018	**1.992.033**	**996.016**	**6.021.802**

During the year the Company carried out a €500.000.000 share buyback programme as part of its corporate finance strategy to return cash to its shareholders. The programme was executed between May and October 2018 during which time IAG acquired and subsequently cancelled 65.956.660 ordinary shares.

11. EQUITY – CAPITAL AND RESERVES continued

11.2 Reserves and prior year results

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

	January 1	Appropriation of prior year profit	Compensation of prior year losses	Vesting of share based payments	Conversion of bond	Dividend	Cancellation of treasury shares	Redeemed capital reserve	December 31
2018									
Legal reserve	179.196	26.603	-	-	-	-	-	-	**205.799**
Other reserve	(536.749)	313.688	-	1.577	-	(294.709)	(500.555)	32.978	**(983.770)**
	(357.553)	**340.291**	**-**	**1.577**	**-**	**(294.709)**	**(500.555)**	**32.978**	**(777.971)**
2017									
Legal reserve	123.274	55.922	-	-	-	-	-	-	179.196
Other reserve	(82.515)	270.048	-	1.038	-	(261.594)	(501.226)	37.500	(536.749)
Prior year losses	(82.185)	-	82.185	-	-	-	-	-	-
	(41.426)	325.970	82.185	1.038	-	(261.594)	(501.226)	37.500	(357.553)

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

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

11.3 Equity – valuation reserve

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

	January 1	Valuation adjustment	December 31
2018			
Currency translation differences	(337)	(3.264)	(3.601)
	(337)	**(3.264)**	**(3.601)**
2017			
Currency translation differences	770	(1.107)	(337)
	770	(1.107)	(337)

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

11.4 Treasury shares

The Company has authority to acquire its own shares, subject to specific conditions. The treasury shares balance consists of shares held directly by the Company. During the year to December 31, 2018 the Company purchased directly 65.956.660 shares, which were held as treasury shares, as part of its €500.000.000 share buyback programme launched in May 2018 (see note 11.1). These shares were bought at a weighted average price of €7.58 per share. On completion of the programme these treasury shares were cancelled. A total of 1.219.000 shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2018 the Company held 8.722.000 shares (2017: 9.941.000) which represent 0,44 per cent of the issued share capital of the Company.

	January 1	Purchase of treasury shares	Cancellation of treasury shares	Share-based payment scheme vesting	December 31
2018					
Treasury shares	(76.737)	(500.000)	500.000	9.445	(67.292)
	(76.737)	**(500.000)**	**500.000**	**9.445**	**(67.292)**
2017					
Treasury shares	(95.335)	(500.000)	500.000	18.598	(76.737)
	(95.335)	(500.000)	500.000	18.598	(76.737)

11. EQUITY – CAPITAL AND RESERVES continued

11.5 Other equity instruments

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

	January 1	Equity instruments movement for the year	December 31
2018			
Cost of share-based payments (note 17)	186.373	30.724	217.097
Vesting of share-based payment	(114.444)	(16.839)	(131.283)
Equity portion of convertible bond issue (note 9.2)	100.938	-	100.938
	172.867	**13.885**	**186.752**
2017			
Cost of share-based payments (note 17)	154.070	32.303	186.373
Vesting of share-based payment	(82.278)	(32.166)	(114.444)
Equity portion of convertible bond issue (note 9.2)	100.938	-	100.938
	172.730	**137**	**172.867**

12. TAXES

12.1 Current taxes

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

	2018	2017
Other balances with public administrations:		
Spanish current tax receivable	216.874	185.760
Receivables, Spanish group companies (tax)	11.015	7.700
UK current tax liability	(1.039)	-
Liabilities, UK group companies (tax)	(2.185)	-
Provisions for taxes	(4.576)	(600)
Social security payable	(12.308)	(8.586)
Value added tax receivable	1.185	2.326
Withholding tax payable on interim dividend	(54.640)	(47.477)
	154.326	139.123

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

	2018	2017
Profit for the year from continuing operations	662.180	596.469
Current tax	(6.963)	(11.032)
Deferred tax	(759)	(847)
Adjustments in respect of prior years	6.711	2.849
Profit before tax	**661.169**	587.439
Permanent differences	(692.939)	(635.923)
Timing differences	6.805	6.022
Taxable loss	**(24.965)**	(42.462)

12. **TAXES** continued

12.1 **Current taxes** continued

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

			2018			2017
	Total	Spain	UK	Total	Spain	UK
Profit before tax	**661.169**	655.882	5.287	587.439	587.100	339
Tax at the standard rates in Spain and the UK	**(164.976)**	(163.971)	(1.005)	(146.841)	(146.774)	(67)
Permanent differences increasing the tax charge	**173.217**	173.217	-	158.980	158.980	-
Permanent differences decreasing the tax charge	**(519)**	-	(519)	(260)	-	(260)
Provisions for taxes	**(3.976)**	-	(3.976)	-	-	-
Adjustment in respect of prior years	**(2.735)**	(2.058)	(677)	(2.849)	(1.719)	(1.130)
Tax credit/(charge)	**1.011**	7.188	(6.177)	9.030	10.487	(1.457)

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

Income and expenses recognised directly in reserves is as follows:

	Income and expenses recognised directly in reserves					
			2018			2017
	Total	Spain	UK	Total	Spain	UK
Profit before tax	**(345.343)**	(375.981)	30.638	(256.602)	(287.166)	30.564
Tax at the standard rates in Spain and the UK	**88.174**	93.995	(5.821)	65.678	71.791	(6.113)
Permanent differences increasing the tax charge	**5.907**	-	5.907	7.976	-	7.976
Permanent differences decreasing the tax charge	**(93.995)**	(93.995)	-	(71.791)	(71.791)	-
Adjustment in respect of prior years	**-**	-	-	(124)	-	(124)
Tax credit	**86**	-	86	1.739	-	1.739

Permanent differences decreasing the tax charge all relate to movement in Reserves (legal and statutory reserves, other reserves) and other equity instruments. Permanent differences increasing the tax charge all relate to share based payments in reserves.

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

12. TAXES continued

12.1 Current taxes continued

12.1.2 Taxable loss

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

	2018			2017		
	Total	Spain	UK	Total	Spain	UK
Profit before tax	**661.169**	655.882	5.287	587.439	587.100	339
Permanent differences	**(692.939)**	(692.872)	(67)	(635.923)	(635.923)	-
Timing differences	**6.805**	-	6.805	6.022	-	6.022
Taxable (loss)/profit	**(24.965)**	(36.990)	12.025	(42.462)	(48.823)	6.361

12.2 Current provisions

	2018	2017
Provisions for taxes	4.576	600
	4.576	600

Under prevailing tax regulations, tax returns in Spain may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. In December 2015 the Spanish Tax Authority opened audits into all corporate income tax, VAT and withholding taxes for which the company is liable, covering the preceding four years. The Company's directors have decided to book a tax provision in the balance sheet amounting to €600.000 (2017: €600.000) that arise as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

Under prevailing tax regulations, tax returns in the UK may not be considered final until they have either been inspected by tax authorities or until the six-year inspection period for discovery assessment has expired. In December 2016 the UK Tax Authority opened an audit into corporate income tax. The Company's directors have decided to book a tax provision in the balance sheet amounting to €3.976.000 (2017: €nil) that arise as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

12.3 Deferred tax asset

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

		Variations reflected in			
	January 1	**Income statement**	**Equity**	**Exchange difference**	**December 31**
2018					
Temporary differences on share-based payments	6.404	759	(122)	(286)	6.755
	6.404	**759**	**(122)**	**(286)**	**6.755**
2017					
Temporary differences on share-based payments	5.290	648	958	(492)	6.404
	5.290	**648**	**958**	**(492)**	**6.404**

The deferred tax asset has been booked at the UK tax rate of 19 per cent (2017: 19 per cent).

12.4 Deferred tax liability

The deferred tax liability balance, related to temporary differences on unremitted earnings was €3.000.000 (2017: €3.000.000) which was booked at the Spanish tax rate of 25 per cent (2017: 25 per cent).

12. TAXES continued

12.5 Unrecognised tax losses

The Company has €12,3 million of tax losses that arose in Spain in 2014 before the tax unity was formed and €23,5 million of deductible temporary differences that arose in Spain in 2015 and 2016. These are not recognised.

13. INCOME AND EXPENSES

13.1 Revenue

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

	2018	2017
Revenue by area of geographical sale:		
UK	67.233	65.425
	67.233	**65.425**

13.2 Finance income and costs

The breakdown of finance income and cost is as follows:

	2018	2017
Finance income		
Receivable from third parties	174	97
Receivable from debt with Group companies and associates	5.350	2.164
	5.524	**2.261**

	2018	2017
Finance costs		
Payable on debt with Group companies and associates	(8.190)	(2.567)
Payable interest on convertible bond and other securities payables	(23.573)	(23.092)
Payable to third parties	(2.315)	(2.391)
	(34.078)	**(28.050)**

13. INCOME AND EXPENSES continued

13.3 Employee costs

The breakdown of personnel expenses is as follows:

	2018	2017
Wages, salaries and other costs		
Salaries and wages	28.551	32.531
Cost of share-based payments (note 17)	12.689	13.059
Social security costs		
Social security	5.707	4.916
Other social costs	3.213	3.301
	50.160	53.807

The Company offers a defined contribution pension plan to all IAG employees. The contributions paid into the defined contribution scheme during the year to December 31, 2018 totalled €3.213.000 (2017: €3.301.000), and have been recognised in Other social costs.

14. FOREIGN CURRENCY

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

Pound sterling '000	**2018**	2017
Assets		
Intangible assets	1.534	1.108
Investment in other equity instruments	31.294	535
Deferred tax asset	6.080	10.025
Amounts owed by Group companies	77.791	84.937
Other receivables	25.709	11.963
Cash and cash equivalents	8.519	25.177
	150.927	133.745
Liabilities		
Current tax liability	2.902	3.813
Provisions for taxes	3.579	-
Other taxes and social security	11.892	8.676
Payroll accruals	12.638	15.105
Amounts due from Group companies	34.758	29.798
	65.769	57.392
Net assets	**85.158**	76.353

14. FOREIGN CURRENCY continued

At December 31, 2018 the Company also held cash balances in Norwegian krone for an amount of €21.687.000 (2017: €21.725.000).

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

Pound sterling '000	**2018**	2017
Revenue	46.496	57.083
Finance income	186	170
Employee costs	(26.194)	(42.900)
Other costs	(15.590)	(14.159)
Finance costs	(255)	(5)
Profit for the year before tax	**4.643**	189

15. FINANCIAL RISK MANAGEMENT

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

Credit risk

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

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

Market risk

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

Liquidity risk

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

The Company had undrawn borrowing facilities of €20.000.000 with a maturity of one year. Borrowings under this facility are at prevailing EURIBOR rates with an agreed 45 basis points margin. There were no draw downs during the year.

Capital risk

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

16. RELATED PARTY TRANSACTIONS

The Company has the following related parties at December 31, 2018:

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

16.1 Related entities

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

	2018	2017
Revenue from operations		
Rendering of services to Group companies	**67.233**	65.425
Dividend income received from Group companies	**692.871**	635.923
Purchases of services		
Purchases from Group companies	**8.441**	8.291
Finance income		
Receivable from debt with Group companies	**5.350**	2.164
Finance Costs		
Payable on debt with Group companies	**8.190**	2.567
Transfer of assets to Group companies	**69.212**	391

16. RELATED PARTY TRANSACTIONS continued

16.1 Related entities continued

Year end balances

	2018	2017
Receivables from related parties		
Amounts owed by Group companies	**87.185**	93.206
Loan receivable from Group companies	**175.337**	182.534
Payables to related parties		
Amounts owed to Group companies	**27.632**	42.780
Loan payable to Group companies	**707.243**	200.000

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

	Amount oustanding December 31				**Finance Income**	
	2018	**2017**	**Due date**	**Interest rate**	**2018**	**2017**
GBS	2.402	2.814	2019	6 months LIBOR +0,90 per cent	44	44
AER Holdings	38.888	34.218	2021	6 months EURIBOR +0,90 per cent	(108)	1.185
Veloz	-	145.502	2018	6 months EURIBOR +0,90 per cent	842	935
LEVEL	56.587	-	2019 - 2023	5 year euro mid swap rate +6,00 per cent	2.300	-
LEVEL	77.460	-	2019 - 2023	5 year euro mid swap rate +6,00 per cent	2.272	-
	175.337	**182.534**			**5.350**	**2.164**

16. RELATED PARTY TRANSACTIONS continued

16.1 Related entities continued

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

	Amount oustanding December 31				**Finance Costs**	
	2018	**2017**	**Due date**	**Interest rate**	**2018**	**2017**
Veloz	74.010	-	2019	1 year euro mid swap rate (floored at zero) +0,50 per cent	10	-
IB	200.212	200.000	2022	6 months euro mid swap rate + 1,75 per cent	2.602	2.567
IB	101.105	-	2023	5 year euro mid swap rate +1,95 per cent	1.105	-
Aer Lingus	100.281	-	2023	5 year euro mid swap rate +2,00 per cent	1.486	-
Aer Lingus	100.187	-	2023	5 year euro mid swap rate +2,00 per cent	1.347	-
BA	55.408	-	2019 - 2023	5 year euro mid swap rate +2,00 per cent	859	-
BA	76.040	-	2019 - 2023	5 year euro mid swap rate +2,00 per cent	781	-
	707.243	**200.000**			**8.190**	**2.567**

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

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

In 2015, IAG GBS borrowed €3.291.000 from IAG, bearing interest at 0,90 per cent over the 6 month LIBOR rate. Accrued interest receivable for the year was €44.000 (2017: €44.000). The loan was for general treasury management purposes. During the year, IAG GBS repaid €407.000. As at December 31, 2018 the borrowed balance was €2.402.000 (2017:2.814.000)

In 2015, AERL Holding borrowed €804.568.000 from IAG, bearing interest at 0,90 per cent over the 6 months EURIBOR rate. The purpose of this loan was for consideration and expenses relating to the acquisition of Aer Lingus. During 2017 AERL Holding repaid €836.000.000 of the loan by issuing ordinary shares to IAG. During the year, IAG made payments on behalf of AERL Holding of €155.778.000, received a distribution on behalf of AERL Holding of €225.000.000 and received a dividend declared by AERL Holding of €74.000.000. Interest payable for the year was €108.000 (2017: €1.185.000 receivable). As at December 31, 2018 the amount outstanding on the loan was €38.888.000 (2017: €34.218.000) which is repayable in 2021. IAG is also a guarantor for AERL Holding on an external loan of €100.000.000.

In 2013, Veloz borrowed €149.705.000 from the Company for the purpose of the increase in the Group's shareholding in Vueling. The holding was 99,50 per cent at December 31, 2018. Accrued interest receivable for the year was € 842.000 (2017: €935.000). In December 2018 €146.000.000 of the loan was capitalised and the Company borrowed €74.000.000, bearing interest at 0.50 per cent over the 1 year euro mid swap rate (floored at zero). As at December 31, 2018 the borrowed balance was €74.010.000 (2017: €145.502.000), which is repayable in 2019.

In 2017, the Company borrowed €200.000.000 from Iberia for general corporate purposes, bearing interest at 1,75 per cent over the 6 month euro mid swap rate. Accrued interest payable for the year was €2.602.000 (2017: €2.567.000). Amount repaid was €5.057.000. As at December 31, 2018 the borrowed balance was €200.112.000 (2017: €200.000.000) which is repayable in 2022.

In 2018, the Company borrowed €100.000.000 from Iberia for general corporate purposes, bearing interest at 1,95 per cent over the 5 year euro mid swap rate. Accrued interest payable for the year was €1.105.000. As at December 31, 2018 the borrowed balance was €101.105.000 which is repayable in 2023.

In May 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes, bearing interest at 2,00 per cent over the 5 year euro mid swap rate. Accrued interest payable for the year was €1.486.000. Amount repaid was €1.205.000. As at December 31, 2018 the borrowed balance was €100.281.000 which is repayable in 2023.

16. RELATED PARTY TRANSACTIONS continued

16.1 Related entities continued

In June 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes, bearing interest at 2,00 per cent over the 5 year euro mid swap rate. Accrued interest payable for the year was €1.347.000. Amount repaid was €1.160.000. As at December 31, 2018 the borrowed balance was €100.187.000 which is repayable in 2023.

In May 2018, the Company borrowed €57.000.000 from British Airways for general corporate purposes, bearing interest at 2,00 per cent over the 5 year euro mid swap rate. Accrued interest payable for the year was €859.000. Amount repaid was €2.451.000. As at December 31, 2018 the borrowed balance was €55.408.000 which is repayable from 2019 to 2023.

In July 2018, the Company borrowed €77.000.000 from British Airways for general corporate purposes, bearing interest at 2,00 per cent over the 5 year euro mid swap rate. Accrued interest payable for the year was €781.000. Amount repaid was €1.741.000. As at December 31, 2018 the borrowed balance was €76.040.000 which is repayable from 2019 to 2023.

In May 2018 LEVEL borrowed €57.000.000 from IAG for general corporate purposes, bearing interest at 6,00 per cent over the 5 year euro mid swap rate. Accrued interest receivable for the year was €2.300.000. Amount repaid was €2.713.000. As at December 31, 2018 the borrowed balance was €56.587.000 which is repayable from 2019 to 2023.

In July 2018 LEVEL borrowed €77.000.000 from IAG for general corporate purposes, bearing interest at 6,00 per cent over the 5 year euro mid swap rate. Accrued interest receivable for the year was €2.272.000. Amount repaid was €1.812.000. As at December 31, 2018 the borrowed balance was €77.460.000 which is repayable from 2019 to 2023.

16.2 Board of Directors and Management Committee remuneration

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

	2018	2017
Board of Directors		
Salaries (fixed and variable)	6.613	7.989
Benefits in kind	667	755
Life insurance policies	23	17
	7.303	8.761
Management Committee		
Salaries (fixed and variable)	13.047	15.344
Benefits in kind	1.568	1.428
Life insurance policies	35	21
Pension contributions	18	23
	14.668	16.816

The pension obligation outstanding, which represents the transfer value of the accrued pension was €4.406.000 (2017: €4.405.000) for the Management Committee.

At December 31, 2018 and 2017, no advances or loans had been given to members of the Board of Directors.

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

17. SHARE-BASED PAYMENTS

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

IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed

17. SHARE-BASED PAYMENTS continued

by the Group. From 2015, the awards were made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The award made in 2014 vests based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The awards made from 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

IAG Incentive Award Deferral Plan

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

Share-based payment schemes summary

	Outstanding at January 1, 2018	Granted number	Lapsed number	Vested number	**Outstanding at December 31, 2018**	Exercisable December 31, 2018
	000s	000s	000s	000s	**000s**	000s
Incentive Award Deferral Plan	1.892	952	23	928	**1.893**	-
Performance Share Plan	5.469	1.928	700	153	**6.544**	-
	7.361	**2.880**	**723**	**1.081**	**8.437**	-

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

	2018	2017
Weighted average fair value (£)	4,01	3,66
Expected share price volatility (per cent)	35	35
Expected comparator group volatility (per cent)	20	20
Expected comparator correlation (per cent)	60	65
Expected life of options (years)	4,6	4,8
Share price at date of grant (£)	6,91	5,46

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

The Company recognised a share-based payments charge of €12.689.000 for the year to December 31, 2018 (2017: €13.059.000). A credit of €30.724.000 (2017: €32.303.000) representing the total Group charge was recognised in Reserves including the deferred tax asset debit of €123.000 (2017: credit of €958.000) and corporation tax recoverable on share vesting of €209.000 (2017: €782.000). Group companies are recharged for the grants made to employees of those Group companies.

18. OTHER DISCLOSURES

18.1 Employee numbers

	Number of employees at year end			Average number
Professional category	**Men**	**Women**	**Total**	**of employees**
2018				
Management Committee	8	2	10	10
All other employees	85	56	141	142
	93	**58**	**151**	**152**
2017				
Management Committee	8	2	10	10
All other employees	75	55	130	136
	83	**57**	**140**	**146**

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

At December 31, 2018, the Board consisted of 12 people, including 8 men and 4 women (2017: 12 people, including 9 men and 3 women).

18.2 Audit fees

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

	2018	2017
Fees for the audit of the financial statements	544	557
Other audit related services	138	142
All other services	27	27
	709	726

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

18.3 Information on environmental issues

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

19. POST BALANCE SHEET EVENTS

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Management report for the year to December 31, 2018

MANAGEMENT REPORT

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

Business review

IAG is a Spanish registered company with its Board meetings held in Spain. IAG operates a head office through its UK branch in London, with an average staff of 152 (2017: 146) managing key support functions for the Group. The Company's focus is on the Group strategy, synergies, digital and connectivity, and support of finance, legal and communications functions as well as the administration of the Company.

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

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

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

The Group's current strategic priorities include:

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

How we create value:

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

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

Finance review

Income statement

Revenue which is derived from charging the airline companies for the services that IAG provides to them, totalled €67 million for the year to December 31, 2018 (2017: €65 million). Such services cover financial control over treasury policy, treasury support including hedging, financing and refinancing, major capital investments, co-ordination and delivery support of the synergies and general management of the Group. At constant currency revenue in 2018 increased by €2 million predominantly due to the recharge of increased external services received to the operating companies.

The Company received dividend income from British Airways, Iberia and AERL Holding totalling €693 million during the year (2017: €636 million from British Airways, Veloz and AERL Holding).

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

Employee costs for the year are €50 million (2017: €54 million). At constant currency employee costs, excluding costs related to share-based payment schemes have decreased by 6 per cent. The decrease is due to lower costs related to employee incentive schemes.The share-based payment charge and related social security costs of €16 million are included in employee costs and are in line with prior year.

Services received largely relate to supporting the activities of the key departments, whilst other expenses reflect the cost of operating the IAG offices and IT costs, as well as the costs supporting the Group's market listings with CNMV and UKLA. In 2018, the Group incurred additional professional fees related to regulatory and merger and acquisition transaction fees.

The increase in finance income and finance costs relate to interest on loans with Group companies reflecting the new loans received and issued during the year. Finance cost payable on debt with third parties reflects primarily interest expense on the convertible bonds of €24 million (2017: 23 million). The change in fair value of financial instruments reflects €4 million gain on derivatives entered into by the Company not qualifying for hedge accounting (2017: €15 million loss).

Profit before tax for the year was €661 million (2017: €587 million).

The taxation credit of €1 million (2017: €9 million) reflects:

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

The profit after tax for the year from continuing operations is €662 million (2017: €596 million).

Balance sheet

IAG's primary assets are its subsidiaries. IAG's investments in British Airways and Iberia were created at the time of the merger on January 21, 2011 and amounted to €6.208 million. During 2018, distributions were received from Iberia totalling €75 million which have been recognised against the cost of the investment. During the year, the loan balance due to the Company from Veloz for €146 million was capitalised. The Company made investments of €48 million in LEVEL €22 million in IAG GBS and in IAG Connect €5 million. At the year end, IAG held an investment of €4.155 million in British Airways, €2.389 million in Iberia, €836 million in AERL Holding, €166 million in Veloz, €58 million in LEVEL, €22 million in IAG GBS and €5 million in IAG Connect totalling €7.631 million. It also holds the investment in IAG Cargo.

Prior year movements in investments

During 2017, distributions were received from Iberia totalling €84 million which were recognised against the cost of the investment. In addition, the majority of the loan balance between the Company and AERL Holding was capitalised and the Company made an investment of €10 million in FLY LEVEL S.L.

Treasury shares

During the year, the Company purchased a total of 66 million (2017: 75 million) ordinary shares as part of its €500 million share buyback programme (2017: €500 million) which was launched in May 2018. The programme was part of the Company's corporate finance strategy to return cash to its shareholders while reinvesting in the business and managing leverage. On completion of the programme these treasury shares were cancelled.

A total number of 1,2 million shares vested during the year in relation to 2015 share- based payment schemes (2017: 2,6 million).The total amount of the Company's treasury shares as at December 31, 2018 accounts for 0,44 per cent (2017: 0,49 per cent) of the total issued capital at that date.

Dividends

On October 25, 2018 IAG's Board of Directors approved the distribution in cash of an interim dividend of 14,5 € cents per share.

On February 27, 2019 IAG's Board of Directors proposed a distribution in cash of a final dividend of 16.5 € cents per share. The Board of Directors also proposed a special dividend of 35.0 € cents per share. Both the proposed final and special dividends are subject to approval at the annual general meeting and are not recognised as a liability at December 31, 2018. The proposed final dividend would be distributed from net profit for the year to December 31, 2018.

Post balance sheet events

Other than the dividend, there have been no post balance sheet events subsequent to the year end that require disclosure in the accounts.

Research and development

The Company does not undertake any research or development activity.

Financial risk management

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

Principal risks and uncertainties

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

IT systems and IT infrastructure

We are dependent on IT systems for most key business processes. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. The Group continues to work with world class partners and is increasing resilience by implementing agreed plans which include investing in new technology, updates and a robust operating platform.

Financial risk - counterparty credit risk

The Company is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of financial counterparties may result in financial losses. Exposure in this area is mitigated by the fact that all money market deposits are subject to the IAG Group Treasury counterparty credit policy which establishes limits and monitors the group wide exposure to banks.

Group Governance Structure

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 routes and operating licences. The governance structure is being extended to other Group airlines. IAG could face a challenge to its ownership and control structure. IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

Non-compliance with key regulation including competition, bribery and corruption law

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

Compliance professionals specialising in Competition Law legislation support and advise our businesses.

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

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

ANNUAL CORPORATE GOVERNANCE REPORT

The 2018 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 2/2018, of June 12, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2018 Financial Statements, is available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

FORMULATION OF THE INDIVIDUAL FINANCIAL STATEMENTS AND OF THE INDIVIDUAL MANAGEMENT REPORT FOR THE YEAR 2018

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 27, 2019 the Individual Financial Statements and the Individual Management Report of the mentioned company for the year to December 31, 2018, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 27, 2019:

Antonio Vázquez Romero Chairman	William Matthew Walsh Chief Executive Officer
Marc Jan Bolland	Patrick Jean Pierre Cescau
Enrique Dupuy de Lôme Chávarri	Deborah Linda Kerr
María Fernanda Mejía Campuzano	Kieran Charles Poynter
Emilio Saracho Rodríguez de Torres	Marjorie Morris Scardino
Lucy Nicola Shaw	Alberto Terol Esteban

Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.
AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2018

Building a better
working world

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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Audit report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the equity and the financial position of the Group as at December 31, 2018 and of its financial performance and its cash flows, all of them consolidated, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity, the cash flow statement, all of them consolidated, and the notes thereto for the year then ended.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Passenger and Other revenue recognition, (€21,549 million and €1,684 million, 2017 restated: €20,285 million and €1,463 million) The accounting for passenger revenue is susceptible to management override through the recording of manual journal entries either in the underlying ledgers or as a consolidation journal, the	Our procedures included the following: Passenger revenue: ► We tested the design and operation of a sample of key controls in the passenger revenue processes at each of the Group airlines. ► We reperformed a sample of general IT controls to confirm their effectiveness in preventing an unauthorised system override.

Risk	Our response to the risk
override of IT systems to accelerate revenue recognition, or the manipulation of inputs used to calculate ticket breakage. We consider this to be a risk across all the segments within the Group. The accounting for the Group's loyalty programmes, including those recorded in other revenue, is subject to management estimates and assumptions in respect of the allocation of contract revenue between the points issued and brand and marketing services provided, and in respect of the proportion of points that will not be redeemed (breakage). These assumptions are based on a combination of external valuations in respect of brand and marketing services, statistical models in respect of the future redemption of points and management information in respect of the cost of future redemption products. Any changes in these assumptions can have a significant impact on the revenue recognised in the year. *Refer to section 2 of the consolidated financial statements.*	▶ We verified a sample of passenger tickets to confirm that the revenue was recognised in the correct period. ▶ We identified and examined material manual postings to passenger revenue. ▶ We validated the inputs into the passenger breakage calculations by re-running key reports and checked the completeness and accuracy of the underlying data. Loyalty programmes: ▶ For a sample of invoices to issuance partners we agreed the amounts billed to the cash received, or to the intercompany statements for points issued to IAG group airlines. ▶ We tested the allocation of the cash received from issuance partners between the points issued and the brand and marketing services provided to check that the revenue deferred for points issued was appropriate. ▶ We reconciled the points issued and redeemed in the year and the closing balance sheet position from the financial records to the respective loyalty programme membership databases. ▶ We assessed the appropriateness of the breakage assumptions used for each loyalty programme including comparison to the third party statistical models used by management. ▶ We assessed the adequacy of the related disclosures.
Valuation of British Airways and Iberia's employee obligations (€25,820 million, 2017: €28,846 million) The valuation of these balances requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in a number of the key assumptions (discount rate, price inflation, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of the pension obligations. British's Airways APS and NAPS defined benefit pension scheme liabilities amount to €24,738 million (2017: €27,666 million) within the net pension deficit of €1,115 million (2017: €507 million). Iberia's commitments with employees amount to €1,082 million (2017: €1,180 million), which includes obligations relating to pension schemes, early retirements and redundancy plans. In 2018, the accounting for the closure of the NAPS scheme included a number of key inputs and assumptions (discount rate, price inflation, demographic assumptions, and transitional arrangements) that can have a material impact on the valuation of the pension liabilities and calculation of closure costs. *Refer to sections 2, 24 and 30 of the consolidated financial statements.*	We involved internal pension actuaries to assist in the evaluation of the assumptions used in the valuation of the Group's long term employee obligations. The procedures performed included the following: ▶ We understood the key assumptions used and the process followed to develop those. This included a meeting with external actuaries. ▶ We compared the key inputs and methodologies used to independent sources, current market information and expectations. ▶ We compared the assumptions applied to those used in the prior year and understood the basis for any changes. ▶ We independently checked a sample of the scheme membership data provided to the actuaries to the pension plan membership records. ▶ We evaluated the independence and qualification of management's external actuaries involved in the valuation process. ▶ We tested the calculation of the NAPS plan modification and transitional agreements, including assessment of the appropriateness of the assumptions used. ▶ We assessed the impact on the benefit obligation of GMP equalisation using our own models. ▶ We assessed the adequacy of the related disclosures.
The assessment of the carrying value of goodwill and acquired indefinite life intangible assets (€2,403 million, 2017: €2,363 million) The annual impairment test of goodwill and indefinite life intangibles within the different Group's Cash Generating Units (CGUs) requires significant judgement in forecasting cash flow projections of each CGU, together with the discount	Our procedures included the following: ▶ We considered the reasonableness of management's business plans. Specifically, whether fuel price and foreign exchange assumptions are reasonable in light of current market data. ▶ We assessed the appropriateness of management's key assumptions. We evaluated the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the different CGUs operate and considered whether discount rates were within acceptable ranges. We

Risk	Our response to the risk
rates, long-term economic growth rates, fuel prices and exchange rates. Changes to these assumptions can have a significant impact on the available headroom and any impairment that may be required, as can assumptions applied in identifying in CGUs. *Refer to sections 2 and 14 of the consolidated financial statements.*	involved a valuation specialist to assist in the evaluation of the discount rates used to discount future cash flows in each of the different CGUs. ▶ We considered the potential impact of uncertainties related to the UK exit from the European Union and the effect on key assumptions within management's business plans ▶ We considered the accuracy of forecasts used in previous years against actual results. ▶ We verified the impairment calculations. Furthermore, we reviewed and challenged management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the Group's CGUs would cause the carrying amounts to exceed the recoverable amounts. ▶ We assessed the appropriateness of the related disclosures.
Valuation of the aircraft maintenance obligations (€1,359 million, 2017: €1,125 million) The Group operates aircraft which are owned or held under finance or operating lease arrangements. Liabilities for maintenance costs are incurred during the term of the lease in respect of aircraft leased under operating leases. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor. These provisions require complex judgements and estimates including considerations of aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircrafts' condition. *Refer to sections 2 and 24 of the consolidated financial statements.*	Our procedures included the following: ▶ We understood the estimation processes and tested management's calculations of maintenance expenses. ▶ We challenged the appropriateness of management's inputs and assumptions in the calculation of the maintenance provision at year end. This included assessing the timing of the maintenance work and comparing the valuation of maintenance expenses to historic invoices, third-party price lists and/or agreed maintenance contracts. ▶ We obtained and inspected a sample of engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations at the hand back at the end of the lease.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the financial statements.

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

a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.

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

Based on the work performed, as described above, we have verified that the non-financial information referred to in paragraph a) above is provided in the separate report on "Non-financial Information" which is referred to in the consolidated management report, and that the information from the Annual Corporate Governance Report referred to in said paragraph is included in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on March 4, 2019.

Term of engagement

The annual general shareholders' meeting held on June 14, 2018 appointed us as auditors for the financial year 2018.

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

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

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

Hildur Eir Jónsdóttir

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

March 4, 2019

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated financial statements
for the year ended
December 31, 2018

CONSOLIDATED INCOME STATEMENT

€ million	Note	Before exceptional items 2018	Exceptional items	Total 2018	Before exceptional items 2017 (restated)[1]	Exceptional items	Total 2017 (restated)[1]
		Year to December 31					
Passenger revenue		21,549		21,549	20,285		20,285
Cargo revenue		1,173		1,173	1,132		1,132
Other revenue		1,684		1,684	1,463		1,463
Total revenue	3	24,406		24,406	22,880		22,880
Employee costs	4, 7	4,812	(460)	4,352	4,740	248	4,988
Fuel, oil costs and emissions charges		5,283		5,283	4,610		4,610
Handling, catering and other operating costs	4	2,888		2,888	2,673	14	2,687
Landing fees and en-route charges		2,184		2,184	2,151		2,151
Engineering and other aircraft costs	4	1,828		1,828	1,773	19	1,792
Property, IT and other costs	4	918	12	930	915	7	922
Selling costs		1,046		1,046	982		982
Depreciation, amortisation and impairment	5	1,254		1,254	1,184		1,184
Aircraft operating lease costs	5	890		890	888		888
Currency differences		73		73	14		14
Total expenditure on operations		21,176	(448)	20,728	19,930	288	20,218
Operating profit	3	3,230	448	3,678	2,950	(288)	2,662
Finance costs	8	(231)		(231)	(225)		(225)
Finance income	8	41		41	45		45
Net financing credit/(charge) relating to pensions	8	27		27	(28)		(28)
Net currency retranslation (charges)/credits		(19)		(19)	38		38
Other non-operating charges	8	(9)		(9)	(11)		(11)
Total net non-operating costs		(191)		(191)	(181)		(181)
Profit before tax		3,039	448	3,487	2,769	(288)	2,481
Tax	9	(558)	(32)	(590)	(538)	66	(472)
Profit after tax for the year		2,481	416	2,897	2,231	(222)	2,009
Attributable to:							
Equity holders of the parent		2,469		2,885	2,211		1,989
Non-controlling interest		12		12	20		20
		2,481		2,897	2,231		2,009
Basic earnings per share (€ cents)	10	122.1		142.7	105.9		95.2
Diluted earnings per share (€ cents)	10	117.7		137.4	102.2		92.0

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31 2018	2017 (restated)[1]
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity	29	**(517)**	101
Reclassified and reported in net profit	29	**(480)**	28
Fair value movements on cost of hedging		**13**	(41)
Currency translation differences	29	**(80)**	(127)
Items that will not be reclassified to net profit			
Fair value movements on other equity investments		**(5)**	9
Fair value movements on cash flow hedges		**26**	–
Remeasurements of post-employment benefit obligations	29	**(696)**	739
Total other comprehensive (loss)/income for the year, net of tax		**(1,739)**	709
Profit after tax for the year		**2,897**	2,009
Total comprehensive income for the year		**1,158**	2,718
Total comprehensive income is attributable to:			
Equity holders of the parent		**1,146**	2,698
Non-controlling interest	29	**12**	20
		1,158	2,718

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

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

€ million	Note	**December 31, 2018**	December 31, 2017 (restated)[1]	January 1, 2017 (restated)[1]
Non-current assets				
Property, plant and equipment	12	**12,437**	11,846	12,227
Intangible assets	14	**3,198**	3,018	3,037
Investments accounted for using the equity method	15	**31**	30	29
Other equity investments	16	**80**	79	73
Employee benefit assets	30	**1,129**	1,023	1,028
Derivative financial instruments	26	**221**	145	169
Deferred tax assets	9	**536**	523	561
Other non-current assets	17	**309**	376	499
		17,941	17,040	17,623
Current assets				
Non-current assets held for sale		**-**	-	38
Inventories		**509**	432	458
Trade receivables	17	**1,597**	1,463	1,370
Other current assets	17	**1,175**	958	899
Current tax receivable	9	**383**	258	228
Derivative financial instruments	26	**155**	405	329
Other current interest-bearing deposits	18	**2,437**	3,384	3,091
Cash and cash equivalents	18	**3,837**	3,292	3,337
		10,093	10,192	9,750
Total assets		**28,034**	27,232	27,373
Shareholders' equity				
Issued share capital	27	**996**	1,029	1,066
Share premium	27	**6,022**	6,022	6,105
Treasury shares	27	**(68)**	(77)	(96)
Other reserves	29	**(236)**	(348)	(2,149)
Total shareholders' equity		**6,714**	6,626	4,926
Non-controlling interest	29	**6**	307	308
Total equity		**6,720**	6,933	5,234
Non-current liabilities				
Interest-bearing long-term borrowings	22	**6,633**	6,401	7,589
Employee benefit obligations	30	**289**	792	2,363
Deferred tax liability	9	**453**	526	110
Provisions for liabilities and charges	24	**2,268**	2,113	1,987
Derivative financial instruments	26	**423**	114	20
Other long-term liabilities	21	**198**	222	238
		10,264	10,168	12,307
Current liabilities				
Current portion of long-term borrowings	22	**876**	930	926
Trade and other payables	19	**3,959**	3,723	3,266
Deferred revenue on ticket sales	20	**4,835**	4,742	4,680
Derivative financial instruments	26	**656**	111	88
Current tax payable	9	**165**	78	101
Provisions for liabilities and charges	24	**559**	547	771
		11,050	10,131	9,832
Total liabilities		**21,314**	20,299	22,139
Total equity and liabilities		**28,034**	27,232	27,373

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31 2018	2017 (restated)[1]
Cash flows from operating activities			
Operating profit after exceptional items		**3,678**	2,662
Depreciation, amortisation and impairment	5	**1,254**	1,184
Movement in working capital		**(64)**	647
Increase in trade receivables, prepayments, inventories and other current assets		*(650)*	*(287)*
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities		*586*	*934*
Payments related to restructuring	24	**(220)**	(248)
Employer contributions to pension schemes[2]	30	**(898)**	(899)
Pension scheme service costs	30	**55**	233
Provision and other non-cash movements		**(114)**	264
Interest paid		**(149)**	(122)
Interest received		**37**	29
Tax paid		**(343)**	(237)
Net cash flows from operating activities		**3,236**	3,513
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(2,802)**	(1,490)
Sale of property, plant and equipment and intangible assets		**574**	306
Proceeds from sale of investments		**–**	17
Decrease/(increase) in other current interest-bearing deposits		**924**	(432)
Other investing movements		**61**	55
Net cash flows from investing activities		**(1,243)**	(1,544)
Cash flows from financing activities			
Proceeds from long-term borrowings		**1,078**	178
Repayment of borrowings		**(275)**	(148)
Repayment of finance leases		**(824)**	(825)
Acquisition of treasury shares		**(500)**	(500)
Distributions made to holders of perpetual securities		**(312)**	(21)
Dividend paid		**(577)**	(512)
Net cash flows from financing activities		**(1,410)**	(1,828)
Net increase in cash and cash equivalents		**583**	141
Net foreign exchange differences		**(38)**	(186)
Cash and cash equivalents at 1 January		**3,292**	3,337
Cash and cash equivalents at year end	18	**3,837**	3,292
Interest-bearing deposits maturing after more than three months	18	**2,437**	3,384
Cash, cash equivalents and other interest-bearing deposits	18	**6,274**	6,676

[1] Restated for new accounting standards IFRS 15 ‘Revenue from contracts with customers’ and IFRS 9 ‘Financial instruments’; refer to note 33.

[2] Includes transitional arrangement cash costs associated with changes to the British Airways pension schemes; refer to note 4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2017

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
January 1, 2017	1,066	6,105	(96)	(2,671)	952	5,356	308	5,664
Restatement for adoption of new standards	–	–	–	38	(468)	(430)	–	(430)
January 1, 2017 (restated)	1,066	6,105	(96)	(2,633)	484	4,926	308	5,234
Profit for the year	–	–	–	–	1,989	1,989	20	2,009
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	84	–	84	–	84
Fuel and oil costs	–	–	–	(38)	–	(38)	–	(38)
Currency differences	–	–	–	(18)	–	(18)	–	(18)
Net change in fair value of cash flow hedges	–	–	–	101	–	101	–	101
Net change in fair value of equity investments	–	–	–	9	–	9	–	9
Net change in fair value of cost of hedging	–	–	–	(41)	–	(41)	–	(41)
Currency translation differences	–	–	–	(127)	–	(127)	–	(127)
Remeasurements of post-employment benefit obligations	–	–	–	–	739	739	–	739
Total comprehensive income for the year	–	–	–	(30)	2,728	2,698	20	2,718
Cost of share-based payments	–	–	–	–	34	34	–	34
Vesting of share-based payment schemes	–	–	19	–	(33)	(14)	–	(14)
Acquisition of treasury shares	–	–	(500)	–	–	(500)	–	(500)
Dividend	–	–	–	–	(518)	(518)	–	(518)
Cancellation of share capital	(37)	–	500	37	(500)	–	–	–
Dividend of a subsidiary	–	–	–	–	–	–	(1)	(1)
Transfer between reserves	–	(83)	–	–	83	–	–	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)	(20)
December 31, 2017	1,029	6,022	(77)	(2,626)	2,278	6,626	307	6,933

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. A list of the subsidiaries of the Group is included in the Group investments section.

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

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and other equity investments that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. In order to improve the presentation of the Income statement, certain non-operating items have been aggregated into a new line, 'Other non-operating (charges)/credits', with further analysis provided in note 8 to the accounts.

The Group's financial statements for the year to December 31, 2018 were authorised for issue, and approved by the Board of Directors on February 27, 2019.

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

Consolidation

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

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

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

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

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

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

Segmental reporting

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

Foreign currency translation

a Functional and presentation currency

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

b Transactions and balances

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

c Group companies

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

Property, plant and equipment

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

a Capitalisation of interest on progress payments

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

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and 5 per cent residual value for shorthaul aircraft and 25 years and 5 per cent residual value for longhaul aircraft.

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

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

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

c Other property, plant and equipment

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

d Leased assets

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

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

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

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

Intangible assets

a Goodwill

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

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

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract based intangibles

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

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to 10 years.

g Emissions allowances

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

Impairment of non-financial assets

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

a Property, plant and equipment

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

b Intangible assets

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

Investments in associates and joint ventures

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

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

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

Financial instruments

a Other equity investments

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

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

b Other interest-bearing deposits

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

c Derivative financial instruments and hedging activities

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

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

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

d Cash flow hedges

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

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

e Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

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

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

f Impairment of financial assets

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

Employee benefit plans

a Pension obligations

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

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

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

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

b Severance obligations

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

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

Taxation

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Share-based payments

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

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

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

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

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

Revenue recognition

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided. Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligation is satisfied (over time) using an appropriate methodology which reflects the activity that has been undertaken to satisfy the related obligation.

Customer loyalty programmes

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

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

The Group estimates the stand-alone selling price of the brand and marketing performance obligations by reference to the amount that a third party would be prepared to pay in an arm's length transaction for access to comparable brands for the period over which they have access. The stand-alone selling price of Avios points is based on the value of the awards for which the points could be redeemed. The Group also recognises revenue associated with the proportion of award credits which are not expected to be redeemed, based on the results of statistical modelling.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement include items such as significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; and the impact of the sale, disposal or impairment of an investment in a business.

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

Critical accounting judgements, estimates and assumptions

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

Estimates

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

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

At December 31, 2018 the Group recognised €1,129 million in respect of employee benefit assets (2017: €1,023 million) and €289 million in respect of employee benefit obligations (2017: €792 million). Further information on employee benefit obligations is disclosed in note 30.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 24 and 30. The Group determines the assumptions to be adopted in discussion with qualified actuaries. In respect of future pension increases in the Airways Pension Scheme, on July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Further information on these proceedings is disclosed in note 31. The sensitivity to changes in pension increase assumptions is disclosed in note 30.

On October 26, 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment affects some of the occupational pension schemes of the Group as set out in note 30.

Whilst the Lloyds judgement has brought some clarity to the issue, there remains some uncertainty over how the calculation of the obligation for Guaranteed Minimum Pension (GMP) equalisation should be performed. The UK Government may also produce guidance on the application of GMP equalisation. In determining the obligation for these consolidated financial statements, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgement as the 'minimum interference' method which could be implemented without sponsor agreement. The final cost of GMP equalisation will be determined when further guidance is available and may be higher or lower than the current estimate.

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

b Revenue recognition

At December 31, 2018 the Group recognised €4,835 million in respect of deferred revenue on ticket sales (2017: €4,742 million) of which €1,769 million (2017: €1,752 million) related to customer loyalty programmes.

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

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

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

c Income taxes

At December 31, 2018 the Group recognised €536 million in respect of deferred tax assets (2017: €523 million). Further information on current and deferred tax liabilities is disclosed in note 9.

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. The Group recognises liabilities for anticipated tax audit assessments. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management consider the operating performance in the current year and the future projections of performance laid out in the approved Business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

At December 31, 2018 the Group recognised €2,403 million in respect of intangible assets with an indefinite life, including goodwill (2017: €2,363 million). Further information on these assets is included in note 14.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions as disclosed in note 14.

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

e Residual values and useful lives of assets

At December 31, 2018 the Group recognised €12,437 million in respect of property, plant and equipment (2017: €11,846 million). Further information on these assets is included in note 12.

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

Judgement

Engineering and other aircraft costs

At December 31, 2018, the Group recognised €1,359 million in respect of maintenance, restoration and handback provisions (2017: €1,125 million). Information on movements on the provision is disclosed in note 24.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. The Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' for the first time for the year to December 31, 2018. Further details on the impact of these standards on the Group accounting policies and financial position and performance are provided in note 33.

Other amendments to accounting standards, adopted for the first time in the year to December 31, 2018 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.

b New standards, amendments and interpretations not yet effective

The IASB issued IFRS 16 'Leases' with an effective date after the year end of these financial statements. This standard will impact the Group from January 1, 2019. Further information on the requirements of the standard is provided in note 33.

In addition the IASB's Interpretations Committee has issued IFRIC Interpretation 23 'Uncertainty over tax treatments'; effective for periods beginning on or after January 1, 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group has assessed the impact of the interpretation and it is not expected to have a material effect on the reported income or net assets of the Group.

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

The Group has not early adopted any standard, amendment or interpretation that has been issued but is not yet effective.

3 Segment information

a Business segments

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

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

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

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

For the year to December 31, 2018

	2018					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	**Total**
Revenue						
Passenger revenue	12,972	3,765	2,377	1,952	483	**21,549**
Cargo revenue	867	251	–	54	1	**1,173**
Other revenue	682	749	20	9	224	**1,684**
External revenue	14,521	4,765	2,397	2,015	708	**24,406**
Inter-segment revenue	508	417	1	5	538	**1,469**
Segment revenue	15,029	5,182	2,398	2,020	1,246	**25,875**
Depreciation, amortisation and impairment	(890)	(207)	(25)	(83)	(49)	**(1,254)**
Operating profit before exceptional items	**2,207**	**437**	**200**	**305**	**81**	**3,230**
Exceptional items (note 4)	448	–	–	–	–	**448**
Operating profit after exceptional items	**2,655**	**437**	**200**	**305**	**81**	**3,678**
Net non-operating costs						**(191)**
Profit before tax						**3,487**
Total assets	18,531	6,829	1,882	1,915	(1,123)	**28,034**
Total liabilities	(12,235)	(5,051)	(1,495)	(1,072)	(1,461)	**(21,314)**

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

For the year to December 31, 2017 (restated)

	2017					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	Total
Revenue						
Passenger revenue	12,470	3,554	2,104	1,797	360	20,285
Cargo revenue	843	242	–	47	–	1,132
Other revenue	589	644	23	11	196	1,463
External revenue	13,902	4,440	2,127	1,855	556	22,880
Inter-segment revenue	482	420	–	2	459	1,363
Segment revenue	14,384	4,860	2,127	1,857	1,015	24,243
Depreciation, amortisation and impairment	(860)	(182)	(20)	(77)	(45)	(1,184)
Operating profit before exceptional items	1,992	376	188	268	126	2,950
Exceptional items (note 4)	(108)	(180)	–	–	–	(288)
Operating profit after exceptional items	1,884	196	188	268	126	2,662
Net non-operating costs						(181)
Profit before tax						2,481
Total assets	18,872	6,079	1,515	1,976	(1,210)	27,232
Total liabilities	(12,117)	(4,358)	(1,253)	(1,055)	(1,516)	(20,299)

[1] Includes eliminations on total assets of €13,031 million and total liabilities of €2,744 million.

b Geographical analysis

Revenue by area of original sale

	Year to December 31	
€ million	**2018**	2017 (restated)
UK	**7,982**	7,574
Spain	**4,064**	3,551
USA	**4,093**	3,694
Rest of world	**8,267**	8,061
	24,406	22,880

Assets by area

December 31, 2018

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

December 31, 2017

€ million	Property, plant and equipment	Intangible assets
UK	9,013	1,171
Spain	2,050	1,241
USA	18	6
Rest of world	765	600
	11,846	3,018

4 Exceptional items

€ million	Year to December 31 2018	2017
Restructuring costs[1]	**136**	288
Employee benefit obligations[2]	**(584)**	–
Recognised in expenditure on operations	**(448)**	288
Total exceptional (credit)/charge before tax	**(448)**	288
Tax on exceptional items	**32**	(66)
Total exceptional (credit)/charge after tax	**(416)**	222

1 Restructuring costs

During 2018 British Airways continued to implement the restructuring programme that started in July 2016, to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2018 in respect of this programme amount to €136 million (2017: €108 million), with a related tax credit of €26 million (2017: €21 million).

In the year to December 31, 2017, €180 million of restructuring costs were recognised at Iberia, related to the announcement of a new Transformation Plan. A related tax credit of €45 million was also recognised.

2 Employee benefit obligations

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

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

5 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2018	2017
Owned assets	**711**	641
Finance leased aircraft	**371**	382
Other leasehold interests	**40**	41
Amortisation of intangible assets	**132**	120
	1,254	1,184

Operating leases costs:

€ million		2018	2017
Minimum lease rentals	– aircraft	**890**	888
	– property and equipment	**236**	224
Sub-lease rentals received		**(12)**	(1)
		1,114	1,111

Cost of inventories:

€ million	2018	2017
Cost of inventories recognised as an expense, mainly fuel	**3,165**	3,176

6 Auditors' remuneration

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

€'000	**2018**	2017
Fees payable for the audit of the Group and individual accounts	**4,328**	3,648
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**634**	569
Other services pursuant to legislation	**436**	465
Other assurance services	**506**	467
Services relating to corporate finance transactions	**191**	296
All other services	**305**	3
	6,400	5,448

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

7 Employee costs and numbers

€ million	**2018**	2017
Wages and salaries	**3,240**	3,155
Social security costs	**516**	486
(Credits)/costs related to pension scheme benefits	**(317)**	370
Other post-retirement benefit costs	**5**	–
Cost of share-based payments	**31**	34
Other employee costs[1]	**877**	943
Total employee costs	**4,352**	4,988

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[1] Other employee costs include allowances and accommodation for crew.

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

	2018			2017		
		December 31, 2018			December 31, 2017	
	Average number of employees	**Number of employees**	**Percentage of women**	Average number of employees	Number of employees	Percentage of women
Senior executives	**196**	**208**	**27%**	166	190	24%
Ground employees:						
Managerial	**1,829**	**1,906**	**41%**	2,334	2,296	43%
Non-managerial	**33,230**	**32,161**	**35%**	32,572	32,877	35%
Technical crew:						
Managerial	**6,673**	**6,726**	**17%**	6,644	6,595	11%
Non-managerial	**22,806**	**22,530**	**66%**	21,706	22,036	68%
	64,734	**63,531**		63,422	63,994	

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

a Finance costs

€ million	2018	2017
Interest expense on:		
Bank borrowings	**(17)**	(20)
Finance leases	**(144)**	(116)
Provisions unwinding of discount	**(27)**	(20)
Other borrowings	**(56)**	(75)
Capitalised interest on progress payments	**13**	7
Change in fair value of cross currency swaps	**–**	(1)
	(231)	(225)

b Finance income

€ million	2018	2017
Interest on other interest-bearing deposits	**33**	28
Other finance income	**8**	17
	41	45

c Net financing credit/(charge) relating to pensions

€ million	2018	2017
Net financing credit/(charge) relating to pensions	**27**	(28)

d Other non-operating (charges)/credits

€ million	2018	2017
Loss on sale of property, plant and equipment and investments	**(29)**	(30)
Gain related to equity investments (note 16)	**5**	7
Share of profits in investments accounted for using the equity method (note 15)	**5**	3
Realised gain/(losses) on derivatives not qualifying for hedge accounting	**20**	(19)
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	**(10)**	28
	(9)	(11)

9 Tax

a Tax charges

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

For the year to December 31, 2018

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	4	–	–	**4**
Movement in respect of current year	(475)	162	–	**(313)**
Total current tax	(471)	162	–	**(309)**
Deferred tax				
Movement in respect of prior years	22	–	–	**22**
Movement in respect of current year	(144)	206	–	**62**
Tax rate change	3	(13)	–	**(10)**
Total deferred tax	(119)	193	–	**74**
Total tax	(590)	355	–	**(235)**

Current tax in Other comprehensive income relates to employee retirement benefit plans, (€136m) and cash flow hedges (€26m).

For the year to December 31, 2017 (restated)

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	12	–	–	12
Movement in respect of current year	(319)	126	1	(192)
Total current tax	(307)	126	1	(180)
Deferred tax				
Movement in respect of prior years	(8)	–	–	(8)
Movement in respect of current year	(155)	(307)	2	(460)
Tax rate change	(2)	12	–	10
Total deferred tax	(165)	(295)	2	(458)
Total tax	(472)	(169)	3	(638)

Current tax in Other comprehensive income relates to employee retirement benefit plans and current tax in the Statement of changes in equity relates to share-based payment schemes.

Current tax account

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Cash	Exchange movements	Closing balance
2018	**180**	**(471)**	**162**	**–**	**343**	**4**	**218**
2017	127	(307)	126	1	237	(4)	180

Current tax asset is €383 million (2017 restated: €258 million) and current tax liability is €165 million (2017 restated: €78 million).

b Deferred tax

For the year to December 31, 2018

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Exchange movements and other	Closing balance
Property, plant and equipment	(1,029)	19	–	–	11	(999)
Employee leaving indemnities and other employee related provisions	374	(25)	–	–	(1)	348
Tax losses carried forward	352	(15)	–	–	–	337
Fair value losses recognised on cash flow hedges	39	–	195	–	–	234
Employee benefit plans	140	(96)	(2)	–	–	42
Tax assets in relation to tax credits and deductions	78	(3)	–	–	(1)	74
Share-based payment schemes	15	2	–	–	(1)	16
Foreign exchange	2	(3)	–	–	–	(1)
Deferred revenue	7	2	–	–	–	9
Other items	19	–	–	–	4	23
Total deferred tax	**(3)**	**(119)**	**193**	**–**	**12**	**83**

The deferred tax asset is €536 million (2017 restated: €523 million) and mainly arises in Spain. A reversal of €87 million on the deferred tax asset is expected within one year and the remainder beyond one year.

The deferred tax liability is €453 million (2017 restated: €526 million).

Within tax in Other comprehensive income is a tax credit of €222 million (2017: tax charge of €9 million) that may be reclassified to the Income statement and a tax credit of €133 million (2017 restated: tax charge of €160 million) that may not.

For the year to December 31, 2017

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Exchange movements and other	Restated closing balance
Property, plant and equipment	(1,065)	4	–	–	32	(1,029)
Employee leaving indemnities and other employee related provisions	372	3	–	–	(1)	374
Tax losses carried forward	407	(59)	–	–	4	352
Fair value losses recognised on cash flow hedges	68	–	(21)	–	(8)	39
Employee benefit plans	441	(14)	(274)	–	(13)	140
Tax assets in relation to tax credits and deductions	78	–	–	–	–	78
Share-based payment schemes	13	1	–	2	(1)	15
Foreign exchange	9	(6)	–	–	(1)	2
Deferred revenue	101	(94)	–	–	–	7
Other items	27	–	–	–	(8)	19
Total deferred tax	451	(165)	(295)	2	4	(3)

c Reconciliation of the total tax charge in the Income statement

The tax charge is calculated at the domestic rates applicable to profits or losses in the Group's main countries of operation. The tax charge on the profit for the year to December 31, 2018 is lower than the notional tax charge.

The differences are explained below:

€ million	**2018**	2017 (restated)
Accounting profit before tax	**3,487**	2,481
Tax calculated at 25 per cent in Spain (2017: 25 per cent), 19.00 per cent in the UK (2017: 19.25 per cent) and 12.5 per cent in Ireland (2017: 12.5 per cent)[1]	**671**	480
Effects of:		
Tax rate changes	**(3)**	2
Employee benefit plans accounted for net of withholding tax- recurring	**(1)**	(4)
Employee benefit plans accounted for net of withholding tax - non-recurring	**(53)**	–
Euro preferred securities accounted for as non-controlling interests	**(2)**	(4)
Investment credit	**(10)**	(7)
Movement in respect of prior years	**(26)**	(4)
Current year tax assets not recognised	**9**	4
Disposal and write down of investments	**(1)**	–
Non-deductible expenses - recurring items	**7**	6
Other items	**(1)**	(1)
Tax charge in the income statement	**590**	472

[1] The expected tax charge is arrived at by aggregating the expected tax charges arising in each company in the Group. It changes each year as tax rates and profit mix change.

d Other taxes

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

€ million	**2018**	2017
Payroll related taxes	**509**	478
UK Air Passenger Duty	**885**	838
Other ticket taxes and charges	**1,758**	1,694
	3,152	3,010

e Factors that may affect future tax charges

Unrecognised temporary differences - losses

€ million	2018	2017
Spanish corporate income tax losses and other temporary differences	**47**	47
UK capital losses arising:		
Before the change in ownership of the UK Group in 2011	**36**	36
After the change in ownership of the UK Group in 2011	**8**	8
On properties that were eligible for Industrial Buildings Allowances	**272**	283
Irish capital losses	**25**	25
Corporate income tax losses outside of the Group's main countries of operation	**210**	179

None of the unrecognised temporary differences have an expiry date.

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €2,826 million (2017 restated: €1,905 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

Tax rate changes

Reductions in the UK corporation tax rate to 19% (effective from April 1, 2017) and to 18% (effective April 1, 2020) were substantively enacted on October 26, 2015, and an additional reduction to 17% (effective April 1, 2020) was substantively enacted on September 6, 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on temporary differences and tax losses at December 31, 2018 has been calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

Tax audits

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

10 Earnings per share

€ million	2018	2017 (restated)
Earnings attributable to equity holders of the parent for basic earnings	**2,885**	1,989
Interest expense on convertible bonds	**18**	17
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	**2,903**	2,006

	2018 Number '000	2017 Number '000
Weighted average number of ordinary shares in issue[1]	**2,021,622**	2,088,489
Assumed conversion on convertible bonds	**72,944**	72,418
Dilutive employee share schemes outstanding	**18,515**	18,446
Weighted average number for diluted earnings per share	**2,113,081**	2,179,353

€ cents	2018	2017 (restated)
Basic earnings per share	**142.7**	95.2
Diluted earnings per share	**137.4**	92.0

[1] Includes 27 million as the weighted average impact for 65,956,660 treasury shares purchased in the share buyback programme (note 27).

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

11 Dividends

€ million	2018	2017
Cash dividend declared		
Interim dividend for 2018 of 14.5 € cents per share (2017: 12.5 € cents per share)	**288**	256
Final dividend for 2017 of 14.5 € cents per share (2016: 12.5 € cents per share)	**294**	262
Proposed cash dividends		
Final dividend for 2018 of 16.5 € cents per share	**327**	
Special dividend of 35.0 € cents per share	**700**	

The proposed final dividend for 2018 would be distributed from net profit for the year to December 31, 2018.

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

12 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2017	19,739	2,210	1,533	23,482
Additions	1,290	52	102	1,444
Disposals	(532)	(31)	(101)	(664)
Exchange movements	(799)	(88)	(50)	(937)
Balance at December 31, 2017	19,698	2,143	1,484	23,325
Additions	2,255	79	140	**2,474**
Disposals	(1,130)	–	(125)	**(1,255)**
Exchange movements	(310)	(34)	(17)	**(361)**
December 31, 2018	**20,513**	**2,188**	**1,482**	**24,183**
Depreciation and impairment				
Balance at January 1, 2017	9,195	1,053	1,007	11,255
Charge for the year	924	57	83	1,064
Disposals	(242)	(26)	(78)	(346)
Exchange movements	(412)	(44)	(38)	(494)
Balance at December 31, 2017	9,465	1,040	974	11,479
Charge for the year	984	55	83	**1,122**
Disposals	(562)	–	(95)	**(657)**
Exchange movements	(164)	(18)	(16)	**(198)**
December 31, 2018	**9,723**	**1,077**	**946**	**11,746**
Net book values				
December 31, 2018	**10,790**	**1,111**	**536**	**12,437**
December 31, 2017	10,233	1,103	510	11,846
Analysis at December 31, 2018				
Owned	3,935	987	401	**5,323**
Finance leased	5,695	4	68	**5,767**
Progress payments	1,069	118	65	**1,252**
Assets not in current use	91	2	2	**95**
Property, plant and equipment	**10,790**	**1,111**	**536**	**12,437**
Analysis at December 31, 2017				
Owned	3,875	1,027	400	5,302
Finance leased	5,231	4	62	5,297
Progress payments	958	71	47	1,076
Assets not in current use	169	1	1	171
Property, plant and equipment	10,233	1,103	510	11,846

The net book value of property comprises:

€ million	**2018**	2017
Freehold	**448**	464
Long leasehold improvements > 50 years	**330**	315
Short leasehold improvements < 50 years	**333**	324
Property	**1,111**	1,103

At December 31, 2018, bank and other loans of the Group are secured on fleet assets with a cost of €467 million (2017: €938 million) and letters of credit of €256 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2017: €260 million).

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,831 million (December 31, 2017: €12,137 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €10,716 million for the acquisition of 71 Airbus A320s (from 2019 to 2022), 21 Airbus A321s (from 2019 to 2020), 4 Airbus A330s (in 2019), 41 Airbus A350s (from 2019 to 2022), 4 Boeing 777-300s (in 2020) and 12 Boeing 787s (from 2020 to 2023).

14 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Software	Other	Total
Cost							
Balance at January 1, 2017	598	451	253	1,556	861	99	3,818
Additions	–	–	–	1	131	43	175
Disposals	–	–	–	–	(6)	(18)	(24)
Exchange movements	(2)	–	–	(38)	(38)	4	(74)
Balance at December 31, 2017	596	451	253	1,519	948	128	3,895
Additions	–	–	–	55	195	105	**355**
Disposals	–	–	–	–	(14)	(20)	**(34)**
Exchange movements	(1)	–	–	(15)	(13)	(2)	**(31)**
December 31, 2018	**595**	**451**	**253**	**1,559**	**1,116**	**211**	**4,185**
Amortisation and impairment							
Balance at January 1, 2017	249	–	–	98	387	47	781
Charge for the year	–	–	–	6	110	4	120
Disposals	–	–	–	–	(5)	–	(5)
Exchange movements	–	–	–	(3)	(17)	1	(19)
Balance at December 31, 2017	249	–	–	101	475	52	877
Charge for the year	–	–	–	6	123	3	**132**
Disposals	–	–	–	–	(13)	–	**(13)**
Exchange movements	–	–	–	(1)	(8)	–	**(9)**
December 31, 2018	**249**	**–**	**–**	**106**	**577**	**55**	**987**
Net book values							
December 31, 2018	**346**	**451**	**253**	**1,453**	**539**	**156**	**3,198**
December 31, 2017	347	451	253	1,418	473	76	3,018

[1] The net book value includes non-EU based landing rights of €100 million (2017: €106 million) that have a definite life. The remaining life of these landing rights is 17 years.

b Impairment review

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

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

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2017					
Iberia					
January 1 and December 31, 2017	–	423	306	–	729
British Airways					
January 1, 2017	49	771	–	–	820
Additions	–	1	–	–	1
Exchange movements	(2)	(34)	–	–	(36)
December 31, 2017	47	738	–	–	785
Vueling					
January 1 and December 31, 2017	28	89	35	–	152
Aer Lingus					
January 1 and December 31, 2017	272	62	110	–	444
Avios					
January 1 and December 31, 2017	–	–	–	253	253
December 31, 2017	347	1,312	451	253	2,363

Basis for calculating recoverable amount

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

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

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

Key assumptions

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

	2018				
Per cent	**British Airways**	**Iberia**	**Vueling**	**Aer Lingus**	**Avios**
Lease adjusted operating margin	**15**	**9-15**	**11-15**	**15**	**21**[1]
Average ASK growth per annum	**3-4**	**5-6**	**9-10**	**7-8**	**n/a**[1]
Long-term growth rate	**2.3**	**2.0**	**1.9**	**1.8**	**1.9**
Pre-tax discount rate	**8.3**	**9.0**	**8.4**	**8.3**	**9.3**

	2017				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	15	10-14	12-15	15	21[1]
Average ASK growth per annum	2	8	10	5	n/a[1]
Long-term growth rate	2.3	2.0	2.0	2.0	2.0
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

[1] Operating margin for the Avios loyalty reward business is not adjusted for aircraft leases. ASK growth rate assumption is not applicable for Avios, which conducts business with partners both within and outside IAG.

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan to 2023. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on planned network growth and taking into account Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airline's network plans are reviewed annually as part of the Business plan and reflect Management's plans in response to specific market risk or opportunity.

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

Summary of results

In 2018, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values. Sensitivities have been considered for each CGU. Reducing long-term growth rates to zero, increasing pre-tax discount rates by 4 percentage points, and increasing the fuel price by 40 per cent, does not result in any impairment.

15 Investments

a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2018 are listed in the Group investments section.

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

On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred securities which were previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2018 is €6 million (2017: €307 million).

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

b Investments in associates and joint ventures

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

€ million	**2018**	2017
Total assets	**113**	96
Total liabilities	**(77)**	(68)
Revenue	**75**	86
Profit for the year	**5**	3

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

€ million	**2018**	2017
At beginning of year	**30**	29
Share of retained profits	**5**	3
Additions	**-**	2
Disposals	**-**	(2)
Dividends received	**(2)**	(3)
Exchange movements	**(2)**	1
	31	30

At December 31, 2018 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both December 31, 2018 and December 31, 2017 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

16 Other equity investments

Other equity investments include the following:

€ million	**2018**	2017
Listed securities		
Comair Limited	**17**	23
Unlisted securities	**63**	56
	80	79

The gain relating to other equity investments was €5 million (2017: €7 million).

17 Trade and other receivables

€ million	2018	2017 (restated)
Amounts falling due within one year		
Trade receivables	**1,695**	1,526
Provision for expected credit loss	**(98)**	(63)
Net trade receivables	**1,597**	1,463
Prepayments and accrued income	**823**	764
Other non-trade debtors	**352**	194
	2,772	2,421
Amounts falling due after one year		
Prepayments and accrued income	**298**	297
Other interest-bearing deposits (greater than one year)	**–**	66
Other non-trade debtors	**11**	13
	309	376

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

€ million	2018	2017
At beginning of year	**63**	64
Provision for expected credit loss	**36**	15
Release of unused amounts	**(2)**	(1)
Receivables written off during the year	**1**	(13)
Exchange movements	**–**	(2)
	98	63

Trade receivables are generally non-interest-bearing and on 30 days terms (2017: 30 days).

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

December 31, 2018

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

December 31, 2017

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	1,159	119	135	113
Expected credit loss rate	0.05%	1.13%	0.11%	53.92%
Provision for expected credit loss	1	1	–	61

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

€ million	2018	2017
Cash at bank and in hand	**2,453**	1,963
Short-term deposits maturing within three months	**1,384**	1,329
Cash and cash equivalents	**3,837**	3,292
Other current interest-bearing deposits maturing after three months	**2,437**	3,384
Cash, cash equivalents and other interest-bearing deposits	**6,274**	6,676

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

At December 31, 2018 the Group had no outstanding bank overdrafts (2017: nil).

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

At December 31, 2018 Aer Lingus held €42 million of restricted cash (2017: €43 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

a Net debt

Movements in net debt were as follows:

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

€ million	Balance at January 1, 2017	Cash flows	Exchange movements	Non-cash	Balance at December 31, 2017
Bank and other loans	(1,913)	138	26	(75)	(1,824)
Finance leases	(6,602)	657	424	14	(5,507)
Interest-bearing borrowings	(8,515)	795	450	(61)	(7,331)
Cash and cash equivalents	3,337	141	(186)	–	3,292
Other current interest-bearing deposits	3,091	432	(139)	–	3,384
	(2,087)	1,368	125	(61)	(655)

19 Trade and other payables

€ million	2018	2017
Trade creditors	**2,079**	2,092
Other creditors	**1,007**	926
Other taxation and social security	**332**	238
Accruals and deferred income	**541**	467
	3,959	3,723

Average payment days to suppliers - Spanish Group companies

Days	2018	2017
Average payment days for payment to suppliers	**37**	37
Ratio of transactions paid	**33**	38
Ratio of transactions outstanding for payment	**119**	35

€ million	2018	2017
Total payments made	**6,306**	4,879
Total payments outstanding	**317**	140

20 Deferred revenue on ticket sales

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

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at December 31, 2016	1,300	2,845	4,145
Restated for IFRS 15	497	38	535
Balance at January 1, 2017	1,797	2,883	4,680
Changes in estimates	(2)	(43)	(45)
Revenue recognised in the income statement[1]	(704)	(19,803)	(20,507)
Loyalty points issued to customers	735	–	735
Cash received from customers	–	20,050	20,050
Other movements	(74)	(97)	(171)
Balance at December 31, 2017	1,752	2,990	4,742

[1] Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the income statement net of the related costs.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios points. Avios points are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. Active customer accounts do not have an expiry date and revenue may therefore be recognised at any time in the future. Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period.

21 Other long-term liabilities

€ million	**2018**	2017
Non-current trade creditors	**6**	3
Accruals and deferred income	**192**	219
	198	222

22 Long-term borrowings

a Current

€ million	**2018**	2017
Bank and other loans	**153**	183
Finance leases	**723**	747
	876	930

b Non-current

€ million	**2018**	2017
Bank and other loans	**1,428**	1,641
Finance leases	**5,205**	4,760
	6,633	6,401

Banks and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €354 million (2017: €539 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

c Bank and other loans

€ million	2018	2017
€500 million fixed rate 0.25 per cent convertible bond 2020[1]	**482**	472
€500 million fixed rate 0.625 per cent convertible bond 2022[1]	**460**	450
Floating rate euro mortgage loans secured on aircraft[2]	**252**	278
€200 million fixed rate unsecured bonds[3]	**175**	200
Floating rate euro syndicate loan secured on investments[4]	**99**	148
Fixed rate Chinese yuan mortgage loans secured on aircraft[5]	**53**	68
Fixed rate unsecured US dollar mortgage loan[6]	**43**	49
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[7]	**13**	15
Floating rate pound sterling mortgage loans secured on aircraft[8]	**4**	27
Fixed rate US dollar mortgage loans secured on aircraft[9]	**-**	117
	1,581	1,824
Less current instalments due on bank and other loans	**(153)**	(183)
	1,428	1,641

[1] Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0.25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem each convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bonds contain dividend protection, and a total of 73,455,109 options related to the bonds were outstanding from issuance and at December 31, 2018.

[2] Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.182 and 1.191 per cent. The loans are repayable between 2024 and 2027.

[3] Total of €200 million fixed rate unsecured bonds between 2.5 to 3.75 per cent coupon repayable between 2019 and 2027.

[4] Floating rate euro syndicate loan secured on investments is secured on specific assets of the Group and bears interest of 1.375 per cent plus 3 month EURIBOR. The loan is repayable in 2020.

[5] Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bears interest of 5.20 per cent. The loans are repayable in 2022.

[6] Fixed rate unsecured US dollar mortgage loan bearing interest between 1.98 and 2.37 per cent. The loan is repayable in 2023.

[7] Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2019 and 2026.

[8] Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.81 per cent. The loans are repayable in 2019.

[9] Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 and 4.76 per cent. The loans were repaid in 2018.

d Total loans and finance leases

Million	2018	2017
Loans		
Bank:		
US dollar	**$49**	$196
Euro	**€364**	€440
Pound sterling	**£4**	£25
Chinese yuan	**CNY 422**	CNY 525
	€465	€702
Fixed rate bonds:		
Euro	**€1,116**	€1,122
	€1,116	€1,122
Finance leases		
US dollar	**$3,259**	$2,882
Euro	**€2,308**	€2,296
Japanese yen	**¥77,379**	¥63,978
Pound sterling	**£134**	£258
	€5,928	€5,507
	€7,509	€7,331

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. These leases have both renewal and purchase options, at the option of the Group. Future minimum finance lease payments under finance leases are as follows:

€ million	**2018**	2017
Future minimum payments due:		
Within one year	**876**	875
Between one and five years	**3,186**	2,783
Over five years	**2,642**	2,464
	6,704	6,122
Less: finance charges	**(776)**	(615)
Present value of minimum lease payments	**5,928**	5,507
The present value of minimum lease payments is analysed as follows:		
Within one year	**723**	747
Between one and five years	**2,734**	2,409
Over five years	**2,471**	2,351
	5,928	5,507

23 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year to 13 years for aircraft and less than one year to five years for property, plant and equipment. One ground lease has a remaining lease of 127 years. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

	2018			2017		
€ million	**Fleet**	**Property, plant and equipment**	**Total**	Fleet	Property, plant and equipment	Total
Within one year	**975**	**148**	**1,123**	802	190	992
Between one and five years	**3,049**	**362**	**3,411**	2,559	340	2,899
Over five years	**2,235**	**1,895**	**4,130**	1,789	1,962	3,751
	6,259	**2,405**	**8,664**	5,150	2,492	7,642

Sub-leasing

The Group entered into subleases for certain surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to six years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are €13 million (2017: €8 million) with €4 million (2017: €7 million) falling within one year, €9 million (2017: €1 million) between one and five years and nil (2017: nil) over five years.

24 Provision for liabilities and charges

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2018	1,125	727	599	140	69	**2,660**
Provisions recorded during the year	378	192	223	43	100	**936**
Utilised during the year	(150)	(220)	(202)	(46)	(90)	**(708)**
Release of unused amounts	(42)	(8)	(45)	(26)	(5)	**(126)**
Unwinding of discount	6	4	16	1	–	**27**
Exchange differences	42	(2)	–	–	(2)	**38**
Net book value December 31, 2018	**1,359**	**693**	**591**	**112**	**72**	**2,827**
Analysis:						
Current	148	237	60	78	36	**559**
Non-current	1,211	456	531	34	36	**2,268**
	1,359	**693**	**591**	**112**	**72**	**2,827**

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under operating leases. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long-term provision, typically covering the leased asset term which is up to 13 years.

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.39 per cent. The payments related to this provision will continue over next ten years. During the year the Group recognised a provision of €136 million in relation to the restructuring plans at British Airways (note 4). The transformation programme has now been completed.

At December 31, 2018, €682 million of this provision related to collective redundancy programmes (2017: €719 million).

Employee leaving indemnities and other employee related provisions

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

The Group recognises a provision relating to flight crew who having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2018 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 1.59 per cent and 0.39 per cent depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €523 million at December 31, 2018 (2017: €542 million).

Legal claims provisions

Legal claims provisions includes:

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

The final amount required to pay the remaining claims and fines is subject to uncertainty (note 31).

This provision includes the payment of €104 million for the reissued fine in March 2017 against British Airways, related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses (note 31).

Other provisions

Other provisions includes:

- amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year. This provision is reassessed based on the historic level of claims;
- a provision for the Emissions Trading Scheme that for CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted; and
- a provision related to unfavourable fleet contracts.

25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk and liquidity risk. Further information on the Group's financial instruments exposure to these risks is disclosed on note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial markets movements.

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

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

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The Group strategy is to hedge a proportion of fuel consumption for up to three years, within certain defined limits.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivatives instruments available on over the counter (OTC) markets with approved counterparties.

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

2018			2017		
Increase/(decrease) in fuel price per cent	**Effect on result before tax € million**	**Effect on equity € million**	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	**0**	**1,613**	30	41	1,142
(30)	**(3)**	**(1,695)**	(30)	(48)	(1,039)

b Foreign currency risk

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

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

British Airways utilises its US dollar, euro, Japanese yen and Chinese yuan debt repayments as a hedge of future US dollar, euro, Japanese yen and Chinese yuan revenues. Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps and US dollar financial assets that eliminate the profit and loss volatility arising from revaluation of these items into euros. Vueling and Aer Lingus manage their net position in US dollars using derivative financial instruments.

The following table demonstrates the sensitivity of the Group's foreign exchange exposure to a reasonable possible change in the US dollar, sterling, Japanese yen and Chinese yuan exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening /(weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening /(weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening /(weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening /(weakening) in Chinese yuan rate per cent	Effect on result before tax € million	Effect on equity € million
2018	**10**	**(16)**	**(9)**	**10**	**(40)**	**262**	**10**	**(6)**	**(54)**	**10**	**-**	**(6)**
	(10)	**18**	**91**	**(10)**	**41**	**(273)**	**(10)**	**1**	**54**	**(10)**	**-**	**6**
2017	10	(2)	253	10	(36)	232	10	(2)	(45)	10	-	(7)
	(10)	6	(72)	(10)	35	(233)	(10)	2	45	(10)	-	7

c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 77 per cent of the Group's borrowings were at fixed rates and 23 per cent were at floating rates.

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

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

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2018	**50**	**(1)**	**20**	**50**	**2**	**16**	**50**	**2**	**-**
	(50)	**1**	**(20)**	**(50)**	**(2)**	**(25)**	**(50)**	**(2)**	**-**
2017	50	(1)	-	50	(6)	-	50	3	-
	(50)	1	-	(50)	6	-	(50)	(3)	-

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through IAG Group Treasury Policies. The Committee also reviews the application of the policies and procedures by British Airways, Iberia, Vueling and Aer Lingus. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to British Airways, Iberia, Vueling and Aer Lingus. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every Group Treasury Committee meeting.

Operating companies invest cash in interest-bearing accounts, time deposits, and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom. At the reporting date the operating companies held money market funds and other liquid assets that are expected to readily generate cash inflows for managing liquidity risk.

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

At December 31, 2018 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2018**	2017
United Kingdom	**42%**	42%
Spain	**-**	1%
Ireland	**3%**	2%
Rest of Eurozone	**33%**	33%
Rest of world	**22%**	22%

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of committed credit facilities and the ability to close out market positions.

At December 31, 2018 the Group had undrawn overdraft facilities of €11 million (2017: €16 million). The Group held undrawn uncommitted money market lines of €28 million (2017: €28 million).

The Group held undrawn general and committed aircraft financing facilities:

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

	2017	
Million	Currency	€ equivalent
Euro facilities expiring between January and October 2018	€217	217
US dollar facility expiring December 2021	$1,164	985
US dollar facility expiring June 2022	$1,053	891

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

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

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2017
Interest-bearing loans and borrowings:						
Finance lease obligations	(426)	(449)	(801)	(1,982)	(2,464)	(6,122)
Fixed rate borrowings	(31)	(58)	(99)	(1,224)	(77)	(1,489)
Floating rate borrowings	(29)	(76)	(85)	(144)	(150)	(484)
Trade and other payables	(3,411)	–	(15)	–	–	(3,426)
Derivative financial instruments (assets):						
Interest rate derivatives	–	–	1	–	–	1
Foreign exchange contracts	45	10	10	2	–	67
Fuel derivatives	207	141	112	22	–	482
Derivative financial instruments (liabilities):						
Foreign exchange contracts	(51)	(58)	(78)	(36)	–	(223)
Fuel derivatives	(2)	–	–	–	–	(2)
December 31, 2017	(3,698)	(490)	(955)	(3,362)	(2,691)	(11,196)

f Offsetting financial assets and liabilities

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

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

December 31, 2018

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

December 31, 2017

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	551	(1)	550	(5)	545
Financial liabilities					
Derivative financial liabilities	226	(1)	225	(5)	220

g Capital risk management

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

The Group monitors capital on the basis of the adjusted net debt to EBITDAR ratio. For the year to December 31, 2018, the adjusted net debt to EBITDAR was 1.6 times (2017: 1.5 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the financial review.

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2018 and December 31, 2017 by nature and classification for measurement purposes is as follows:

December 31, 2018

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

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

December 31, 2017

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets					
Other equity investments	–	79	–	–	79
Derivative financial instruments	–	–	145	–	145
Other non-current assets	200	–	–	176	376
Current assets					
Trade receivables	1,463	–	–	–	1,463
Other current assets	337	–	–	621	958
Derivative financial instruments	–	–	405	–	405
Other current interest-bearing deposits	3,384	–	–	–	3,384
Cash and cash equivalents	3,292	–	–	–	3,292

€ million	Financial liabilities Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	6,401	–	–	–	6,401
Derivative financial instruments	–	–	114	–	114
Other long-term liabilities	15	–	–	207	222
Current liabilities					
Current portion of long-term borrowings	930	–	–	–	930
Trade and other payables	3,411	–	–	312	3,723
Derivative financial instruments	–	–	111	–	111

b Fair value of financial assets and financial liabilities

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Derivative intruments are measured based on the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant. The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

Level 3: Inputs for the asset or liability that are not based on observable market data. For unquoted investments, fair value has been determined based on the most recent arm's length transaction for an identical instrument. The Group monitors transactions of these instruments on a regular basis to ensure the fair value is based on the most recent arm's length price.

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

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

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

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

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

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2017 are set out below:

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Other equity investments	23	–	56	79	79
Derivative financial assets:					
Interest rate derivatives[1]	–	1	–	1	1
Foreign exchange contracts[1]	–	67	–	67	67
Fuel derivatives[1]	–	482	–	482	482
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	5,639	–	5,639	5,507
Fixed rate borrowings	1,079	287	–	1,366	1,371
Floating rate borrowings	–	453	–	453	453
Derivative financial liabilities:					
Foreign exchange contracts[2]	–	223	–	223	223
Fuel derivatives[2]	–	2	–	2	2

[1] Current portion of derivative financial assets is €405 million.

[2] Current portion of derivative financial liabilities is €111 million.

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

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

c Level 3 financial assets reconciliation

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

€ million	**December 31, 2018**	December 31, 2017
Opening balance for the year	**56**	58
Additions	**8**	1
Exchange movements	**(1)**	(3)
Closing balance for the year	**63**	56

d Hedges

Cash flow hedges

At December 31, 2018 the Group's principal risk management activities that were hedging future forecast transactions were:

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

The amounts included in equity and the related notional amounts are summarised below, along with the analysis of gains and losses recognised in the year associated with these instruments:

(Gains)/losses in respect of cash flow hedges included within equity € million	**December 31, 2018**	December 31, 2017
Loan repayments to hedge future revenue	**682**	586
Foreign exchange contracts to hedge future revenue and expenditure[1]	**(216)**	163
Crude, gas oil and jet kerosene derivative contracts[1]	**933**	(474)
Derivatives used to hedge interest rates[1]	**34**	–
Instruments for which hedge accounting no longer applies[1]	**22**	–
	1,455	275
Related tax credit	**(267)**	(44)
Total amount included within equity	**1,188**	231

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

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

[1] Represents the value of the hedged item.

Crude, gas oil and jet kerosene derivative contracts are used to hedge fuel purchases over a period of up to three years. Notional quantities associated with these contracts at December 31, 2018 amounted to 14 million tonnes (2017: 8 million tonnes) with a hedge price range of USD469 – 787 (2017: USD388 – 725).

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in US dollars and euros. At December 31, 2018 the related borrowings were $2,795 million (2017: $2,511 million); and €1,722 million (2017: €1,922 million).

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

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

[2] Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within other non-operating (charges)/credits.

Notional principal amounts (€ million)	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2017
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.22-1.53	1,406	1,097	620	3,123
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.04-1.27	1,212	985	582	2,779

[1] Represents the value of the hedged item.

For the year to December 31, 2017 (€ million)	(Gains)/losses recognised in Other comprehensive income[1]	(Gains)/losses associated with ineffectiveness recognised in the Income statement[2]	Total recognised (gains)/ losses	Gains/(losses) reclassified to the Income statement[3]
Loan repayments to hedge future revenue	(111)	–	(111)	(87)
Foreign exchange contracts to hedge future revenue and expenditure	299	1	300	44
Crude, gas oil and jet kerosene derivative contracts	(302)	(9)	(311)	(4)
Derivatives used to hedge interest rates	(1)	–	(1)	2
	(115)	(8)	(123)	(45)

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

[2] Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within other non-operating (charges)/credits.

[3] For the year to December 31, 2017, there were no gains or losses reclassified to the Balance Sheet.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the hedging instruments match the terms of the highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships.

The Group has no significant fair value hedges at December 31, 2018 and 2017.

27 Share capital, share premium and treasury shares

Alloted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2018: Ordinary shares of €0.50 each	2,057,990	1,029	6,022
Cancellation of ordinary shares of €0.50 each	(65,957)	(33)	–
December 31, 2018	**1,992,033**	**996**	**6,022**

During the year IAG carried out a €500 million share buyback programme as part of its corporate finance strategy to return cash to shareholders. The programme was executed between May and October 2018 during which time IAG acquired and subsequently cancelled 65,956,660 ordinary shares. A total of 1.2 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2018 the Group held 8.7 million shares (2017: 9.9 million) which represented 0.44 per cent of the issued share capital of the Company.

28 Share-based payments

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

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed by the Group. From 2015, the awards were made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The award made in 2014 vests based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The awards made from 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

b IAG Incentive Award Deferral Plan

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

c Share-based payment schemes summary

	Outstanding at January 1, 2018 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2018 '000s**	Vested and exercisable December 31, 2018 '000s
Performance Share Plans	14,138	4,615	2,050	154	**16,549**	57
Incentive Award Deferral Plans	4,299	1,986	144	1,903	**4,238**	17
	18,437	**6,601**	**2,194**	**2,057**	**20,787**	**74**

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

	December 31, 2018	December 31, 2017
Expected share price volatility (per cent)	**35**	35
Expected comparator group volatility (per cent)	**20**	20
Expected comparator correlation (per cent)	**60**	65
Expected life of options (years)	**4.6**	4.8
Weighted average share price at date of grant (£)	**6.91**	5.46
Weighted average fair value (£)	**4.01**	3.66

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

The Group recognised a share-based payment charge of €31 million for the year to December 31, 2018 (2017: €34 million).

29 Other reserves and non-controlling interest

For the year to December 31, 2018

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

For the year to December 31, 2017

		Other reserves							
€ million	Retained earnings	Unrealised gains and losses[1]	Time value of options[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest[7]
January 1, 2017	952	(299)	–	(6)	101	(2,467)	–	(1,719)	308
Restatement for adoption of new standards	(468)	–	38	–	–	–	–	(430)	–
January 1, 2017 (restated)	484	(299)	38	(6)	101	(2,467)	–	(2,149)	308
Profit for the year	1,989	–	–	–	–	–	–	1,989	20
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	–	84	–	–	–	–	–	84	–
Fuel and oil costs	–	(38)	–	–	–	–	–	(38)	–
Currency differences	–	(18)	–	–	–	–	–	(18)	–
Net change in fair value of cash flow hedges	–	101	–	–	–	–	–	101	–
Net change in fair value of cost of hedging	–	–	(41)	–	–	–	–	(41)	–
Net change in fair value of other equity investments	–	9	–	–	–	–	–	9	–
Currency translation differences	–	–	–	(127)	–	–	–	(127)	–
Remeasurements of post-employment benefit obligations	739	–	–	–	–	–	–	739	–
Cost of share-based payments	34	–	–	–	–	–	–	34	–
Vesting of share-based payment schemes	(33)	–	–	–	–	–	–	(33)	–
Dividend	(518)	–	–	–	–	–	–	(518)	–
Cancellation of treasury shares	(500)	–	–	–	–	–	37	(463)	–
Dividend of a subsidiary	–	–	–	–	–	–	–	–	(1)
Transfer between reserves	83	–	–	–	–	–	–	83	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	–	–	(20)
December 31, 2017	2,278	(161)	(3)	(133)	101	(2,467)	37	(348)	307

[1] The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

[2] The time value of options reserve records fair value changes on the cost of hedging.

[3] The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve in 2018 is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

[4] The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2018, this related to the €500 million fixed rate 0.25 per cent convertible bond and the €500 million fixed rate 0.625 per cent convertible bond (note 22).

[5] The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

[6] The redeemed capital reserve represents the nominal value of the decrease in share capital, relating to cancelled shares.

[7] On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred security which was previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2018 is €6 million. At December 31, 2018, non-controlling interests represent the shares in British Airways Plc and IB Opco Holding, S.L. held by UK and Spanish entities respectively, established for the purpose of implementing the British Airways and Iberia nationality structures. The route licences granted by civil aviation authorities in the UK and Spain require that the majority of the voting rights in British Airways and Iberia are held by UK and Spanish nationals. These entities own the majority of the voting rights in British Airways Plc and IB Opco Holding, S.L., with IAG holding 99 per cent of the economic rights in these companies.

30 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 24).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees. The defined contribution scheme British Airways Retirement Plan (BARP) was closed to future contributions on March 31, 2018. The BARP and NAPS schemes (see below) have been replaced by a flexible benefit scheme, incorporating a new defined contribution scheme that offers a choice of contribution rates and the ability to opt for cash instead of a pension.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2018 were €214 million (2017: €135 million).

Defined benefit schemes

i APS and NAPS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. NAPS was closed to future accrual from March 31, 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using CPI), which is generally lower than the previous assumption for pay growth which included pay rises and promotions. NAPS members were offered a choice of transition arrangements, including non-cash options to increase their NAPS pensions prior to closure. The financial effect of the closure and the non-cash transition arrangements was a past service gain of €872 million which has been presented as an exceptional item net of transition costs of €192 million which were paid either directly to members or into their pension accounts. British Airways currently makes deficit contributions to NAPS of €333 million per annum until September 2027 plus additional contributions of up to €167 million per year depending on the cash balance at the end of March each year. As part of the closure of NAPS, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No allowance for such payments has been made in the valuation of the defined benefit obligation.

APS has been closed to new members since 1984. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Government's Pension Increase (Review) Orders (PIRO), which are based on CPI.

The Trustee of APS has proposed an additional discretionary increase above CPI inflation for pensions in payment for the year to March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgement in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the judgement, the Trustee was allowed permission to appeal to the Supreme Court; the Trustee has appealed. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known. British Airways is committed to an existing recovery plan, which sees deficit payments of €61 million per annum until March 2023.

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

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed on the March 31, 2012 position with respect to APS and March 31, 2015 with respect to NAPS (note 30i). The actuarial valuations performed at March 31, 2012 and March 31, 2015 are different to the valuation performed at December 31, 2018 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

ii Other plans

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

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

iii Cash payments

Cash payments in respect to pension obligations comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2018 net of service costs were €843 million (2017: €666 million) being the employer contributions of €716 million (2017: €899 million) less the current service cost of €55 million (2017: €233 million) (note 30b) and including payments made under transitional arrangements on the closure of NAPS to future accrual of €182 million.

a Employee benefit schemes recognised on the Balance Sheet

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

€ million	2017 APS	 NAPS	 Other[1]	 Total
Scheme assets at fair value	9,185	19,558	429	29,172
Present value of scheme liabilities	(7,606)	(20,060)	(697)	(28,363)
Net pension asset/(liability)	1,579	(502)	(268)	809
Effect of the asset ceiling[2]	(570)	–	–	(570)
Other employee benefit obligations	–	–	(8)	(8)
December 31, 2017	1,009	(502)	(276)	231
Represented by:				
Employee benefit assets				1,023
Employee benefit obligations				(792)
				231

[1] The present value of scheme liabilities for the US PRMB was €13 million at December 31, 2018 (2017: €15 million).

[2] APS and NAPS have an accounting surplus under IAS 19 (2017: APS only), which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2018	2017
Defined benefit plans:		
Current service cost	**55**	233
Past service (credit)/cost[1]	**(586)**	2
	(531)	235
Defined contribution plans	**214**	135
Pension (credits)/costs recorded as employee costs	**(317)**	370

[1] Past service net credit in 2018 includes a gain arising on the closure of NAPS to future accrual, resulting in a one-off reduction in the defined benefit obligation of €872 million and associated transitional arrangement cash costs of €192 million. On October 26, 2018 the High Court's judgement in the Lloyds Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since May 17, 1990. The estimated cost of equalising GMPs is €94 million. In determining the cost of equalising for GMPs, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgement as the 'minimum interference' method which could be implemented without sponsor agreement.

Pension costs (credited)/charged as finance costs are:

€ million	2018	2017
Interest income on scheme assets	**(731)**	(730)
Interest expense on scheme liabilities	**690**	743
Interest expense on asset ceiling	**14**	15
Net financing (income)/expense relating to pensions	**(27)**	28

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2018	2017
Return on plan assets excluding interest income	**1,313**	(1,698)
Remeasurement of plan liabilities from changes in financial assumptions	**(997)**	530
Remeasurement of experience (gains)/losses	**(297)**	274
Remeasurement of the APS and NAPS asset ceilings	**806**	2
Exchange movements	**5**	(7)
Pension remeasurements charged/(credited) to Other comprehensive income	**830**	(899)

d Fair value of scheme assets

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

€ million	2018	2017
January 1	**29,172**	28,448
Interest income	**731**	730
Return on plan assets excluding interest income	**(1,313)**	1,698
Employer contributions[1]	**716**	881
Employee contributions	**128**	101
Benefits paid	**(1,340)**	(1,324)
Exchange movements	**(494)**	(1,362)
December 31	**27,600**	29,172

[1] Includes employer contributions to APS of €111 million (2017: €109 million) and to NAPS of €582 million (2017: €748 million), of which deficit funding payments represented €108 million for APS (2017: €104 million) and €509 million for NAPS (2017: €516 million).

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

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

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

€ million	2018	2017
Return seeking investments – equities		
UK	**1,737**	2,646
Rest of world	**4,602**	6,677
	6,339	9,323
Return seeking investments – other		
Private equity	**931**	777
Property	**1,917**	1,906
Alternative investments	**1,183**	1,023
	4,031	3,706
Liability matching investments		
UK fixed bonds	**4,885**	4,885
Rest of world fixed bonds	**70**	95
UK index-linked bonds	**5,019**	7,614
Rest of world index-linked bonds	**103**	177
	10,077	12,771
Other		
Cash and cash equivalents	**418**	670
Derivatives	**57**	178
Insurance contract	**1,663**	1,770
Longevity swap	**4,321**	(109)
Other	**694**	863
	27,600	29,172

All equities and bonds have quoted prices in active markets.

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

	December 31, 2018		December 31, 2017	
€ million	**APS**	**NAPS**	APS	NAPS
Return seeking investments	**702**	**9,477**	742	12,074
Liability matching investments	**1,538**	**8,457**	6,428	6,240
	2,240	**17,934**	7,170	18,314
Insurance contract and related longevity swap	**5,956**	**–**	1,637	–
Other	**176**	**912**	378	1,244
Fair value of scheme assets	**8,372**	**18,846**	9,185	19,558

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At December 31, 2018, the benchmark for APS was 8 per cent (2017: 9.5 per cent) in return seeking assets and 92 per cent (2017: 90.5 per cent) in liability matching investments; and for NAPS the benchmark was 49 per cent (2017: 65 per cent) in return seeking assets and 51 per cent (2017: 35 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and its investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which covers 24 per cent (2017: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. The Trustee of APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2017: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General and at the same time novated the two longevity swaps established in 2017 one with Canada Life and one with Partner Reinsurance which had covered 13 per cent and 8 per cent respectively of the pensioner liabilities. The buy-in contract covers all members in receipt of pension from APS at March 31, 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are alive on October 1, 2018. Benefits coming into payment for retirements after March 31, 2018 are not covered. The contract covers benefits payable from October 1, 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing insurance products (the asset swap and longevity swaps with Rothesay Life), APS is now 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at March 31, 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index (RPI) basis).

e Present value of scheme liabilities

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

€ million	**2018**	2017
January 1	**28,363**	29,193
Current service cost	**55**	233
Past service (credit)/cost	**(778)**	2
Interest expense	**690**	743
Remeasurements - financial assumptions	**(997)**	530
Remeasurements of experience (gains)/losses	**(297)**	274
Benefits paid	**(1,340)**	(1,324)
Employee contributions	**128**	101
Exchange movements	**(441)**	(1,389)
December 31	**25,383**	28,363

The defined benefit obligation comprises €36 million (2017: €28 million) arising from unfunded plans and €25,347 million (2017: €28,335 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

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

€ million	**2018**	2017
January 1	**570**	580
Interest expense	**14**	15
Remeasurements[1]	**806**	2
Exchange movements	**(25)**	(27)
December 31	**1,365**	570

[1] The increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018. Following this the scheme is now in an IAS 19 accounting surplus, which would be available to the company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

g Actuarial assumptions

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

	2018			2017		
Per cent per annum	**APS**	**NAPS**	**Other schemes**	APS	NAPS	Other schemes
Discount rate[1]	**2.65**	**2.85**	**1.6 - 4.4**	2.45	2.55	1.6 - 3.6
Rate of increase in pensionable pay[2]	**3.20**	**–**	**2.5 - 3.7**	3.15	3.15	2.5 - 3.6
Rate of increase of pensions in payment[3]	**2.10**	**2.05**	**1.5 - 3.8**	2.05	2.05	0.0 - 3.5
RPI rate of inflation	**3.20**	**3.15**	**2.5 - 3.2**	3.15	3.15	2.5 - 3.1
CPI rate of inflation	**2.10**	**2.05**	**1.5 - 3.0**	2.05	2.05	1.75 - 3.0

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.

2 Rate of increase in pensionable pay is assumed to be in line with long-term market inflation expectations. The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds.

3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. The Trustee of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year ended March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgement in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the July 2018 judgement, the Trustee has appealed to the Supreme Court. The proposed discretionary increase is not included in the assumptions above.

Rate of increase in healthcare costs is based on medical trend rates of 6.25 per cent grading down to 5.0 per cent over five years (2017: 6.5 per cent to 5.0 per cent over seven years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	**2018**	2017
Life expectancy at age 60 for a:		
– male currently aged 60	**28.5**	28.4
– male currently aged 40	**29.7**	29.7
– female currently aged 60	**30.3**	30.2
– female currently aged 40	**32.9**	32.8

At December 31, 2018, the weighted-average duration of the defined benefit obligation was 11 years for APS (2017: 12 years) and 19 years for NAPS (2017: 20 years).

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

h Sensitivity analysis

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

	Increase/(decrease) in scheme liabilities		
€ million	**APS**	**NAPS**	**Other schemes**
Discount rate (decrease of 10 basis points)	**11**	**322**	**13**
Future salary growth (increase of 10 basis points)	**–**	**n/a**	**7**
Future pension growth (increase of 10 basis points)	**11**	**322**	**1**
Future mortality rate (one year increase in life expectancy)	**(23)**	**511**	**2**

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

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2012 and March 31, 2015 respectively, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,818 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following undiscounted deficit payments:

€ million	**APS**	**NAPS**
Within 12 months	**61**	**333**
2-5 years	**199**	**1,333**
5-10 years	**–**	**1,250**
Total expected deficit payments for APS and NAPS	**260**	**2,916**

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

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

In total, the Group expects to pay €398 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2019. This is made up of €61 million and €333 million of deficit payments for APS and NAPS respectively as agreed at the latest triennial valuations. In addition, ongoing employer contributions for 2019 are expected to be €4 million for APS. This excludes any additional deficit contribution that may become due depending on British Airways' cash balance as at March 31, 2019. The Group also expects to pay €278 million in 2019, having provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which at December 31, 2018 amounted to €278 million (2017: €283 million). This amount is payable because the pension schemes are not fully funded on a conservative basis, with a gilts-based discount rate on January 1, 2019 as determined by the scheme actuary.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of profit after tax it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

31 Contingent liabilities and guarantees

The Group has certain contingent liabilities which at December 31, 2018 amounted to €88 million (December 31, 2017: €93 million). No material losses are likely to arise from such contingent liabilities. The Group also has the following claims:

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways was fined €104 million. Following an appeal, the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Counsel Judgement), and the fine was refunded in full. British Airways appealed the partial annulment to the Court of Justice, but that appeal was rejected.

In parallel, the European Commission chose not to appeal the General Counsel Judgement, and instead adopted a new decision in March 2017 (New Decision). The New Decision re-issued fines against all the participating carriers, which match those contained in the Original Decision. British Airways has therefore again been fined €104 million. British Airways has appealed the New Decision to the GC again (as have other carriers).

A large number of claimants have brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claim arise from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings to contribute. A number of those claims were concluded in 2018.

British Airways is also party to similar litigation in a number of other jurisdictions including Germany, the Netherlands and Canada together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

Pensions

The Trustees of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year to March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees had the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group appealed the judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. British Airways will not have to reflect the increase in liabilities of €13 million that would have applied had the proposed increase for the 2013/14 scheme year been paid by the Trustee. The Trustee has appealed to the Supreme Court.

Theft of customer data at British Airways

On September 6, 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on October 25, 2018 that further personal data had potentially been compromised. As at the date of this report, BA was not aware of any confirmed cases of fraud. British Airways continues to cooperate with the investigations of the UK Information Commissioner's Office and other relevant regulators. British Airways has received letters before action from certain UK law firms threatening claims arising from the data breach. Additionally, a putative class action has been filed in the Eastern District of New York, USA. The outcome of the various investigations and litigation, which British Airways will vigorously defend, is uncertain. British Airways holds certain insurance policies.

Guarantees

British Airways has provided collateral on certain payments to its pension schemes, APS and NAPS, which at December 31, 2018 amounted to €278 million (December 31, 2017: €283 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis with a gilts-based discount rate on January 1, 2019 and will be determined by the scheme actuary.

In addition, a guarantee amounting to €256 million (2017: €260 million) was issued by a third party in favour of APS, triggered in the event of British Airways' insolvency.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2018 are not expected to result in material losses for the Group.

32 Related party transactions

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

€ million	**2018**	2017
Sales of goods and services		
Sales to associates[1]	**7**	7
Sales to significant shareholders[2]	**44**	48
Purchases of goods and services		
Purchases from associates[3]	**55**	58
Purchases from significant shareholders[2]	**121**	109

Receivables from related parties		
Amounts owed by associates[4]	**7**	2
Amounts owed by significant shareholders[5]	**3**	1
Payables to related parties		
Amounts owed to associates[6]	**3**	3
Amounts owed to significant shareholders[5]	**7**	3

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €5 million (2017: €6 million) and €1 million (2017: less than €1 million) to Iberia Cards (Sociedad Conjunta para la Emisión y Gestión de Medios de Pago E.F.C., S.A.) and Serpista, S.A.

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

3 Purchases from associates: Mainly included €35 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2017: €35 million), €6 million of handling services provided by Dunwoody (2017: €13 million) and €13 million of maintenance services received from Serpista, S.L. (2017: €9 million).

4 Amounts owed by associates: For airline related services rendered, that included balances with Dunwoody of €5 million (2017: €1 million) and €2 million of services provided to Multiservicios Aeroportuarios, S.A., Viajes AME, S.A., Iberia Cards (Sociedad Conjunta para la Emisión y Gestión de Medios de Pago E.F.C., S.A.) and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2017: €1m for Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

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

6 Amounts owed to associates: Consisted primarily of less than €1 million due to Dunwoody (2017: €1 million), €3 million to Serpista, S.A. (2017: €2 million) and less than €1 million to Multiservicios Aeroportuarios, S.A. (2017: less than €1 million).

During the year to December 31, 2018 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €9.5 million (2017: €7 million) in relation to the costs of the Pension Protection Fund levy.

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

For the year to December 31, 2018, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2017: nil).

Significant shareholders

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

At December 31, 2018 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €98 million (2017: €90 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2018 and 2017 is as follows:

	Year to December 31	
€ million	**2018**	2017
Base salary, fees and benefits		
Board of Directors		
Short-term benefits (cash)	**5**	6
Share based payments	**2**	3
Post employment and termination benefits	**–**	–
Management Committee		
Short-term benefits (cash)	**10**	10
Share based payments	**5**	7
Post employment and termination benefits	**–**	–

At December 31, 2018 the Board of Directors includes remuneration for two Executive Directors (December 31, 2017: two Executive Directors). The Management Committee includes remuneration for ten members (December 31, 2017: nine members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2018 the Company's obligation was €58,000 (2017: €38,000).

At December 31, 2018 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €4 million (2017 : €4 million).

No loan or credit transactions were outstanding with Directors or offices of the Group at December 31, 2018 (2017: nil).

33 Changes to accounting policies

The Group has adopted IFRS 15 'Revenue from contracts with customers' from January 1, 2018. The standard establishes a five-step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes to revenue recognition on adoption of the standard:

- Loyalty revenue – revenue associated with performance obligations arising on the sale of loyalty points, including revenue allocated to brand and marketing services and revenue allocated to Avios points, has been determined based on the relative stand-alone selling price of each performance obligation. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios points is deferred and recognised when the points are redeemed. The impact of assessing the stand-alone selling prices of the individual performance obligations has resulted in a greater portion of revenue being deferred on issuance, because the stand-alone selling price of the points was higher than the fair value applied under IFRIC 13 'Customer loyalty programmes'.

  On implementation of IFRS 15, the Group assessed all contracts associated with the loyalty programmes at the date of initial application. This resulted in an increase in the number of points deferred in respect of incomplete contracts and which are expected to be redeemed in the future.

  The Group also changed the way that costs associated with the redemption of Avios points with third parties are presented. The revenue arising from these transactions is presented net of the related costs as IAG's obligation is to arrange for goods and services to be provided by third party suppliers.
- Passenger revenue – revenue associated with ancillary services that was previously recognised when paid, such as administration fees, is deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue is presented gross rather than net of related costs as IAG is considered to have a performance obligation to provide cargo services to its customers, rather than an obligation to arrange cargo services to be provided by third parties.
- Other revenue – revenue associated with maintenance activities and holiday revenue with performance obligations that are fulfilled over time, is recognised over the performance obligation period using a methodology that reflects the activity undertaken in order to satisfy the obligation.

The Group has applied the standard on a fully retrospective basis and restated prior year comparatives on adoption of IFRS 15. Practical expedients have not been used. The adjustment to opening retained earnings at January 1, 2017 arising from the changes to loyalty revenue recognition amounted to a charge of €403 million. Deferred revenue on ticket sales increased by €497 million and the net tax asset increased by €94 million. Other changes to revenue recognition resulted in a charge to retained earnings at January 1, 2017 of €27 million.

The Group has adopted IFRS 9 'Financial Instruments' from January 1, 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategy and objectives. The Group has identified the following changes to the classification and measurement of financial assets and accounting for derivative instruments used for hedging.

- Equity investments, previously classified as available-for-sale, are measured at fair value through Other comprehensive income, with no recycling of gains and losses. In addition, the Group has adopted a new impairment model for trade receivables and other financial assets, with no material adjustment to existing provisions. The Group will continue to recognise most financial assets at amortised cost as the contractual cash flows associated with these assets are solely payments of principal and interest.
- The Group continues to undertake hedging activity in line with its financial risk management objectives and policies. Movements in the time value of options are now classified as cost of hedging and recognised in Other comprehensive income, with prior year comparatives restated. At January 1, 2017 there was a reclassification of €38 million of post-tax gains from retained earnings to unrealised net gains in Other reserves to reflect the reclassification of gains and losses associated with the time value of options. Movements in the time value of options recognised in Other comprehensive income in 2017 are set out in note 29.

Impact on financial statements

The following tables summarise the impact of adopting IFRS 15 and IFRS 9 on the Consolidated income statement for the 12 months to December 31, 2017 and the Consolidated balance sheet as at December 31, 2017 and January 1, 2017.

Consolidated income statement (extract for the 12 months to December 31, 2017)

		IFRS 15			
€ million	Previously reported	Loyalty revenue	Other	IFRS 9 adjustments	**Restated**
Passenger revenue	20,245	51	(11)	–	**20,285**
Cargo revenue	1,084	–	48	–	**1,132**
Other revenue	1,643	(181)	1	–	**1,463**
Total revenue	**22,972**	**(130)**	**38**	**–**	**22,880**
Handling, catering and other operating costs	2,714	(69)	42	–	**2,687**
Other expenditure on operations	17,531	–	–	–	**17,531**
Total expenditure on operations	**20,245**	**(69)**	**42**	**–**	**20,218**
Operating profit	**2,727**	**(61)**	**(4)**	**–**	**2,662**
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	(14)	–	–	42	**28**
Net currency retranslation credits	27	–	–	11	**38**
Other non-operating items	(247)	–	–	–	**(247)**
Profit before tax	**2,493**	**(61)**	**(4)**	**53**	**2,481**
Tax	(472)	11	1	(12)	**(472)**
Profit after tax for the year	**2,021**	**(50)**	**(3)**	**41**	**2,009**
Basic earnings per share (€ cents)	**95.8**	**(2.5)**	**–**	**1.9**	**95.2**
Diluted earnings per share (€ cents)	**92.6**	**(2.4)**	**–**	**1.8**	**92.0**

Consolidated balance sheet (extract as at December 31, 2017)

		IFRS 15		
€ million	Previously reported	Loyalty revenue	Other	**Restated**
Non-current assets				
Deferred tax assets	521	–	2	**523**
Other non-current assets	16,517	–	–	**16,517**
	17,038	**–**	**2**	**17,040**
Current assets				
Trade receivables	1,494	–	(31)	**1,463**
Other current assets	8,729	–	–	**8,729**
	10,223	**–**	**(31)**	**10,192**
Total assets	**27,261**	**–**	**(29)**	**27,232**
Total equity	**7,396**	**(432)**	**(31)**	**6,933**
Non-current liabilities				
Deferred tax liability	531	–	(5)	**526**
Other non-current liabilities	9,642	–	–	**9,642**
	10,173	**–**	**(5)**	**10,168**
Current liabilities				
Trade and other payables	3,766	–	(43)	**3,723**
Deferred revenue on ticket sales	4,159	533	50	**4,742**
Current tax payable	179	(101)	–	**78**
Other current liabilities	1,588	–	–	**1,588**
	9,692	**432**	**7**	**10,131**
Total liabilities	**19,865**	**432**	**2**	**20,299**
Total equity and liabilities	**27,261**	**–**	**(29)**	**27,232**

Consolidated balance sheet (extract as at January 1, 2017)

€ million	Previously reported	IFRS 15 Loyalty revenue	IFRS 15 Other	Restated
Non-current assets				
Deferred tax assets	526	33	2	561
Other non-current assets	17,062	–	–	17,062
	17,588	33	2	17,623
Current assets				
Trade receivables	1,405	–	(35)	1,370
Other current assets	8,380	–	–	8,380
	9,785	–	(35)	9,750
Total assets	27,373	33	(33)	27,373
Total equity	5,664	(403)	(27)	5,234
Non-current liabilities				
Deferred tax liability	176	(61)	(5)	110
Other non-current liabilities	12,197	–	–	12,197
	12,373	(61)	(5)	12,307
Current liabilities				
Trade and other payables	3,305	–	(39)	3,266
Deferred revenue on ticket sales	4,145	497	38	4,680
Other current liabilities	1,886	–	–	1,886
	9,336	497	(1)	9,832
Total liabilities	21,709	436	(6)	22,139
Total equity and liabilities	27,373	33	(33)	27,373

The Group has not adopted any other standards, amendments or interpretations in the 12 months to December 31, 2018 that have had a significant change to its financial performance or position.

IFRS 16 'Leases' will be adopted by the Group from January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The Group has a number of operating leases for assets including aircraft, property and other equipment.

The main changes arising on the adoption of IFRS 16 will be as follows:

1. Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' (ROU) asset. The Group has opted to use the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases will be recognised in the Income statement on a straight-line basis over the life of the lease.
2. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
3. The adoption of IFRS 16 will require the Group to make a number of judgements, estimates and assumptions. These include:
   - **The approach to be adopted on transition.** The Group will use the modified retrospective transition approach. Lease liabilities will be determined based on the appropriate incremental borrowing rates and rates of exchange at the date of transition (January 1, 2019). ROU assets in respect of aircraft will be measured at the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease, and will be depreciated from the lease commencement date to the date of transition. Other ROU assets will be measured based on the related lease liability. IFRS 16 does not allow comparative information to be restated if the modified retrospective transition approach is used.
   - **The estimated lease term.** The term of each lease will be based on the original lease term unless management is 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term includes fleet plans which underpin approved business plans, and historic experience regarding extension options.
   - **The discount rate used to determine the lease liability.** The rates used on transition to discount future lease payments are the Group's incremental borrowing rates. These rates have been calculated for each airline, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component has been based on LIBOR rates available in the same currency and over the same term as the lease and has been adjusted for credit risk. For future lease obligations, the Group is proposing to use the interest rate implicit in the lease.
   - **Terminal arrangements.** The Group has reviewed its arrangements at airport terminals to determine whether any agreements previously considered to be service agreements should be classified as leases. No additional leases have been identified following this review.

- **Restoration obligations.** The Group has identified certain obligations associated with the maintenance condition of its aircraft on redelivery to the lessor, such as the requirement to complete a final airframe check, repaint the aircraft and reconfigure the cabin. These have been recognised as part of the ROU asset on transition. Judgement has been used to identify the appropriate obligations and estimation has been used (based observable data) to measure them. Other maintenance obligations associated with these assets, comprising obligations that arise as the aircraft is utilised, such as engine overhauls and periodic airframe checks, will continue to be recognised as a maintenance expense over the lease term.

4. For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the ROU asset will be recognised at the historic exchange rate. This will create volatility in the Income statement. The Group intends to manage this volatility as part of its risk management strategy.

The Group expects that the following assets and liabilities will be recognised on the Consolidated balance sheet at January 1, 2019 on adoption of IFRS 16 (rounded to the nearest €5 million):

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

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

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Avios Group (AGL) Limited * Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
BA and AA Holdings Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi, 110065		India	100%
BA Cityflyer Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Heathcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number Two Limited IFC 5, St Helier, Jersey, JE1 1ST		Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BritAir Holdings Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways 777 Leasing Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways Avionic Engineering Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
British Airways E-Jets Leasing Limited * Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft financing	Bermuda	100%
British Airways Holdings BV Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX		Netherlands	100%
British Airways Holdings Limited * IFC 5, St Helier, Jersey, JE1 1ST	Holding company	Jersey	100%
British Airways Holidays Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Package holidays	England	100%
British Airways Interior Engineering Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Maintenance Cardiff Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	99%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE		Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Illiad Inc Suite 1300, 1105 North Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Speedbird Insurance Company Limited * Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%

Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Sociedad Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%
Iberia Desarrollo Barcelona, S.L.* Avinguda Les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%
Iberia México, S.A.* Ejército Nacional 439, Ciudad de México, 11510	Storage and custody services	Mexico	100%

Aer Lingus

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

Avios

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Avios South Africa Proprietary Limited Regus, 33 Ballyclare Drive, Cedarwood House, Gauteng, Johannesburg, 2191		South Africa	100%

IAG Cargo Limited

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

Vueling

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Anilec Holding GmbH Office Park I Top, Vienna, B041300		Austria	100%
Waleria Beteiligungs GmbH Office Park I Top, Vienna, B041300		Austria	Indirect
Anisec Luftfahrt GmbH Office Park I Top, Vienna, B041300		Austria	Indirect

Level

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

International Consolidated Airlines Group S.A.

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Airways Plc * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%[1]
IB Opco Holding, S.L. Calle de Martínez Villergas 49, Madrid, 28027		Spain	100%[2]
Iberia Líneas Aéreas de España, S.A. Operadora * Calle de Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%[2]
IAG GBS Poland sp. z.o.o. * Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
IAG GBS Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100%
IAG Cargo Limited * Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Air freight operations	England	100%
Veloz Holdco, S.L. Calle de Velázquez 130, Madrid, 28006		Spain	100%
Vueling Airlines, S.A. * Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	Indirect
Aerl Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		Republic of Ireland	100%
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042		Spain	100%

* Principal subsidiaries

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

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

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Dunwoody Airline Services Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km. 15, Aeropuerto José Martí, Ciudad de la Habana	Cuba	50%
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto José Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Serpista, S.A. Calle del Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
Grupo Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%
Viajes Ame, S.A.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%
Programa Travel Club Agencia de Seguros Exclusiva, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%

Joint ventures

Name and address	Country of Incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de José Ortega y Gasset 22, Planta 3ª, Madrid, 28006	Spain	50.5%

Other equity investments

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

Name and address	Country of incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Comair Limited 1 Marignane Drive, Bonaero Park, 1619	South Africa	11.5%	ZAR	1,779	471
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	287	12
Adquira España, S.A. Calle de Julián Camarillo 21A, Planta 4ª, Madrid, 28037	Spain	10.0%	EUR	1	–
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10.0%	EUR	N/A	N/A
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	10	1
DeepAir Solutions Limited Ground Floor North, 86 Brook Street, London, W1K 5AY	England	10.0%	GBP	N/A	N/A

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. The Group's results are presented both before and after exceptional items. Exceptional items are those that in Management's view need to be separately disclosed by virtue of their size and incidence. Exceptional items are disclosed in note 4 of the consolidated financial statements. In addition, the Group's results are described using certain measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. Further information on why these APMs are used is provided in the Key performance indicators section. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below. Adjusted gearing is no longer reported as Management do not consider it to be a key performance indicator of the Group.

Operating profit and lease adjusted operating margin

Operating profit is the Group operating result before exceptional items.

Lease adjusted operating margin is operating profit adjusted for leases as a percentage of revenue. The lease adjustment reduces the fleet rental charge to 0.67 of the annual reported charge. This is to reflect the embedded interest expense component in leases; 0.67 is a commonly used ratio in the airline industry.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Aircraft operating lease costs	**890**	888	759
Aircraft operating lease costs multiplied by 0.67	**(596)**	(595)	(509)
	3,524	3,243	2,694
Revenue	**24,406**	22,880	22,409
Lease adjusted operating margin	**14.4%**	14.2%	12.0%

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

Adjusted earnings per share

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

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Earnings attributable to equity holders of the parent	**2,885**	1,989	1,889
Exceptional items	**(416)**	222	38
Earnings attributable to equity holders of the parent before exceptional items	**2,469**	2,211	1,927
Interest expense on convertible bonds	**18**	17	26
Adjusted earnings	**2,487**	2,228	1,953
Weighted average number of shares used for diluted earnings per share	**2,113,081**	2,179,353	2,210,990
Weighted average number of shares used for basic earnings per share	**2,021,622**	2,088,489	2,075,568
Adjusted earnings per share (€ cents)	**117.7**	102.2	88.3
Basic earnings per share before exceptional items (€ cents)	**122.1**	105.9	92.8

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

EBITDAR

EBITDAR is calculated as operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Depreciation, amortisation and impairment	**1,254**	1,184	1,287
Aircraft operating lease costs	**890**	888	759
EBITDAR	**5,374**	5,022	4,490

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

Return on Invested Capital

Return on Invested Capital (RoIC) is defined as EBITDAR, less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

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

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

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
EBITDAR	**5,374**	5,022	4,490
Less: Aircraft operating lease costs multiplied by 0.67	**(596)**	(595)	(509)
Less: Depreciation charge for fleet assets multiplied by inflation adjustment	**(1,205)**	(1,133)	(1,231)
Less: Depreciation charge for other property, plant and equipment	**(138)**	(140)	(153)
	3,435	3,154	2,597
Invested capital			
Fleet book value excluding progress payments	**9,721**	9,275	9,930
Inflation adjustment[2]	**1.22**	1.23	1.21
	11,902	11,374	12,048
Net book value of other property, plant and equipment	**1,647**	1,613	1,683
Aircraft operating lease costs multiplied by 8	**7,120**	7,104	6,072
	20,669	20,091	19,803
Return on Invested Capital	**16.6%**	15.7%	13.1%

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

2 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet (2018: 13.6 years, 2017: 13.7 years)

Adjusted net debt to EBITDAR

Adjusted net debt is calculated as long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits, plus annual aircraft operating lease costs multiplied by 8. This is divided by EBITDAR to arrive at adjusted net debt to EBITDAR.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Interest-bearing long-term borrowings	**7,509**	7,331	8,515
Cash and cash equivalents	**(3,837)**	(3,292)	(3,337)
Other current interest-bearing deposits	**(2,437)**	(3,384)	(3,091)
Net debt	**1,235**	655	2,087
Aircraft operating lease costs multiplied by 8	**7,120**	7,104	6,072
Adjusted net debt	**8,355**	7,759	8,159
EBITDAR	**5,374**	5,022	4,490
Adjusted net debt to EBITDAR	**1.6**	1.5	1.8

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

Equity free cash flow

Equity free cash flow is EBITDA less cash tax, cash interest paid and received and CAPEX which is cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. EBITDA is calculated as operating profit before exceptional items, depreciation, amortisation and impairment.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Depreciation, amortisation and impairment	**1,254**	1,184	1,287
EBITDA	**4,484**	4,134	3,731
Interest paid	**(149)**	(122)	(185)
Interest received	**37**	29	37
Tax paid	**(343)**	(237)	(318)
Acquisition of property plant and equipment and intangible assets	**(2,802)**	(1,490)	(3,038)
Proceeds from sale of property, plant and equipment and intangible assets	**574**	306	1,737
Equity free cash flow	**1,801**	2,620	1,964

[1] Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

INTERNATIONAL
AIRLINES
GROUP

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INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Consolidated management report
for the year ended
December 31, 2018

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

The Management Report contains the following sections:

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

Our business model is built to maximise choice and value creation

What we do

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.

Inputs and 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

573
fleet

685
routes

268
destinations

3
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 avios IAG GBS

IAG Connect Digital MRO / Fleet

How we create value

Unrivalled customer propositions

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

Value accretive and sustainable growth

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

Efficiency and innovation

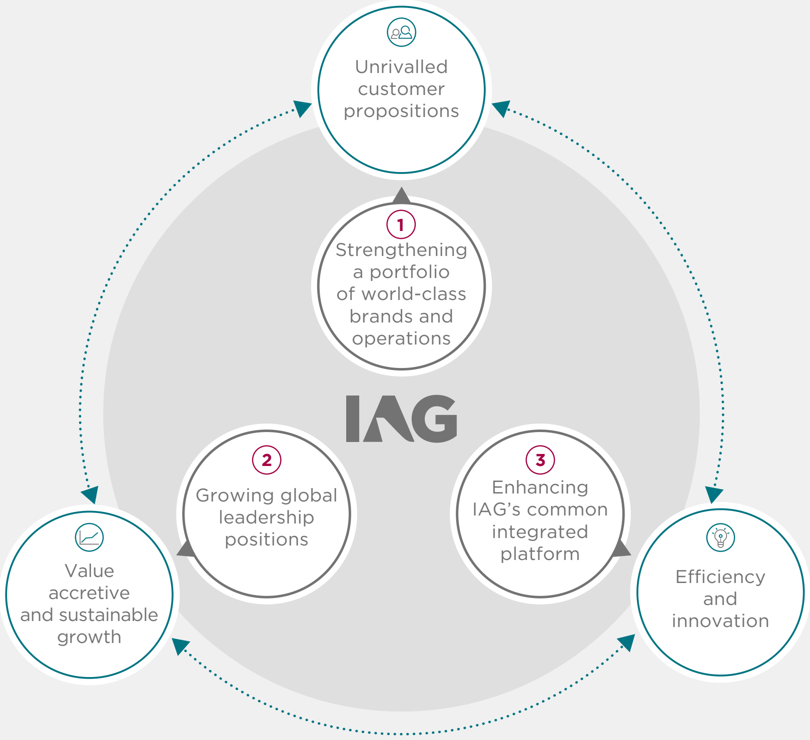
- Reduce costs and improve efficiency by leveraging Group scale and synergy opportunities
- Engage in Group-wide innovation and digital mindset to enhance productivity and best serve our customers
- Drive incremental value with external business-to-business services

How we're organised

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.

Our vision

To be the world's leading airline group, maximising sustainable value creation for our shareholders and customers.



The value we deliver

Shareholders

66 €cents

Full year dividend 31 €cents and 14.8% increase year on year

Special dividend 35 €cents

Customers

16.3

Net Promoter Score

-0.5pts vly

Employees

64,734

Manpower equivalent

+2.1% vly

8.0%

Workforce voluntary turnover

0% vly

27%

Female Senior executive

+3pts vly

Community and environment

€343 million

Income tax paid

+44.7% vly

91.9g CO_2/pkm

Carbon efficiency

-0.4% vly

Strategic priorities and key performance indicators

Strategic priority

Strengthening a portfolio of world-class brands and operations

How we create value

Unrivalled customer proposition

Our performance

Our activity in 2018

Following the detailed review of its customers' emotional and functional needs in 2017, the Group committed to strengthening its customer focus throughout 2018. Each of the airlines invested significantly in improving their customer experience. British Airways delivered catering improvements and opened new lounges, including a new First lounge at JFK. British Airways also continued its investment in technology to solve customer pinch points and ensure speed and efficiency, trialling chatbots, automating certain processes in periods of disruption, extending the use of biometric boarding gates in the US and rolling out a new homepage and selling flow. Iberia delivered an improved customer experience in its premium economy product, with more space, bigger in-flight entertainment and better catering, and it also took delivery of its first Airbus A350, providing more new generation aircraft to its fleet. Aer Lingus continued to build its compelling competitive position, focusing on cost reduction and growth to deliver price reductions to its customers. Investment was targeted in areas that would enhance its customer experience and keep Aer Lingus' Net Promoter Score measure at its highest level, including baggage tracking and repatriation services, mobile web, improved longhaul service and the full delivery of AerClub.

Despite Air Traffic Control (ATC) challenges, Vueling has also continued to modernise and transform its operations and customer experience, increasing its market depth, creating new boarding groups to minimise queues, commencing a refresh of cabin interiors, with in-seat power and Wi-Fi, and delivering an enhanced retail offering.

The LEVEL brand was selected as the brand to launch IAG's new shorthaul operations from Vienna, operating 14 shorthaul routes to a mix of European destinations including London, Paris, Barcelona, Ibiza, Milan, Larnaca and Dubrovnik. Longhaul LEVEL services also launched from Paris to the French Caribbean, Montreal and New York.

Our priorities for 2019

IAG remains focused on strengthening its customer centricity to ensure its operating companies continue to adapt and focus their business models to reflect and meet changing customer expectations. 2019 will be a significant year for British Airways, in particular, as it celebrates its centenary.

Customer product improvements will be ongoing with a renewed focus on the commercial systems that underpin the customer journey and booking flow to ensure we can deliver greater personalised service, customer choice and control.

KPI or industry measure

Net Promoter Score (NPS)

2018
16.3
vly -0.5pts

2023 target
32.0

Definition and purpose

NPS is a non-financial metric which measures the customer's sentiment and loyalty to a brand. At IAG a transactional NPS is measured: Customers respond about the likelihood to recommend an IAG operating carrier no more than 7 days after taking a flight. Including NPS targets in the company bonus scheme has driven a stronger focus on improving the customer experience which together with customer advocacy drive competitive advantage leading to faster organic growth.

R Performance

IAG's NPS in 2018 decreased 0.5pts versus last year's reported figure for the period April-December. Product upgrades and service enhancements rolled out across the airlines were well received by customers. However, this upside was offset by the challenging ATC environment in Europe and its impact on the operational performance of our operating carriers, in particular at Vueling.

Strategic priority

Growing global leadership positions

How we create value

Value accretive and sustainable growth

Our performance

Our activity in 2018

IAG reinforced its leadership positions in its home markets of London, Madrid, Barcelona, Dublin and Rome with the addition of 48 new routes, including the introduction of LEVEL longhaul routes from Paris and LEVEL shorthaul routes from Vienna. The Group continued to optimise its longhaul network and customer proposition together with its joint business partners and received approval for its South American joint business with LATAM from the Chilean competition authorities, though following appeal this remains subject to final ruling by the Chilean Supreme Court. American and IAG also submitted a joint request to the US Department of Transport for the Atlantic Joint Business' antitrust immunity to be extended to Aer Lingus to join the business.

On 12 April 2018, IAG announced that it considered Norwegian Air Shuttle ASA (Norwegian) to be an attractive investment and had acquired a 4.61% ownership position in the airline. This was subsequently diluted to 3.93% after Norwegian carried out an equity raising. IAG continued to follow Norwegian with interest during 2018 and had several discussions with Norwegian regarding a possible offer for the shares in the company. However, on 24 January 2019, IAG announced that it did not intend to make an offer for Norwegian and that it would be selling its 3.93% shareholding in Norwegian. IAG confirms it has now fully disposed of its holding in Norwegian.

The Group continues in its efforts to be a leading airline group with regard to sustainability and in December 2018, in partnership with Velocys, Shell and the UK Department for Transport, announced its option to acquire a site at Immingham to develop the country's first commercial scale waste-to-jet-fuel project, for which planning permission is expected to be sought in 2019.

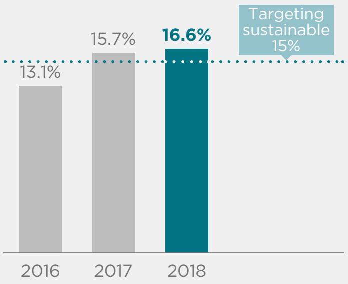
Our priorities for 2019

All the airlines in the Group continue to focus on value accretive growth as they launch new routes and deepen existing services, up-gauge aircraft, introduce new generation fleet and deliver improved connections at hub airports. Longhaul expansion remains focused on the Group's key markets in North and South America, but also sees new routes to Asia and South Africa.

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

KPI or industry measure

RoIC (%)[1 2]



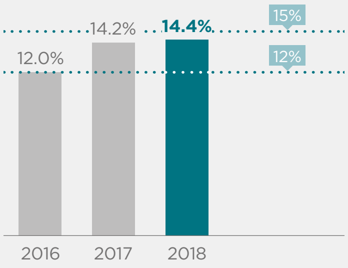
Ⓐ Definition and purpose

RoIC is defined as EBITDAR, less adjusted aircraft operating lease costs and less adjusted depreciation, divided by invested capital. We use 12 months rolling RoIC to assess how well the Group generates returns in relation to the capital invested in the business together with its ability to fund growth and to pay dividends.

Ⓡ Performance

The Group's RoIC rose 0.9 points versus last year. The increase reflects an improvement in EBITDAR of 7 per cent on 3 per cent higher invested capital.

Lease adjusted operating margin (%)[1 2]



Ⓐ Definition and purpose

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

Performance

Lease adjusted operating margin remains within our target with a slight improvement to 14.4 per cent. This was supported by strong revenue and continued focus on non-fuel costs which helped offset the significant rise in fuel costs.

▨ Long-term planning goals 2019-2023

Ⓐ Alternative performance measure

Ⓡ Measure linked to remuneration of Management Committee

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1 Comparative years restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.

2 Alternative performance measures calculations pages 182-184..

KPI or industry measure

Average growth (ASKs)

2018
6.1%

Target
2019-2023*
6.0%
per annum

* Last year's growth target over 2018–2022 was 5% per annum.

Definition and purpose

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

Planned growth

Strong financial performance across all operating companies in the Group has allowed IAG to increase its average growth rate over the course of this year's business planning cycle. We have good flexibility in our fleet plans to reduce our capacity if needed.

Average CAPEX (€m)[2]

2018
2,228

Target
2019-2023*
2,600
per annum

* Last year's average CAPEX target over 2018–2022 was €2,100 per annum.

Definition and purpose

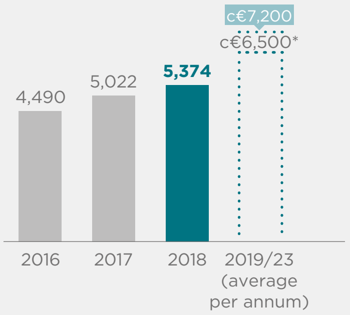
We track the planned capital expenditure (CAPEX) through our business planning cycle to ensure it is in line with achieving our other financial targets.

Planned CAPEX:

IAG recognises the need to continue investing in fleet, customer product, IT and infrastructure projects which will all improve our customer offerings and competitiveness in the market.

In 2018, we increased our forecasted average net CAPEX spend for 2019 – 2023 to €2,600 million, an increase of €500 million per annum over our 2018 – 2022 forecast. Our 2018 net CAPEX of €2,228 reflects the significant level of fleet acquisitions during the year with 32 deliveries net of 13 sale and leaseback transactions.

EBITDAR (€m)[1,2]



* Last year's average EBITDAR target over 2018–2022 was €6,500 million per annum.

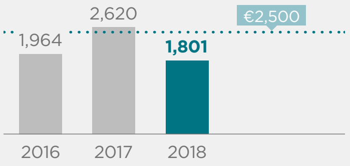
Ⓐ **Definition and purpose**

EBITDAR is the Group operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs. It is an indicator of the profitability of the business and of the core operating cash flows generated by our business model. This measure is not impacted by the financing structure of our aircraft.

Performance

EBITDAR increased €352 million versus last year reflecting the Group's profitable growth as the EBITDAR margin was broadly flat with ASKs up 6.1 per cent and contributing to increasing our operating cash flows.

Equity free cash flow (€m)[1,2]



Ⓐ **Definition and purpose**

Equity free cash flow is defined as EBITDA before exceptional items less cash tax, cash interest paid and received and cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. It reflects the cash generated by the business that is available to return to our shareholders, to improve leverage and to undertake inorganic growth opportunities.

Performance

The Group's equity free cash flow was €819 million lower than 2017, reflecting a €1 billion increase in CAPEX partially offset by higher EBITDA. As expected the Group's equity free cash flow was below our average long-term planning goal reflecting a high net CAPEX year with 19 aircraft delivered on balance sheet. The Group continues to focus on its capital discipline and flexibility.

[1] Comparative years restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.

[2] Alternative performance measures calculations pages 182-184.

Strategic priority

Enhancing the common integrated platform

How we create value

Efficiency and innovation

Our performance

Our activity in 2018

In 2018, the Group continued its focus on efficiency and cost reduction programmes that also ensured customer and shareholder value creation. Digital innovation has remained a core part of the Group's focus, continuing the Hangar 51 accelerator programmes to attract global talent, making strategic investments in promising early stage and emerging technology players in the travel market such as 'deepair solutions', 'Cirravia' and 'monese' and automating the business above and below the wing. IAG Cargo invested in its online capability with upselling functionality, digitisation of documents with eFreight and ePouch to remove the reliance on paper documents and provide an associated weight reduction. It has also introduced customer tracking devices for real time updates on location and delivery.

The Group has continued to develop capabilities to support data customisation and data analytics, creating a Group data warehouse allowing storage of the Group' data to drive operational resilience, efficiency and customer improvements. Avios is using these capabilities to review its loyalty proposition and is working with British Airways and Iberia to better tailor their member offerings. Avios also successfully transitioned its travel reward programme into the British Airways Executive Club, allowing members a smoother online experience and even more ways to collect and spend Avios.

The Group has continued to roll out Wi-Fi connection on its fleet at the same time as developing its '.air' portal, which will be able to offer in-flight entertainment, shopping and Wi-Fi and allow customers to pair their smartphone or tablet to the seatback screen to pay for on-board purchases.

Our priorities in 2019

In 2019, IAG will continue to invest in enhancing its common integrated platform to provide quality services and solutions across the Group at a faster pace and lower unit cost while supporting innovation across the Group. This will ensure ongoing customer improvements and operational resilience from the Group's airlines.

KPI or industry measure

Adjusted EPS (€ cents)[1,2]

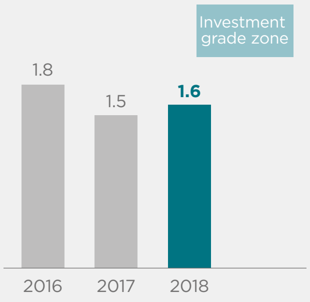
Ⓐ Definition and purpose

Adjusted earnings per share represents the diluted earnings for the year before exceptional items attributable to ordinary shareholders. This indicator reflects the profitability of our business and the core elements of value creation for our shareholders. Growing earnings indicates that the Group is on the right path to create value for its shareholders.

Ⓡ Performance

We grew our adjusted earnings per share by 15.1 per cent in 2018. Profit after tax before exceptional items improved by 11.2 per cent versus 2017 reflecting a strong operating profit performance. The adjusted EPS measure also benefited 3.5pts from the share buyback programme.

Adjusted net debt to EBITDAR[1,2]



Ⓐ Definition and purpose

Adjusted net debt to EBITDAR is calculated as long-term borrowings plus capitalised operating aircraft lease costs less current interest bearing deposits and cash and cash equivalents divided by EBITDAR.

We use this measure to monitor our leverage and to assess financial headroom through the same lens as financial institutions.

Ⓡ Performance

The Group's financial headroom remained strong in 2018 with adjusted net debt to EBITDAR at 1.6 a slight increase from 2017.

Adjusted net debt rose by €596 million to €8,355 million primarily from a reduction in cash reflecting higher CAPEX net of financing, repayment of the perpetual securities and a one-time payment for the closure of NAPS to future accrual.

▨ Long-term planning goals 2019-2023

Ⓐ Alternative performance measure

Ⓡ Measure linked to remuneration of Management Committee

[1] Comparative years restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.

[2] Alternative performance measures calculations pages 182-184.

Delivering quality and efficiency while enabling Group-wide innovation

The IAG Platform is now a well-established part of the Group. It allows IAG to achieve revenue and cost synergies that the operating companies could not attain alone and provides a plug and play platform new operating companies can join and exploit. The Group has already extracted significant value from the IAG Platform with opportunities to further enhance and support innovation.

IAG Platform

IAG Cargo | avios | IAG GBS | MRO / Fleet | IAG Connect | Digital

The IAG Platform includes the IAG Cargo and Avios businesses; IAG GBS, which delivers IT, procurement and finance support; IAG Connect, which is responsible for the Group's in-flight connectivity strategy and in-flight e-commerce platform; and Group initiatives in maintenance and digital innovation.

Global Business Services (GBS)

Leveraging the benefits of an efficient and competitive platform.

IAG GBS was established in 2014, following which it was engaged in a period of fast-paced start up activity centralising the core finance, IT and procurement functions of certain parts of the Group, starting with British Airways and Iberia and rolling out to Aer Lingus and Vueling. In 2018, GBS has focused on consolidating the considerable achievements from those first years while continuing to drive further improvements across the Group in areas such as supplier management, automation of processes and operational resilience.

Group IT

In 2018, Group IT's focus on cyber security was brought to the fore following the malicious attack on British Airways' customer data. The team has leveraged the expertise of strategic global partners to help ensure early detection of future threats through an enhanced 24/7 Security Operations Centre. Relevant testing and scans for all operating companies to support Payment Card Industry (PCI) compliance and fulfil the Group's requirements for implementation of the General Data Protection Regulation (GDPR) has been deployed. IT has continued to partner with world-class global providers whose expertise is helping support a resilient and scalable IT platform for the Group. The focus has also been on enhancing the Group's disaster recovery service which has included mitigating the obsolescence of the technology stack and securing a stable, workable plan for the migration of critical core business applications.

In 2019, IT will continue to progress toward its target operating model, providing flexible and scalable solutions across the Group at a faster pace and lower unit cost, while also improving ongoing operational resilience.

Procurement

In 2018, Group Procurement launched a new procurement platform that has streamlined more processes and driven further synergies for the Group. New digital tools, such as the Ariba Network and Hoovers, have been deployed to provide a more robust and automated approach to supplier relationship management. Non-fuel cost savings of more than €250 million were delivered across the Group in 2018.

Over the coming year Group Procurement will continue to focus on streamlining the supply base to progress towards stability and effective Corporate Social Responsibility with the Group's partners. It will continue to develop its key supplier relationships to deliver value to the Group in a professional manner.

Finance

GBS Finance continues to focus on the simplification, harmonisation and automation of processes to improve efficiency and constantly evaluates opportunities for further cost savings.

IAG Connect and .air portal

Throughout 2018 the embodiment of the Group's aircraft with Wi-Fi capabilities continued. IAG Connect rolled out the '.air' portal with Iberia and LEVEL on their new aircraft deliveries (Airbus A350 and Airbus A330, respectively), whilst also enhancing the .air portal on existing British Airways and Iberia Wi-Fi equipped longhaul aircraft. The portal allows for a consistent customer experience regardless of the aircraft, while the airlines can tailor the offer to align with their brand and individual customer propositions. The Group portal has been installed and operates on all newly connected aircraft across the Group.

2019 will continue to be a year of delivery for IAG Connect with the team already working with Aer Lingus and British Airways to define the product that will be flying on Airbus A321 and Airbus A350 aircraft in the second half of next year. IAG Connect will also commence the rollout of shorthaul connectivity on British Airways, Iberia and Vueling aircraft, whilst continuing work with the Group to enhance the '.air' portal with new features, partners and services.

As a result of some technical challenges arising on the embodiment of certain aircraft, IAG's target to install 90 per cent of its aircraft with Wi-Fi connectivity in 2019 is now expected to be reached by the second half of 2020.

Maintenance, repair and overhaul (MRO) and Fleet

In 2018 the Group made significant progress in the transformation of its MRO activities through the execution of the strategy defined to ensure competitiveness in cost, quality and operational performance. The main achievements include:

- transformation of the engine shop and narrow body airframe maintenance divisions which are now more competitive facilities providing services for both Group airlines as well as external customers
- optimisation of inventory management capabilities which have allowed us to reduce inventory
- optimisation of the supply chain spend jointly with GBS Procurement including further outsourcing of products

The focus in 2019 for the Group MROs is to deliver the next set of targets to further strengthen our operations and improve competitiveness of additional activities:

- outsourcing of certain inventory management and repair activities for our fleet
- continuing the transformation of our wide body airframe maintenance division
- consolidation of suppliers in line maintenance
- new repair capabilities in our engine shop to further differentiate from the market and add value to the Group
- continued optimisation of our supply chain

In Fleet, the Group has further progressed the harmonisation of common fleets by ensuring the commonality of maintenance programmes and modification policies across our airlines. In 2019, further progress will be made with the centralisation of some of the Group's engineering services.

Aircraft Fleet

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	**Total December 31, 2018**	Total December 31, 2017	Changes since December 31, 2017	Future deliveries	Options
Airbus A318	1	–	**1**	1	–	–	–
Airbus A319	21	40	**61**	64	(3)	–	–
Airbus A320	82	159	**241**	218	23	71	128
Airbus A321	27	29	**56**	51	5	21	–
Airbus A330-200	9	13	**22**	17	5	2	–
Airbus A330-300	6	10	**16**	15	1	2	–
Airbus A340-600	11	6	**17**	17	–	–	–
Airbus A350	2	–	**2**	–	2	41	52
Airbus A380	12	–	**12**	12	–	–	–
Boeing 747-400	35	–	**35**	36	(1)	–	–
Boeing 757-200	–	–	**–**	3	(3)	–	–
Boeing 767-300	–	–	**–**	8	(8)	–	–
Boeing 777-200	41	5	**46**	46	–	–	–
Boeing 777-300	9	3	**12**	12	–	4	–
Boeing 787-8	11	1	**12**	9	3	–	–
Boeing 787-9	9	9	**18**	16	2	–	6
Boeing 787-10	–	–	**–**	–	–	12	–
Embraer E170	6	–	**6**	6	–	–	–
Embraer E190	9	7	**16**	15	1	–	–
Group total	**291**	**282**	**573**	**546**	**27**	**153**	**186**

As well as those aircraft in service the Group also holds 5 aircraft (2017: 5) not in service.

Delivering value by embedding 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. It 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. IAG 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 its 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.

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 consider 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 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 2016 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 Group 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. We remain 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, events outside of our control causing operational disruption, fuel price and foreign exchange volatility and 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 regulation of monopoly suppliers.

In general the Group's strategic risk was stable during the year with continued competitor capacity growth being monitored and assessed within the Group. The Group continues to support deregulation, manage the 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 were impacted by the significant level of Air Traffic Control strikes in Europe, requiring additional resilience to be built into the networks.

The theft of data from British Airways customers in September 2018 as a result of a criminal attack on its website demonstrates the increased risk threat around cyber. The Group continues to lead the response to technical and organisational security defences and incident response plans for each operating company.

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.

In 2018, events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange.

Compliance and regulatory

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

Link to strategy

1 **Strengthening a portfolio of world-class brands and operations**

2 **Growing global leadership positions**

3 **Enhancing IAG's common integrated platform**

Key: Risk trend

↑ Increase ↔ Stable ↓ Decease

Strategic

Risk	Risk context	Management and mitigation
Airports, infrastructure and critical third parties ↑ 1 3	IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities which impact operations but are outside of the Group's control.	London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose third runway solution. The Group's airlines participate in the slot trading market, including at London airports.
	IAG is dependent on the oil industry making sufficient investment in the fuel supply infrastructure to ensure that our flight operations can be delivered as scheduled.	The Group enters into long-term contracts with fuel suppliers to ensure fuel supply at a reasonable cost. Potential fuel shortages are addressed by contingency plans, including appropriate investment in securing fuel supply. Capacity issues are regularly reviewed by the IAG Management Committee and form part of the annual Business Plan.
	IAG is dependent on the performance of suppliers such as airport operators, border control and caterers.	Supplier performance risks are mitigated by active supplier management and contingency plans.
	IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience.	The Group mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers. The Group has been impacted by ongoing issues with Rolls Royce Trent and Pratt and Witney engines in the year.
	IAG is dependent on resilience within the operations of Air Traffic Control (ATC) services to ensure that our flight operations are delivered as scheduled.	The Group continues to lobby and raise awareness of the negative impacts of air traffic control strikes and ATC performance issues on the aviation sector and economies across Europe.

Strategic

Risk	Risk context	Management and mitigation
Brand reputation ↔ ①	The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability. If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.	Each brand is supported by initiatives within the Group Business Plan, where capital expenditure is reviewed and approved by the Board of Directors. The Group has undertaken a significant review of the portfolio of brands within IAG to understand customer preferences and better position its offerings. There are multiple product investments across the Group's brands to enhance on-board product, ancillaries, lounges and customer experience. Success of these investments is measured, including their impact on customer satisfaction through the Net Promoter Score (NPS). The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position.
Competition ↓ ① ②	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. Competitor capacity growth in excess of demand growth could materially impact margins. Some competitors have lower cost structures or 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. The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. In 2018, IAG continued expansion of LEVEL, launching short haul operations from Vienna and long haul operations from Paris. The Group's strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base help mitigate competition risk.
Consolidation and deregulation ↔ ②	Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. Failing airlines can be rescued by government support, delaying the opportunity for more efficient airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.	The Group maintains rigorous cost control and targeted product investment to remain competitive. The Group has the flexibility to react to market opportunities arising from competitors. The Group continues to consider organic and inorganic growth options. The portfolio of brands provides flexibility in this regard as capacity can be deployed at short notice as needed.
	Joint business arrangements such as the agreements with American Airlines, JAL and Qatar Airways include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business. Any failure of a joint business or a joint business partner could adversely impact our business. The Group has a number of franchise partners that feed traffic into our hubs or major outstations. Any failure of a franchise partner will reduce traffic feed.	The IAG Management Committee regularly reviews the commercial performance of joint business agreements.
	The Group is reliant on the other members of the **one**world alliance to help safeguard the alliance proposition.	The Group maintains a leading presence in **one**world to ensure that the alliance attracts and retains the right members, which is key to ongoing development of the network.
Digital disruption ↔ ① ② ③	Competitors and new entrants to the travel market may use technology to more effectively disrupt the Group's business model or technology disruptors may use tools to position themselves between our brands and our customers.	The Group's focus on the customer experience, together with the Group's exploitation of technology, reduces the impact digital disruptors can have. 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.

Strategic

Risk	Risk context	Management and mitigation
Government intervention ↔ 2 3	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.	The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.
	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on the operational and financial performance of the Group.	The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).

Business and operational

Cyber attack and data security ↑ 2 3	The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, terrorists or foreign governments. If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.	The IAG Management Committee regularly reviews cyber risk and supports Group-wide initiatives to enhance defences and response plans. The Committee ensures that the Group is up to date with industry standards and addresses identified weaknesses. 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 GDPR programme was implemented across the Group in 2018 as part of its ongoing privacy programmes. During 2018, the Network and Information Systems (NIS) Directive was implemented. British Airways, Iberia, Vueling and Aer Lingus are all within scope of the requirements, which are being addressed as part of a broader programme of activity to continuously improve cyber defences. In September, British Airways reported the theft of data from its customers as a result of a criminal attack on its website. The fast moving nature of this risk means that the Group will always retain a level of vulnerability.
Event causing significant network disruption ↔ 1 3	An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel. Example scenarios include persistent air traffic control industrial action; war; civil unrest or terrorism; closure of airports or airspace; major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions or pandemic.	Management has business continuity plans to mitigate this risk to the extent feasible. The significant level of ATC strikes in Europe impacted the Group airlines operational performance. Response plans to manage and reduce impact on the Group's customers and operations have been put in place.
IT systems and IT infrastructure ↑ 1 3	IAG is dependent on IT systems for most key business processes. The failure of a critical system may cause significant disruption to the operation and lost revenue. 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.	System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. The Group continues to work with world class partners and is increasing resilience by implementing agreed plans which include investing in new technology, updates and a robust operating platform.
Landing fees and security charges ↔ 2 3	Airport charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are itemised to passengers, others are not.	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports. The Group is active both at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive. In some cases, regulation provides some assurance that such costs will not increase in an uncontrolled manner.

Business and operational

Risk	Risk context	Management and mitigation
People and employee relations ↓ 1 3	The Group has a large unionised workforce represented by a number of different trade unions. 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.	Collective bargaining takes place on a regular basis with the operating companies' human resources departments with a significant level of negotiation across the Group's operating companies. Management focuses on leveraging employee expertise and ensuring the development of talent. Succession planning is in place across all operating companies and we aim to move our best people across our businesses.
Political and economic conditions ↑ 1 2	IAG remains sensitive to political and economic conditions in the markets globally. Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility.	The IAG 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. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational 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 the monitoring of financial and business performance. Wider macro economic trends are being monitored such as tensions between the US and China, currency devaluation in Argentina and the changing political landscape. Following the UK referendum decision in 2016, the UK is expected to leave the EU on March 29, 2019. The Group has continued to engage extensively with the relevant authorities to ensure IAG's views on post-Brexit aviation arrangements are understood and taken into account. This has included frequent dialogue with the UK, Spanish and Irish governments, as well as the European Commission and Members of the European Parliament. The completion of a Withdrawal Agreement between the negotiators confirmed that there would be no change to aviation arrangements until the end of the transition period on December 31, 2020 and that the future relationship between the parties would include a comprehensive air transport agreement. As the Withdrawal Agreement is subject to ratification by the UK and EU parliaments, both the European Commission and the UK Government published separate plans to allow air services to continue in the event that the Withdrawal Agreement (or an amended version of it) cannot be ratified. These include mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes. As part of this, the EU is in the process of adopting a Regulation on basic connectivity between the EU and UK that may result in some restrictions on code share flexibility. In addition, in November the UK signed new air services agreements with the USA and Canada to replace existing EU-wide agreements once the UK leaves the EU, securing market access and regulatory arrangements for the future. IAG has had detailed and constructive engagement with its national regulators and governments about ownership and control. These discussions will continue, including with the European Commission, and IAG remains confident that its operating companies will comply with the relevant ownership and control rules post Brexit. IAG is a Spanish company, its airlines have long-established Air Operator Certificates (AOCs) and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011. IAG's assessment remains that, even in the event of no-deal, Brexit will have no significant long-term impact on its business.

Business and operational

Risk	Risk context	Management and mitigation
Safety/security incident ↔ ②	The safety and security of our customers and employees are fundamental values for the Group. 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 corresponding safety committees of each of the airlines of the Group satisfy themselves that it has 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

Risk	Risk context	Management and mitigation
Debt funding ↔ ② ③	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 continues to have good access to a range of financing solutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.
Financial risk ↔ ② ③	Volatility in the price of oil and petroleum products can have a material impact on our operating results.	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions. The approach to fuel risk management is set out in note 25 to the Group financial statements.
	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.	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. The approach to financial risk management is set out in note 25 to the Group financial statements.
	The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.	When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route.
	Interest rate risk arises on floating rate debt and floating rate leases.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 25 to the Group financial statements.
	The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging. Failure of financial counterparties may result in financial losses.	The approach to 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.
Tax ↔ ② ③	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.	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

Risk	Risk context	Management and mitigation
Group governance structure ↔ 3	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.	The governance structure is being extended to other Group airlines, including Aer Lingus (see page 34 for further details). IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
Non-compliance with key regulation including competition, bribery and corruption law ↔ 2 3	The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in reputational damage, fines or losses to the Group.	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 in these matters. Compliance professionals specialising in competition law and anti-bribery legislation support and advise our businesses.

Viability statement

The directors have assessed the viability of the Group over the five years to December 2023.

The directors have determined that a five-year period is an appropriate timeframe for assessment as it is in line with the Group Business Plan strategic planning period.

The directors have evaluated the impact of severe but plausible downside scenarios on the Group Business Plan and assessed the likely effectiveness of the mitigations that management reasonably believes would be available and effective over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing over the period to December 2023.

The scenarios modelled considered the potential impact of a global economic downturn, fuel price shock and the impact of risks that would result in operational disruption. These scenarios considered the principal risks which could have the greatest potential impact on viability in that period.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023.

Delivering sustainable returns

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

> “The Group’s financial performance reflects our ability to deliver sustainable returns in a challenging environment”

The financial performance of IAG through 2018 has been a strong one in an economic environment that was challenging but reflecting interesting growth opportunities in our strategic markets.

Our fuel cost increased although in a smoother way than market prices due to our hedging positions, and demand continued improving through the year showing a rare synchronised economic trend of the worldwide major economies. This underlying trend has been coexisting with mounting uncertainties on end of cycle and geopolitical concerns.

We have achieved an operating profit of €3,230 million before exceptional items, a year on year improvement of €280 million and, met or exceeded our key financial targets with an adjusted margin of 14.4 per cent, return on Invested Capital of 16.6 per cent and adjusted earnings per share growth of 15.1 per cent. Our Net Earnings before exceptional items reached a record figure of €2,481 million. This robust set of achievements has been based on the positive performance of our basic revenue and cost key metrics. We have improved both our unit revenues and our non-fuel unit costs at constant currency, more than offsetting the fuel cost increase while growing 6.1 per cent in ASK terms.

The Group’s cost plans are embedded in our organisations with the aim of driving permanent efficiency improvements in areas such as: supplier chain, labour productivity and ownership costs, while at the same time, 2018 has been a year of great focus on enhancing our customers’ experiences through improving lounges, catering, connectivity and longhaul seats. We continue to focus on medium term initiatives, such as IT solutions, new generation Infrastructure and Data management projects.

As many other airlines in Europe we have been suffering increased disruptions associated with Air Traffic Control’s lack of adequate resources and strikes. This has had an unfavourable impact on our cost base and also a negative impact on passenger experience and Net Promoter Score in some of our airlines.

2018 was a significant year in terms of CAPEX for the Group and this very much related to the timetable of new generation aircraft deliveries, both for renewal and growth, resulting in a Net CAPEX figure of €2,228 million. Correspondingly, our Equity Free Cash Flow for the year has been reduced to €1,801 million which is at the low end of our medium-term range but is consistent with our plans for the year.

In the last quarter of the year, S&P and Moody’s assigned IAG with a long term credit rating of investment grade with an outlook of stable. This reflects the Group’s financial strength and profitability, competitive market positioning and resilience, our Adjusted Net Debt to EBITDAR ratio remained strong at 1.6 times.

Following these financial achievements, the Board proposed a final dividend of 16.5 euro cents on February 27th, 2019 and announced its intention to propose a special dividend of approximately €700 million in 2019, both subject to shareholder approval at our AGM in June. Taken together with the interim dividend paid in December 2018 this will represent dividends of €1,315 million to our shareholders.

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

IATA market growths

The air traffic industry had another strong year. Economic growth is keeping traffic ahead of the industry's 6.1 per cent capacity increase with a slight net gain of 0.3 pts in passenger load factor.

In 2018, airline capacity growth in Europe was one of the highest regions. The growth was 5.8 per cent as it recovered from the impacts of terrorist attacks in 2016. The environment was competitive and passenger load factors increased both of which impacted yields. Europe recorded the highest passenger load factor for the year.

North America's airline capacity growth was 4.7 per cent during the year and the region retained a position of strong financial performance.

Latin America's airline capacity growth was higher than the total market average at 6.6 per cent and ahead of last year's growth of 5.5 per cent. The market environment began to turnaround in 2017 and showed some improvement in 2018, however it remained harsh. Passenger load factor in this region decreased and overall profitability decreased.

Africa was the weakest region for the airline industry with growth of only 1.0 per cent. Despite the low capacity increase, load factors improvement was relatively low and passenger load factor was the lowest of all the regions.

The Middle East's airline industry growth was moderate and lower than the market average. Passenger load factor performance deteriorated from a relatively low base with demand impacted by the political environment.

Airline capacity growth in the Asia Pacific region was high at 7.9 per cent with diverse performance across the region.

IATA market growths

Year to December 31, 2018	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	5.8%	84.5	0.6 pts
North America	4.7%	83.8	0.2 pts
Latin America	6.6%	81.6	(0.3)pts
Africa	1.0%	71.4	1.0 pts
Middle East	4.9%	74.8	(0.6)pts
Asia Pacific	7.9%	81.5	0.5 pts
Total market	**6.1%**	**81.9**	**0.3 pts**

Source: IATA Air Passenger Market Analysis

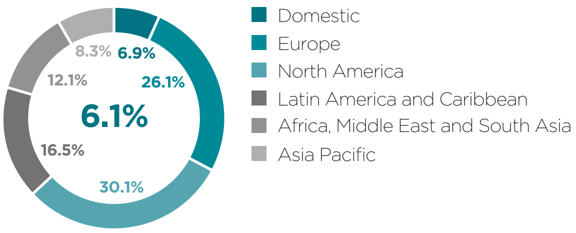
IAG capacity

In 2018, IAG increased capacity by 6.1 per cent, including LEVEL, for the full year. Capacity was increased in all airlines and throughout each region except for Asia Pacific.

The increase partially reflects new longhaul routes at British Airways, Iberia and Aer Lingus and the full year impact of routes launched in 2017. In shorthaul, new routes were launched by LEVEL in Vienna, and frequencies in Domestic and European routes were added by Iberia and Vueling.

IAG passenger load factor reached its highest level since the creation of IAG at 83.3 points, 0.7 points higher than the previous year and 1.4 points higher than the IATA average.

IAG Network by region (measured in ASKs)



Market segments

IAG capacity

Year to December 31,2018	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	9.1%	85.0	1.8 pts
Europe	6.2%	83.2	1.2 pts
North America	8.0%	82.3	0.0 pts
Latin America and Caribbean	8.7%	84.7	0.7 pts
Africa, Middle East and South Asia	0.8%	82.4	1.6 pts
Asia Pacific	0.0%	84.7	0.1 pts
Total network	**6.1%**	**83.3**	**0.7 pts**

Eurozone

Eurozone inflation reached 2.0 per cent, quantitative easing programmes substantially came to an end, and unemployment reduced throughout the year. However consumer confidence ended the year lower than it began, impacted by protests in France, reduction in the industrial production growth rate in Germany and deterioration in the Italian economy. While the Eurozone GDP grew 2.0 per cent, the airline industry's passenger capacity rate was 5.8 per cent.

IAG's European market, taken together with Domestic, is home to our airline hubs and represents our largest market. We grew slightly ahead of the airline industry average increasing the breadth and depth of our schedules, serving more cities and adding frequencies.

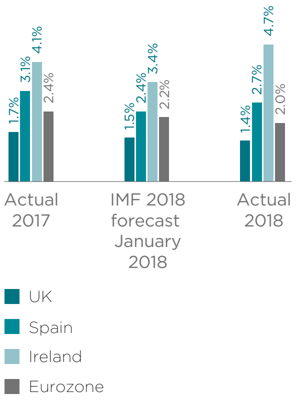
In IAG's **Domestic** markets capacity was higher by 9.1 per cent with increases at Vueling and Iberia. As part of its NEXT strategy, Vueling increased frequencies on existing routes and launched three new routes. Capacity in Iberia's domestic market was increased with growth in the Balearics and Canaries. Passenger load factor performance was strong, almost two points higher versus last year.

In the Domestic market, the Group's passenger unit revenues were up across all airlines. The Group's domestic performance improved throughout the year and benefited from the Spanish government subsidy to residents in the Balearic and Canaries Islands .

The Group's **European** capacity increased year on year. LEVEL Vienna started shorthaul services in July 2018 with 14 new destinations from the Austrian capital, including London, Barcelona and Paris. Iberia's capacity increased through higher frequencies in several routes, including Madrid to Milan, Berlin, Paris and Prague. Increases in Vueling came mainly from additional frequencies on routes from France and Italy to Spain. Load factor was also up 1.2 points.

In 2018, the Group's European markets continued to perform strongly with increases at British Airways, Vueling and Aer Lingus. Iberia's passenger unit revenues decreased in Europe following a year of quarter on quarter improvements and on a modest capacity increase.

GDP growth



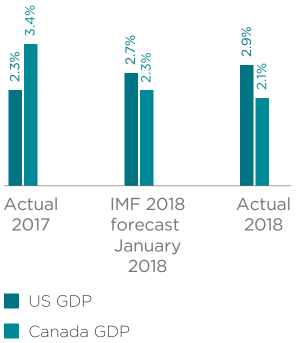
North America

In 2018, US GDP grew 2.9 per cent which was ahead of last year and forecast. Growth accelerated over the year benefiting from tax rate reductions and lower unemployment supporting consumption. The airline industry's passenger capacity grew 4.7 per cent while IAG grew 8.0 per cent serving a new market segment (low cost longhaul), adding new destinations from Ireland, Spain and the UK and increasing frequencies.

IAG's **North American** market represents a significant part of the Group's capacity with over 30 per cent of total ASKs. Capacity was increased in British Airways, Iberia, and Aer Lingus. British Airways started operating two new routes, Nashville from London Heathrow and Toronto from Gatwick, as well as growth in several routes including New Orleans, Las Vegas, Boston and Los Angeles. Iberia's capacity increase came mainly from its new route to San Francisco and the full year impact of routes extended from seasonal services, as well as routes launched throughout 2017. Aer Lingus' North American capacity was increased with the launch of new routes to Philadelphia and Seattle and the full year impact of routes launched in 2017. LEVEL's growth reflects the full year impact of its longhaul routes from Paris. Seat factor for the region was maintained at 82.3 per cent. Despite the capacity increase, passenger numbers grew in line with capacity.

North America passenger unit revenues at ccy were broadly flat versus last year. Aer Lingus passenger unit revenues decreased slightly on a capacity increase of 17.2 per cent, while LEVEL expansion had a dilutive impact on the Group's passenger unit revenues due to its lower fares. British Airways and Iberia's performances improved versus last year from higher yields at British Airways and increases in passenger load factor at Iberia.

GDP growth



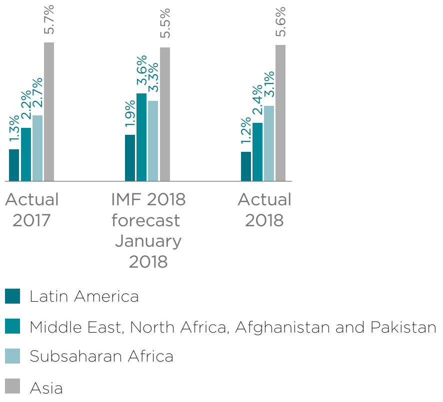
Latin America and Caribbean

Latin America GDP grew in line with last year but significantly below forecasts. Argentina re-entered recession while Venezuela's recession deepened and Brazil's growth rate was lower than expectations. The airline industry's passenger capacity grew 6.6 per cent while IAG grew 8.7 per cent however from a lower market share position. As with North America, IAG's growth included serving the low cost longhaul market, new destinations and additional frequencies.

IAG's capacity in **Latin America and Caribbean** was increased with LEVEL's new routes to Guadalupe and Martinique and the full year impact of routes launched in June 2017 from Barcelona. Iberia continued to increase frequencies to Mexico City during the year, continuing its growth from 2017 and adding frequencies to Santiago de Chile, Guatemala and El Salvador. British Airways increased capacity to Santiago de Chile, Sao Paulo and Rio de Janeiro. Passenger load factor in this region improved and was again significantly higher than the industry average.

Latin America and Caribbean passenger unit revenues at ccy increased around 1.5 per cent, with significant improvements in the first half of the year offset by reductions in the latter half. Performance in South America was volatile with economies such as Argentina and Brazil impacted by the political uncertainty driving deterioration through the year. Peru, Ecuador and Colombia performed well. The Caribbean and Mexican routes also saw fluctuations but generally performed well.

GDP growth



Africa, Middle East and South Asia (AMESA)

AMESA capacity increased slightly in 2018 from British Airways' new routes to Durban and Seychelles, and additional capacity to Johannesburg and Marrakech. Iberia increased capacity in Marrakech, partially offset by the cancellation of services to Equatorial Guinea. Passenger load factor was strong and was 0.5 points higher than the industry average. The Group is growing at a slower pace than the airline industry average in these areas reflecting in part the challenging political environment and economic conditions.

Africa, Middle East and South Asia passenger unit revenue performance fluctuated across the routes. Improvements benefited in part from relatively flat capacity versus last year. British Airways passenger unit revenue was up at ccy and Iberia's African routes such as Dakar and Morocco performed well.

Asia Pacific

In **Asia Pacific**, the Group's capacity was flat versus 2017. Iberia's increased services were offset by decreases in British Airways' capacity. Passenger load factor remained broadly flat and continued to be among the highest in the IAG network. The Group is also growing at a slower pace in the Asia Pacific region reflecting in part the challenging competitive and regulatory environment.

Asia Pacific was broadly flat versus last year on flat capacity with mixed performance across the routes. While demand has been relatively stable industry capacity has risen significantly.

Revenue

€ million	2018	Higher/(lower) Year over year at ccy	Per ASK at ccy
Passenger revenue	**21,549**	8.6%	**2.4%**
Cargo revenue	**1,173**	7.2%	
Other revenue	**1,684**	18.3%	
Total revenue	**24,406**	9.2%	

Passenger revenue

On a reported basis, passenger revenue for the Group rose 6.2 per cent versus the prior year, with 2.4 points of adverse currency, while capacity was increased 6.1 per cent. At constant currency ('ccy'), passenger unit revenue (passenger revenue per ASK) increased 2.4 per cent from higher yields (passenger revenue/revenue passenger kilometre) up 1.5 per cent and a 0.7 point rise in passenger load factor. At the airline level, passenger unit revenue at ccy increased versus last year at each of the Group's airlines. On a quarterly basis, the Group's passenger unit revenue at ccy was also positive in every quarter although at a slower pace as the year progressed.

The Group carried almost 113 million passengers an increase of 7.7 per cent from 2017, with passenger load factor improvement of 0.7 points for the Group and at four of the five airlines. Since April 2017, Net Promoter Score is being measured consistently for British Airways, Iberia, Vueling and Aer Lingus. The Group's Net Promoter Score for 2018 was 16.3 per cent a decrease of 0.5 points versus the reported figure last year (April to December). Product upgrades and service enhancements were well received by customers; however, these improvements were more than offset by the challenging Air Traffic Control environment. The ATC disruption impacted Vueling resulting in both Vueling and the Group missing its 2018 NPS target of 20. Iberia's 2018 score was broadly flat versus its target, while British Airways and Aer Lingus exceeded their 2018 targets.

Cargo revenue

The market in 2018 saw a strong start, but growth then slowed markedly as the year progressed. Cargo revenue for the period increased by 3.6 per cent, excluding currency 7.2 per cent. Volume measured in tonne kilometres (CTK) decreased by 0.9 per cent on a capacity increase of 3.8 per cent. Yield improved by 8.1 per cent at constant currency. Strategic focus continued to be on premium products, investing for growth and continuing to modernise the business. This included the investment in a new Constant Climate Centre in Madrid, a new Critical Service Centre in London with a specialised customer service team and an improving customer experience on IAGCargo.com.

Other revenue

Other revenue rose 15.1 per cent, 18.3 per cent at constant currency from increases in:

- Iberia's third party maintenance (MRO) billings and handling activity,
- BA Holidays bookings,
- Avios revenues from higher points issuance and product redemptions, and
- Rental revenues, primarily at John F Kennedy airport

Total revenue for the Group rose 6.7 per cent with increases in passenger, cargo and other revenue. At ccy, total revenue was up 9.2 per cent, higher than the Group's ASK growth.

Expenditure before exceptional items

Employee costs

Employee costs increased 1.5 per cent before exceptional items for the year. At constant currency, employee unit costs improved 3.3 per cent with pay increases primarily linked to RPI, offset by efficiency and restructuring initiatives across the Group.

British Airways closed its New Airways Pension Scheme (NAPS) to future accrual and British Airways Retirement Plan (BARP) to future contributions from March 31, 2018. The schemes have been replaced by a flexible defined contribution scheme, the British Airways Pension Plan (BAPP). The changes resulted in a reduction in the NAPS IAS 19 defined benefit liability of €872 million, transitional arrangement cash costs of €192 million (recognised as an exceptional) and a reduction in current service cost.

Overall the average number of employees rose by 2.1 per cent for the Group bringing our average workforce to 64,734 and productivity increased 3.9 per cent with improvements at British Airways, Iberia, Vueling and Aer Lingus.

Employee costs

€ million	2018	Higher/(lower) Year over year at ccy	Per ASK at ccy
Employee costs	**4,812**	2.6%	**(3.3)%**

Productivity

	2018	Higher/(lower) Year over year
Productivity	**5,018**	3.9%
Average manpower equivalent	**64,734**	2.1%

Fuel, oil and emissions costs

Fuel, oil and emissions costs rose by 14.6 per cent in 2018 primarily from higher average fuel prices net of hedging, partially offset by a weaker USD and from management efficiencies. Average fuel price rose from approximately $520 per metric tonne in 2017 by 32 per cent to approximately $685 in 2018. The Group gained fuel efficiencies from new aircraft and from improved operational procedures implemented across the airlines. At ccy and on a unit basis, fuel costs were 12.5 per cent higher.

Fuel, oil and emissions costs

		Higher/(lower)	
€ million	**2018**	Year over year at ccy	**Per ASK at ccy**
Fuel, oil costs and emissions charges	**5,283**	19.3%	**12.5%**

Supplier costs

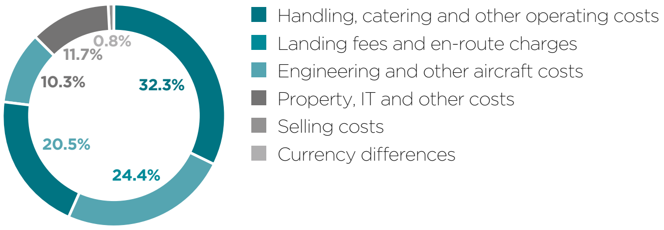
Total supplier costs for the year increased 5.0 per cent with 1.5 points of positive currency impacts. At ccy and on a unit basis, supplier costs rose 0.4 per cent. In 2018, the Group's non-ASK related businesses, such as MRO, BA Holidays and Avios grew. This increased our supplier costs, in particular Handling, catering and other operating costs and Engineering and other aircraft costs with a corresponding increase in Other revenue.

Supplier costs

		Higher/(lower)	
€ million	**2018**	Year over year at ccy	**Per ASK at ccy**
Supplier costs:			**0.4%**
Handling, catering and other operating costs	**2,888**	10.1%	
Landing fees and en-route charges	**2,184**	3.0%	
Engineering and other aircraft costs	**1,828**	7.1%	
Property, IT and other costs	**918**	1.9%	
Selling costs	**1,046**	8.2%	
Currency differences	**73**	0.0%	

British Airways' supplier unit costs at ccy were up slightly. Investments in customer, incremental BA Holiday costs, higher selling costs related to the new distribution model and inflation were mainly offset by lower engineering costs. Iberia supplier unit costs decreased with efficient growth and management initiatives offsetting increases in maintenance costs related to its third-party MRO business and investments in customer. Vueling supplier unit costs were adversely impacted by significant ATC disruption costs. Aer Lingus had a favourable supplier unit cost performance from cost saving initiatives and efficient growth.

Supplier costs



By supplier cost category:

Handling, catering and other operating costs rose 8.0 per cent, excluding currency up 10.1 per cent. The year on year comparison is impacted by a €65 million charge in the base related to operational disruption at British Airways in 2017. Otherwise the Group's Handling, catering and other operating costs rose 12.8 per cent at ccy. Half of this increase can be attributed to volume, from a 7.7 per cent rise in passengers carried and from additional activity at BA Holidays. The Group continued its focus on improving the customer proposition by investing in lounges, catering and service delivery. Inflation increases in supplier contracts were partially offset by savings while disruption costs rose significantly. Air traffic control strikes and regulations impacted our operational performance increasing disruption costs throughout 2018, in particular Vueling's.

Landing fees and en-route charges were higher by 1.5 per cent, excluding currency up 3.0 per cent. Costs rose primarily from higher activity, with flying hours up 5.1 per cent and sectors flown up 5.2 per cent. Price increases were broadly net neutral in 2018.

Engineering and other aircraft costs increased 3.1 per cent, excluding currency up 7.1 per cent. Increases were driven by additional third party maintenance activity at Iberia (c.4.8 points) and from higher flying hours. These increases have been partially offset by contractual remedies recognised for an issue with the Rolls-Royce Trent 1000 engines. British Airways received compensation for additional costs incurred due to the reduction in flying hours.

Property, IT and other costs were up 0.3 per cent, excluding currency up 1.9 per cent. The increase reflects higher IT and professional costs and inflation on rent and rates.

Selling costs increased 6.5 per cent, excluding currency up 8.2 per cent. Selling costs rose from higher volumes, point of sale mix and changes in the Group's distribution model. The Group launched a new distribution model in November 2017 increasing our selling costs with a corresponding rise in fares and more direct access to our customers.

Ownership costs

The Group's ownership costs were up 3.5 per cent, excluding currency up 5.7 per cent. The increase reflects higher depreciation charges for the Boeing 747 fleet from lower expected residual values and from new owned aircraft (4 Boeing 787s, 2 Airbus A350s, 3 Airbus A330s, 11 Airbus A320 family). The Group has retired its fully depreciated Boeing 767s. Operating lease costs rose mainly due to incremental wet lease costs incurred to operate the Monarch slots at London Gatwick airport and additional leased aircraft primarily Airbus A320s, A321s and A330s, including the aircraft for LEVEL.

Ownership costs

		Higher/(lower)	
€ million	**2018**	Year over year	**Per ASK at ccy**
Ownership costs	**2,144**	5.7%	**(0.3)%**

See note 5 in our Financial statements for more on our ownership costs.

Number of fleet

		Higher/(lower)
Number of fleet	**2018**	Year over year
Shorthaul	**380**	6.4%
Longhaul	**193**	2.1%
	573	4.9%

Non-fuel unit costs

At constant currency, total non-fuel unit costs decreased 0.8 per cent. Adjusted by the 'Other revenue' (MRO, BA Holidays, Avios product redemption) category in the income statement and currency, the reduction was 2.5 per cent. Adjusted non-fuel unit cost improved at British Airways, Iberia and Aer Lingus from efficient growth and management initiatives. At Vueling adjusted non-fuel unit costs rose, impacted by the challenging ATC environment increasing disruption costs significantly.

Exchange impact before exceptional items

Exchange rate movements are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by translation currency from converting results from currencies other than euro to the Group's reporting currency of euro, primarily British Airways and Avios. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. At constant currency, the Group's operating profit before exceptional items would have been €129 million higher.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euros.

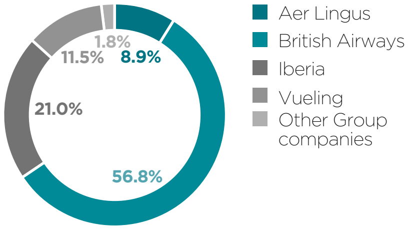
	2018		
€ million	Translation impact	Transaction impact	**Total exchange impact**
Total exchange impact on revenue	(183)	(389)	**(572)**
Total exchange impact on operating expenditures	163	280	**443**
Total exchange impact on operating profit	**(20)**	**(109)**	**(129)**

Operating profit before exceptional items

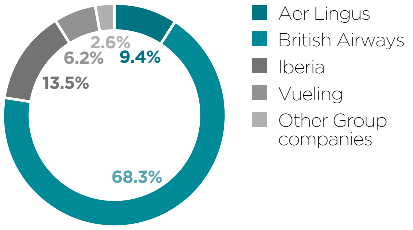
In summary, the Group's operating profit before exceptional items for the year was €3,230 million, a €280 million improvement from last year. The Group's adjusted operating margin also improved 0.2 points to 14.4 per cent. These results reflect a strong revenue performance from a better macro-economic environment with improvements in our main strategic markets. Management continued to focus on customer proposition, operational resilience and delivery of cost savings. This was partially offset by higher costs from ATC disruption, while our non-fuel unit cost trend keeps improving from structural agreements on pensions and productivity. This performance reflects the Group's drive towards achieving a competitive cost base with improved productivity and management initiatives, aligned with an improved focus in customer satisfaction, brand value and resilience of our operational model.

Financial performance by Brand

Capacity



Operating profit before exceptionals



Aer Lingus operating profit was €305 million, a record performance and an improvement of €37 million over last year. Capacity increased 10.0 per cent from additional flying to new routes such as Philadelphia and Seattle.

Despite the significant increase in capacity, Aer Lingus' adjusted operating margin rose 0.6 points to 16.8 per cent. Passenger unit revenues decreased at outturn rates from lower yields, while non-fuel unit costs improved.

Aer Lingus achieved significant cost savings through efficient growth with higher productivity and from cost initiatives. This included areas such as procurement and handling.

Financial performance by Brand

	British Airways £ million		**Aer Lingus € million**	
	2018	Higher/ (lower)	**2018**	Higher/ (lower)
ASKs	184,547	2.5%	29,030	10.0%
Seat factor (per cent)	82.5	0.7pts	81.0	(0.1)pts
Passenger revenue	11,620	5.2%	1,952	8.6%
Cargo revenue	769	4.3%	54	14.9%
Other revenue	631	18.4%	14	7.7%
Total revenue	**13,020**	5.7%	**2,020**	8.8%
Fuel, oil costs and emissions charges	2,927	14.7%	382	20.9%
Employee costs	2,535	(1.5%)	373	8.1%
Supplier costs	4,586	2.8%	774	2.7%
EBITDAR	**2,972**	9.0%	**491**	11.1%
Ownership costs	1,020	4.2%	186	6.9%
Operating profit before exceptional items	**1,952**	11.6%	**305**	13.8%
Adjusted operating margin	15.6%	0.8pts	16.8%	0.6pts
Passenger yield (£ pence or € cents/RPK)	7.64	1.9%	8.30	(1.1%)
Unit passenger revenue (£ pence or € cents/ASK)	6.30	2.7%	6.73	(1.2%)
Total unit revenue (£ pence or € cents/ASK)	**7.06**	3.2%	**6.96**	(1.2%)
Fuel unit cost (£ pence or € cents/ASK)	1.59	11.9%	1.31	9.8%
Non-fuel unit costs (£ pence or € cents/ASK)	4.41	(0.9)%	4.59	(4.8%)
Total unit cost (£ pence or € cents/ASK)	**6.00**	2.2%	**5.91**	(1.9%)

British Airways operating profit was £1,952 million, excluding exceptional items, up £203 million over the prior year on a capacity increase of 2.5 per cent.

Passenger unit revenues rose for the year from higher passenger load factors and yields. Yields improved with strong business sector performance.

British Airways' non-fuel unit costs improved during the year; savings were made in several areas including the head office function, engineering through outsourcing and property rationalisation.

Overall, British Airways' adjusted operating margin improved 0.8 points to 15.6 per cent.

Financial performance by Brand

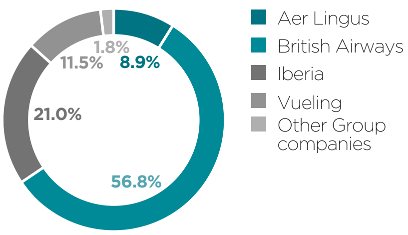
	Iberia € million		Vueling € million	
	2018	Higher/ (lower)	2018	Higher/ (lower)
ASKs	68,179	7.1%	37,431	8.9%
Seat factor (per cent)	85.5	1.4pts	85.4	0.7pts
Passenger revenue	3,765	5.9%	2,377	13.0%
Cargo revenue	251	3.7%	–	–
Other revenue	1,166	9.6%	21	(8.7%)
Total revenue	**5,182**	6.6%	**2,398**	12.7%
Fuel, oil costs and emissions charges	1,023	10.5%	489	14.3%
Employee costs	1,091	3.6%	278	19.3%
Supplier costs	2,173	6.2%	1,160	15.0%
EBITDAR	**895**	7.3%	**471**	3.1%
Ownership costs	458	0.0%	271	0.7%
Operating profit before exceptional items	**437**	16.2%	**200**	6.4%
Adjusted operating margin	10.0%	0.4pts	11.8%	(1.0)pts
Passenger yield (€ cents/RPK)	6.50	(2.8)%	7.43	2.9%
Unit passenger revenue (€ cents/ASK)	5.55	(1.1)%	6.35	3.8%
Total unit revenue (€ cents/ASK)	**7.60**	(0.3)%	**6.41**	3.6%
Fuel unit cost (€ cents/ASK)	1.50	3.2%	1.31	4.9%
Non-fuel unit costs (€ cents/ASK)	5.46	(2.2)%	4.57	4.0%
Total unit cost (€ cents/ASK)	**6.96**	(1.1)%	**5.87**	4.2%

Vueling's operating profit was €200 million an increase of €12 million despite facing significant operational disruption from ATC regulations and strikes. Its adjusted operating margin of 11.8 per cent, was 1.0 points down versus last year.

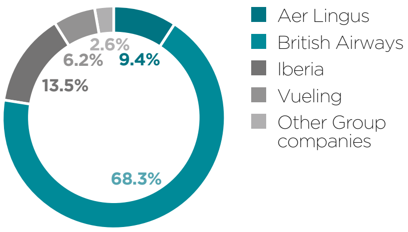
Vueling developed its network strategy throughout 2018 and has strengthened its position in key markets. Demand in these markets remained strong, passenger unit revenues, passenger load factors and yields improved versus last year.

Vueling's non-fuel unit costs increased significantly primarily from ATC disruption. Vueling's NEXT programme continued to target operational improvements and cost saving initiatives to address the challenging ATC environment, however operating margin suffered.

Capacity



Operating profit before exceptionals



Iberia's operating profit before exceptional items was €437 million, up by €61 million versus last year, achieving an adjusted operating margin of 10.0 per cent. Capacity for the year was up 9.6 per cent, with a reduction in passenger unit revenue from lower yields partially offset by higher passenger load factor.

On the cost side, non-fuel unit costs reduced. Employee unit costs and productivity improved through efficiency initiatives as part of Iberia's Plan de Futuro II.

In 2018, Iberia's Other revenue also increased by 9.6 per cent, primarily from its MRO business.

Exceptional items

For a full list of exceptional items, refer to note 4 of the Financial statements. Below is a summary of the significant exceptional items recorded.

During the year, the Group recognised an exceptional net operating credit of €448 million reflecting:

€678 million net pension credit following the amendments to British Airways' NAPS and BARP pension plans noted previously, reducing the defined benefit liability offset by the related cash costs

€136 million restructuring costs related to British Airways' transformation plan aimed to develop a more efficient and cost effective structure, and

€94 million charge in employee costs to equalise the effects of Guaranteed Minimum Pensions at British Airways.

In 2017, the Group recognised an exceptional charge of €288 million related to restructuring costs at British Airways and Iberia.

Non-operating costs and taxation

Net non-operating costs after exceptional items were €191 million, up from €181 million last year. In 2018, the Group recognised a net financing pension credit relating to defined benefit schemes compared to a charge in 2017. Closure of the British Airways NAPS to future accrual resulted in an accounting surplus and a net financing credit. This €55 million improvement was offset by a €57 million swing in net foreign exchange on the retranslation of monetary non-current assets and liabilities.

Taxation

The vast majority of the Group's activities are taxed in the countries of effective management of the main operations - UK, Spain and Ireland, with corporation tax rates during 2018 of 19 per cent, 25 per cent and 12.5 per cent respectively. The Group's effective tax rate for the year was 16.9 per cent (2017: 19.0 per cent) and the tax charge after exceptional items was €590 million (2017: €472 million).

The Group continues to offset prior year tax losses and other tax assets against its current year taxable profit. In 2018 the Group paid corporation taxes of €343 million (2017: €237 million).

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €2,481 million, up 11.2 per cent. The increase reflects a strong operating profit performance with higher unit revenues and lower non-fuel unit costs more than offsetting the significant rise in fuel unit costs. Fully diluted earnings per share before exceptional items is one of our key performance indicators and increased by 15.1 per cent also benefitting from the positive impact of the share buyback programme.

Profit after tax and exceptional items was €2,897 million (2017: €2,009 million), up 44.2 per cent.

Dividends

The Board is proposing a final dividend to shareholders of 16.5 euro cents per share, which brings the full year dividend to 31 euro cents per share. Given the Group's strong cash position the Board is also proposing a special dividend of 35 euro cents per share, returning approximately €700 million to shareholders. Subject to shareholder approval at the Annual General Meeting, the final and special dividends will be paid, on July 8, 2019 to shareholders on the register on July 5, 2019.

Dividend policy statement

In determining the level of dividend in any year, the Board considers several factors, including:

- Earnings of the Group;
- On-going cash requirements and prospects of the Group and its operating companies;
- Levels of distributable reserves by operating company and efficiency of upstreaming options;
- Dividend coverage; and
- Its intention to distribute regular returns to its shareholders in the medium and long-term.

The Company received distributions from each of the four main airlines in 2018, although due to accumulated losses in certain companies they were not all recorded as distributable income. Distributions may trigger additional pension contributions if higher than pre-agreed thresholds, see note 30 of the Financial statements.

Notwithstanding these factors, the Company's distributable reserves position was strong, with €5.7 billion available at December 31, 2018 (2017: €6.1 billion).

Liquidity and capital risk management

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S+P and Moody's assigned IAG with a long-term investment grade credit rating with stable outlook.

The Group monitors capital using adjusted net debt to EBITDAR and liquidity. In 2018, the Group's adjusted net debt to EBITDAR increased slightly to 1.6 from 1.5 in 2017, although well within an acceptable range. EBITDAR improved and adjusted net debt increased. Adjusted net debt rose by €596 million to €8,355 million reflecting a lower cash position from the repayment of perpetual securities and slightly higher long-term borrowings from an increase in debt for fleet. EBITDAR rose €352 million versus last year reflecting the Group's profitable growth as the EBITDAR margin increased 0.1 pts with ASKs up 6.1 per cent.

The Group's equity free cash flow (EqFCF) was €1,801 million in 2018, lower than last year by €819 million and lower than our average long-term planning goals, impacted by the timing of CAPEX. EBITDA generation was strong at €4,484 million while net CAPEX was high at €2,228 million.

In 2018, the Group's net CAPEX included delivery of thirty-two new aircraft, five Boeing 787s, two Airbus A350s, four Airbus A330s and 21 Airbus from the A320 family. This capital expenditure has been partially offset by €574 million of proceeds from the sale and leaseback of thirteen new aircraft (ten Airbus A320 family, one Boeing 787 and two Airbus A330). In 2017, the Group took delivery of 10 new aircraft, partially offset by €287 million of proceeds from the sale and leaseback of seven new aircraft.

During the year, British Airways secured a sale and leaseback by way of a $609 million EETC bond issue to fund aircraft deliveries. The bonds were combined with Japanese Operating Leases with Call Options ("JOLCO") of $259 million. The total sum raised was $868 million. The transaction includes Class AA and Class A Certificates with an underlying collateral pool consisting of 11 aircraft.

Movements in Working capital and other non-cash generated €270 million in free cash flow (2017: €623 million) primarily from the Group's growth with higher sales in advance of carriage and impacted by the timing of prepayments.

Pensions and restructuring reflect payments made to the British Airways APS and NAPS pension plan schemes and restructuring payments for British Airways' and Iberia's transformation plans. In 2018, a €182 million onetime payment was made in relation to the closure of the NAPS scheme to future accrual.

In 2018, the cash Dividend paid reflects the 2017 final dividend and the 2018 interim dividend.

Cash flow

€ million	**2018**	2017	Movement
EBITDAR before exceptional items	**5,374**	5,022	352
Rentals	**(890)**	(888)	(2)
EBITDA before exceptional items	**4,484**	4,134	350
Net interest	**(112)**	(93)	(19)
Taxation	**(343)**	(237)	(106)
Acquisition of PPE and intangible assets	**(2,802)**	(1,490)	(1,312)
Sale of PPE and intangible assets	**574**	306	268
Equity free cash flow	**1,801**	2,620	(819)
Working capital and other non-cash	**270**	623	(353)
Pensions and restructuring	**(1,063)**	(914)	(149)
Proceeds from long-term borrowings	**1,078**	178	900
Repayments of long-term borrowings	**(1,099)**	(973)	(126)
Dividend paid	**(577)**	(512)	(65)
Share buyback	**(500)**	(500)	–
Other investing	**61**	72	(11)
Other financing	**(312)**	(21)	(291)
Cash (outflow)/inflow	**(341)**	573	(914)
Opening cash and deposits	**6,676**	6,428	248
Net foreign exchange	**(61)**	(325)	264
Cash and deposits	**6,274**	6,676	(402)

€ million	**2018**	2017	Higher/ (lower)
British Airways	**2,780**	3,182	(402)
Iberia	**1,191**	1,167	24
Aer Lingus	**891**	1,025	(134)
Vueling	**564**	681	(117)
IAG and other Group companies	**848**	621	227
Cash and deposits	**6,274**	6,676	(402)

During the year IAG carried out a second share buyback programme as part of the corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme total was €500 million (2017: €500 million) and IAG acquired 65,956,660 ordinary shares (2017: 74,999,449), which were subsequently cancelled. The Group has returned over €1 billion to shareholders in 2018 and €2.7 billion since 2015.

Taking these factors into consideration, the Group's cash outflow for the year was €341 million and after net foreign exchange differences, the decrease in cash net of exchange was €402 million. Each operating company holds adequate levels of cash with balances exceeding 20 per cent of revenues, sufficient to meet obligations as they fall due.

Net debt and adjusted net debt

Net debt

€ million	**2018**	2017	Higher / (lower)
Debt	**(7,331)**	(8,515)	(1,184)
Cash and cash equivalents and interest bearing deposits	**6,676**	6,428	248
Net debt at January 1	**(655)**	(2,087)	(1,432)
(Decrease)/increase in cash net of exchange	**(402)**	248	(650)
Net cash outflow from repayments of debt and lease financing	**1,099**	973	126
New borrowings and finance leases	**(1,078)**	(178)	(900)
Decrease/(increase) in net debt from regular financing	**21**	795	(774)
Exchange and other non-cash movements	**(199)**	389	(588)
Net debt at December 31	**(1,235)**	(655)	(580)
Capitalised aircraft lease costs	**(7,120)**	(7,104)	16
Adjusted net debt at December 31	**(8,355)**	(7,759)	596

The Group's net debt position increased by €580 million reflecting a reduction in cash, adverse exchange and a net neutral impact from regular financing with repayments during the year offsetting new borrowings.

Off balance sheet arrangements and capital commitments

The Group has entered into commercial leases on certain property and equipment but primarily for aircraft. Contracts range in duration for up to 13 years for aircraft with total payments of €8,664 million (2017: €7,642 million); see note 23 for further details on the timing. The Group's adjusted net debt metric includes an estimation for the debt related to the aircraft operating leases ('capitalised aircraft lease costs') by taking the current year's aircraft operating lease cost multiplied by 8.

Capital expenditure authorised and contracted for amounted to €10,831 million (2017: €12,137 million) for the Group. Most of this is in US dollars and includes commitments until 2023 for 92 aircraft from the Airbus A320 family, 12 Boeing 787s, 4 Boeing 777s, 41 Airbus A350s, and 4 Airbus A330s.

Overall, the Group maintains flexibility in its fleet plans with the ability to defer, to exercise options and to negotiate different renewal terms. IAG does not have any other off-balance sheet financing arrangements.

Regulatory environment

The international and strategic nature of the airline sector, along with its safety and security critical requirements, means that it will always be subject to a wide range of regulatory controls. IAG monitors and, where possible, contributes to global, regional and national regulatory developments where they affect its business. The UK and EU Policy agenda in 2018 has been widely dominated by the developing process for the UK's leaving the European Union. Other major issues in the UK have been the parliamentary approval of the National Policy Statement that set out the policy to expand Heathrow Airport, and the publication of a Green Paper describing the Government's proposed aviation strategy and which includes plans for managing sustainable growth and for a customer charter for airline passengers.

Brexit

Following the UK referendum decision in 2016, the UK is expected to leave the EU on March 29, 2019. The Group has continued to engage extensively with the relevant authorities to ensure IAG's views on post-Brexit aviation arrangements are understood and taken into account. This has included frequent dialogue with the UK, Spanish and Irish governments, as well as the European Commission and Members of the European Parliament. The completion of a Withdrawal Agreement between the negotiators confirmed that there would be no change to aviation arrangements until the end of the transition period on December 31, 2020 and that the future relationship between the parties would include a comprehensive air transport agreement.

As the Withdrawal Agreement is subject to ratification by the UK and EU parliaments, both the European Commission and the UK Government published separate plans to allow air services to continue in the event that the Withdrawal Agreement (or an amended version of it) cannot be ratified. These include mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes. As part of this, the EU is in the process of adopting a Regulation on basic connectivity between the EU and UK that may result in some restrictions on code share flexibility. In addition, in November the UK signed new air services agreements with the USA and Canada to replace existing EU-wide agreements once the UK leaves the EU, securing market access and regulatory arrangements for the future.

IAG has had detailed and constructive engagement with its national regulators and governments about ownership and control. Those discussions will continue, including with the European Commission, and IAG remains confident that its operating companies will comply with relevant ownership rules post Brexit. IAG is a Spanish company, its airlines have long established AOCs and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011.

IAG's assessment remains that, even in the event of no-deal, Brexit will have no significant long-term impact on its business.

UK aviation policy

On 26 June the UK Parliament voted to designate the Government's Airports National Policy Statement which recommends a new runway should be constructed to the north west of London Heathrow. IAG strongly supports the expansion of Heathrow as a very positive development for its business and for the wider UK economy. As in the run up to the designation, IAG has continued to challenge the excessive costs of the proposals put forward by the airport's operator, HAL, and has continued to engage with the CAA to reinforce the need for it to act to ensure that airport prices are kept down to allow the project to be commercially viable.

On 17 December the UK published a Green Paper for a future aviation strategy to 2050. This sets out a range of potential policy positions including measures to deliver sustainable growth, to address the perceived needs of passengers and to encourage access to new markets. IAG is engaging fully with the programme for consultation.

Irish aviation policy

IAG broadly welcomes the infrastructure development plans proposed by Dublin Airport which gives effect to the Irish National Aviation Policy objective to develop Dublin Airport as an international hub. The wider economic benefits associated with such infrastructure investment were detailed in an economic impact study conducted in 2018 and estimated to contribute an additional €18bn to Ireland's GDP by 2033.

IAG, through Aer Lingus, continues to participate actively in the Irish Government's National Civil Aviation Development Forum to ensure its views on Irish aviation regulatory matters, aviation policy and Brexit are heard.

Spanish aviation policy

Spain is forecasting GDP growth of 2.3 percent in 2019, above the forecast EU average with positive prospects for the aviation industry. In line with announcements at the December 2018 Council of Ministers, the Spanish Government published a decree including contingency measures for aviation, in the event that there is no deal on Brexit so as to secure the rights of Spanish citizens and airlines. A significant regulatory decision during 2018 benefited the airline sector when it was announced that AENA´s airport charges will be frozen during 2019, and that ENAIRE is also lowering its en route charges by 12%. This reduction will save airlines collectively c.100 million euros.

European aviation policy

European aviation policy has been dominated by the Brexit process during 2018. This has compounded the existing delays to EU legislation, and the reform of existing laws, due to disagreements over Gibraltar and, as a result, limited progress has been made in key policy areas, such as passenger rights. However, the European Commission has continued to consult on several aspects of policy including the future of the aviation market overall. IAG continues to monitor and contribute to this activity.

Delays to policy making must be seen against the background of an urgent need for action – that IAG has highlighted – to deal with significant bottlenecks in the European system. As traffic continues to grow, congestion at key points in the airspace and at major European airports is an increasing focus for IAG, working closely with its trade association A4E. The Group has continued to highlight the pernicious impacts of air traffic controller strikes on consumers, to urge the reform of airspace to make the best use of existing resources among air navigation service providers and to seek the reform of the out of date and ineffective regulation on airport charges.

IAG has also continued to provide input to the European Commission’s air service agreement negotiations with “third countries”. In 2018 these have included a further round of talks with Qatar and completing a new agreement with Tunisia.

Leading the way on carbon commitments

Antonio Vázquez
Chairman

> “We are proud of our achievements on carbon reduction, within IAG and as a leader in the global industry. But we are under no illusions. There is much more to do.”

Our industry cannot hope to grow sustainably unless we take our environmental responsibilities seriously and in 2018 we saw good progress both within IAG and in our sector.

The challenge we face was made explicit in a United Nations Inter-Governmental Panel on Climate Change (IPCC) report last October identifying the need to avoid greater than 1.5 degree temperature rise by 2050.

We have always believed our industry has a full part to play in the global reduction of CO_2 emissions and we’re proud to have been a lead player in some significant initiatives. Aviation is the only sector to have agreed to reduce net carbon emissions, introducing a cap from 2020 and aiming for a 50% cut by 2050. The industry has also set up the first global carbon offsetting scheme, CORSIA, to achieve these goals.

IAG remains a strong advocate for change. In December, along with other international organisations, we pressed the UK Government to support a Net Zero Emissions target by 2050. We have also urged the EU to redesign European airspace, a move that would cut emissions by 12% or by 20 million tonnes a year. This is a very good idea and only needs political will to become real.

We are making good progress within our own operating airlines. In 2018 we made important steps towards achieving carbon neutral growth from 2020, particularly under the CORSIA scheme, for which baseline monitoring has now started.

On the operational front, our flight carbon efficiency increased from 92.3 gCO_2 /pkm in 2017 to 91.9 gCO_2/pkm last year. We are confident we remain on track to meet our 2020 target of 87.3 gCO_2 /pkm, but are keeping our performance under close review.

In 2018 our fuel efficiency programmes delivered 65,000t of CO_2 savings and we made progress in implementing GoDirect Fuel Efficiency software, which should bring further improvements in coming years. New aircraft joining our fleets delivered up to 20% lower carbon emissions and a reduction of up to 50% in noise over the aircraft they replaced.

In April, the UK Government included Sustainable Aviation Fuels in the Renewable Transport Fuel Obligation, providing incentives to produce these fuels in the UK. In April, our waste-to-jet fuel project with Velocys won a Government development grant and, in December, we announced plans to build a production facility in South Humberside.

We want to spread the message as widely as possible. In November, as part of preparations for British Airway’s centenary, we launched our “Future of Fuels Challenge” to UK universities. The task: to work out how to make the UK a world leader in producing sustainable aviation fuels.

We continue to improve our Sustainability reporting. We have embraced the recommendations of the Task Force on Climate Related Financial Disclosure and enhanced our Carbon Disclosure Project (CDP) reporting, earning B management level as a result.

Great energy is going into our sustainability programme as the following pages attest.

I can assure you it will remain a major priority for IAG in the years ahead.

Antonio Vázquez
Chairman

Sustainability overview

Section contents:

Sustainability overview: governance, strategy, materiality, targets, stakeholder engagement, disclosures, challenges and opportunities, climate related scenarios, UN sustainable development goals, future focus and progress since last year.

Sustainability performance: performance trends against our most material issues including climate, fuel efficiency, energy, noise, waste, air quality, customers and workforce.

Sustainability in action: summary of key actions in 2018 relating to; climate, fleet, sustainable aviation fuels, carbon fund, fuel efficiency, waste, noise, air quality, supply chain, workforce diversity, work experience, accessibility, community giving, modern slavery, occupational health & safety, ethics & integrity and anti-bribery & corruption.

Sustainability governance

Our sustainability programmes are co-ordinated at Group level to develop and implement sustainability policy and strategy, establish targets and programmes and ensure appropriate governance and accountability across all our operating companies. The IAG Management Committee provides the forum for review, challenge and setting strategic direction. Further oversight and direction is provided by the IAG Board and the Audit and Compliance Committee.

The IAG Group Sustainability Policy sets the context and ambition for our sustainability programmes. 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.

In addition, we have continued to make progress with the adoption of the IATA Environmental Assessment (IEnvA) programme. IEnvA is the airline industry version of ISO14001 tailored specifically for airlines and fully certified by the International Standards Organisation (ISO). We expect Vueling and British Airways to achieve Phase 1 certification early in 2019 and Iberia later in the year.

Sustainability strategy

Sustainability forms part of 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 we are committed to minimising our environmental impact delivering best practice and demonstrating thought leadership to drive global improvements in the aviation industry's sustainability performance.

We have aligned our sustainability programmes to IAG's strategic priorities and value propositions:

1. Strengthening a portfolio of world-class brands and operations
   - Ensuring customers have visibility of, and are engaged in, our sustainability programmes
2. Growing global leadership positions
   - Demonstrating industry leadership, advocating for carbon pricing
   - Maturing our transition pathway towards low carbon economy
   - Leadership in carbon disclosures
3. Enhancing IAG's common integrated platform
   - Investing in efficient aircraft fleet and delivering best practice in operational efficiency
   - Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low carbon technologies

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

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

Workforce governance and training

The structure of the Group means that each Operating Company has responsibility for the policies and procedures relating to its direct workforce, 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 (Group Instruction 4) intended to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

Due to our diverse Operating Companies in the Group, 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. Across the Group, the following core corporate training courses are run by all Operating Companies:

- Code of Conduct (to be added in 2019 with the launch of our new Group Code)
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Over 95% of our employees are based in European countries which comply with the conventions of the International Labour Organisation (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.

Materiality

In autumn 2017 we completed a materiality analysis performed in line with Global Reporting Initiative Sustainability Reporting Guidelines as well as benchmarking with other materiality frameworks. We engaged a range of our principal external stakeholders including investors, corporate customers, suppliers and NGOs. The charitable trust Business in the Community was appointed to provide objective oversight of the process; facilitating workshops, reviewing interview feedback and preparing a materiality matrix.

In 2018 IAG worked with the Global Reporting Initiative (GRI) and the International Air Transport Association (IATA) to develop a GRI Sectorial Guidance Handbook for airlines. This will improve consistency and allow comparisons across the industry. The issues identified by IATA and GRI for the airline sector are aligned with the issues we identified for IAG.

IAG Sustainability material issues

Environment	Local Impacts and development	Workforce	Future competitiveness	Corporate governance
• Climate change (including emissions, fleet modernisation, fuel efficiency and Sustainable Aviation Fuels) • Energy use • Waste	• Noise • Local economic impacts (job creation) • Air quality • Community engagement & charitable support	• Employee satisfaction • Diversity and equality • Talent management	• Financial performance (short term investor returns and long term sustainability) • Customer satisfaction • Carbon pricing • Innovation, research and development	• Compliance with legislation and regulation • Supply chain management

All of these issues are addressed in this report either in the ‘Sustainability performance’ table where specific performance metrics are reported or in the ‘Sustainability in action’ section where we describe our most recent work relating to these topics.

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

Sustainability targets

For our Group sustainability targets we focus on two material aspects: Climate and Noise. Our airlines have additional targets associated with other non-financial measures including waste, energy efficiency, punctuality, customer net promoter score and diversity, among others.

IAG climate targets:

- 10% improvement in fuel efficiency to 87.3 gCO_2/pkm by 2020 versus baseline of 97.5 gCO_2/pkm in 2014.
- Carbon neutral growth from 2020.
- Net reduction of 50% CO_2 emissions by 2050 versus 2005.

In addition, we are calling for Government and industry support for a target of net zero CO_2 emissions by 2050. We are also developing details for the potential introduction of management incentives aligned to our carbon targets to improve the alignment of our business strategy and decarbonisation pathway and therefore support delivery of our climate change and fuel efficiency targets.

IAG noise target:

- To reduce noise per flight by 10% by 2020 compared to 2015 based on average aircraft noise certification standards.

Stakeholder engagement

We actively engage with industry partners and associations, policy makers, shareholders, investors and governments to influence policy and drive action to meet our sustainability objectives.

We lobby governments at the domestic, European and global scale and actively participate in International Civil Aviation organisation (ICAO) programmes to develop global policy for aviation and environment including on aviation carbon targets, carbon pricing and sustainable aviation fuels.

We participate in a range of industry coalitions and associations to develop common policy positions and enhance our lobbying effectiveness. These include Sustainable Aviation, Airlines 4 Europe, IATA and Air Transport Action Group (ATAG) as well as specialist forums such as the Sustainable Aviation Fuels Users Group.

We partner with suppliers, for example we are collaborating with fuel suppliers and waste companies to develop technology and production facilities for sustainable aviation fuels and with Air Traffic Control authorities and Airport Operators to achieve more fuel-efficient flight operations. We are also working with aircraft manufacturers to improve fuel efficiency.

We engaged our top five corporate customers who contract with British Airways and Iberia on large business travel accounts in our materiality study and engage with other customers though CDP supply chain disclosures and customer sustainability surveys.

Finally, we engage with communities around our main hubs such as by participating in airport community forums to manage noise performance and engaging local schools in sports, charity and learning events.

Disclosures

Since 2011, IAG’s sustainability reporting has been based on our assessment of which metrics are material to our business with GRI G4 Sustainability Reporting Guidelines as a secondary reference point. We review emerging disclosure standards to ensure we disclose relevant and meaningful data about our sustainability performance. This includes compliance with our obligations under Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain.

In October 2016, the UN Global Sustainability Standards Board introduced new GRI Sustainability Reporting Standards to replace the previous G4 version by July 2018. Our sustainability performance indicators are based on the GRI standards and are selected to reflect performance against our material issues.

In addition to the disclosures made in our Annual Report and Accounts and Management Report, we disclose non-financial information in several frameworks including CDP (previously the Carbon Disclosure Project) and the Workforce Disclosure Initiative (WDI).

Carbon disclosures

IAG achieved B Management level status in the 2018 CDP Climate global disclosure system. The new transport services scoring methodology introduced in 2018 proved challenging for airline responders, particularly in relation to thresholds in scope 1 and 2 renewable energy consumption and target setting which puts leadership in these categories out of reach for airlines. We will be working with CDP during 2019 to propose a more relevant and progressive assessment on these topics for airline responders. We also achieved A- Leadership level in the 2018 CDP ratings for Supplier Engagement.

Taskforce on climate related financial disclosure

In addition, we are pleased to have been one of the early signatories to the Task Force on Climate Related Financial Disclosure (TCFD), an initiative led by the Financial Stability Board which complements the CDP framework and introduces further steps to promote the integration of climate-related aspects into our strategy. Further details are included in the section on sustainability challenges.

Sustainability challenges and opportunities

Sustainability challenges and opportunities including those related to climate are assessed in line with IAG Enterprise Risk Management (ERM) methodology for likelihood (remote, possible, probable and likely) and impact (manageable, moderate, serious and critical).

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

We have identified and assessed longer term climate-related challenges and opportunities for IAG through our ERM process, materiality review and the application of scenario analysis in line with the TCFD process.

We are allocating significant resource to environmental risk management including investment of over 1 million euros over five years in our new fuel efficiency software and over 400 million dollars over the next 20 years in sustainable aviation fuels infrastructure development and offtake agreements.

The IAG Sustainability team is responsible for identifying and monitoring sustainability and climate-related challenges. These are reviewed by the ERM team and reported at least annually to the IAG Management Committee and the Audit and Compliance Committee of the IAG Board.

Climate related scenario analysis

In line with our commitment to TCFD we have undertaken climate-related scenario analysis to review the resilience of our business strategies in the context of climate change. We regard this as an iterative process and will be continuing to consider further climate scenarios and develop more quantitative conclusions.

In 2018 we followed the TCFD six step process to consider two contrasting scenarios:

- 2^0C scenario, consistent with meeting the Paris Agreement Goal (Representative Concentration Pathway 'RCP 2.6')
- 4^0C scenario as an alternative high emission scenario (RCP 8.5)

We considered the implications of these two climate scenarios on our business in 2030, assuming we have the same business activities as we do today. 2030 was selected as a nearer term consideration en-route to 2050, which is the target year for our 50% net CO_2 reduction target.

The analysis included an initial qualitative assessment of potential IAG response in terms of changes to business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

Broadly, the 2 degrees scenario demonstrated that IAG would incur additional operating costs, mainly as a result of the increased cost of carbon or other policy interventions. The 4 degrees scenario also demonstrated that IAG would incur additional operating costs, but in this case, these would more likely arise from increased cost of operational disruption due to increased frequency of extreme weather events.

Initial outcomes of the exercise have resulted in IAG establishing new partnerships through our accelerator programme 'Hangar51', to deliver innovations in fuel efficiency and low carbon technologies. Other initiatives are also being developed. The process has also meant that we have identified and disclosed several new climate-related challenges this year.

In 2019 we will consider a 1.5 degree scenario and potential IAG pathways towards achieving net zero emissions by 2050.

Summary of sustainability challenges and opportunities

Type	Description and potential impact	How we manage it
Climate Transition Challenges and Opportunities		
	Emergence of global patchwork of uncoordinated national and regional climate policies – regulation 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, IATA and ICAO to lobby for and help deliver a single effective global carbon pricing solution for aviation, CORSIA. Regular updates on progress are provided to the IAG Management Committee and IAG Board.
	Climate regulation – regional application 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 mentoring other airlines to ensure CORSIA is adopted successfully. • Supporting development of robust rules for CORSIA on Monitoring Reporting and Verification and Emissions Unit Criteria. • Lobbying for single tier adoption of CORSIA.
	Sustainable aviation fuels – regulation IAG believes fuel mandates, if applied, should only be applied at Global level. EU and Spanish proposals to mandate proportion of sustainable aviation fuels would drive production but could force airlines to purchase SAF at a price premium compared to conventional fuels creating competitive distortion.	• 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 challenge and opportunity 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 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 production opportunity Commercial and environmental opportunity to source cost effective sustainable fuel and reduce our CO_2 emissions thereby reducing compliance costs for CORSIA.	• Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the Global, EU, and UK levels. • British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate SAF development.
	Higher carbon price and strong policy incentives challenge and opportunity Challenge from higher cost of carbon adding to our operating cost and corresponding opportunity with stronger business case for investment in low carbon technologies which would accelerate progress in decarbonisation pathway.	• 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. • Forward purchase of carbon credits to protect against price volatility. • Innovation and collaboration on future fuels and carbon technologies through our Hangar 51 accelerator programme.

Summary of sustainability challenges and opportunities continued

Type	Description and potential impact	How we manage it
Climate physical challenges and opportunities		
	Extreme weather impact on operating costs 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 increase fuel cost with increased potable water carriage.	• IAG climate strategy (all the measures above) and our support for strong global action to tackle climate change. • Partnerships to find solutions to mitigate operational disruption. Example is project with partners in NATS and Heathrow Airport to implement innovative technology, the 'Time Based Spacing' system, enabling landing rates at Heathrow to be maintained in the event of strong winds. This has reduced delays, fuel burn and emissions and avoided extra costs due to disrupted operations.
	Destinations becoming unattractive for visitors 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. Climate change could also 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 profiles.
Other sustainability challenges and opportunities		
	Operational noise restrictions and charges 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 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, 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 An inadvertent breach of compliance requirements with associated reputational damage and fines.	• Adopting group-wide Environmental Management System, the IATA IEnvA programme. • 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 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.

UN Sustainable Development Goals

The United Nations has adopted a plan to “end poverty, fight inequality and injustice, and tackle climate change by 2030.” At the heart of this Agenda 2030 are 17 Sustainable Development Goals (SDGs). Fulfilling these goals will take significant effort by all sectors in society and it is widely recognised business has an important role to play.

Aligning with IATA and Sustainable Aviation, we draw links to 9 relevant SDGs to our business, as shown in the table below. We reflect the links to these in our sustainability performance data on the following pages and regard SDGs number 5, 7, 8 and 13 as priority measures, most relevant to IAG.

Goal 3: Good health and wellbeing	**Goal 7: Affordable and clean energy**	Goal 11: Sustainable cities and communities
Goal 4: Quality education	**Goal 8: Decent work and economic growth**	Goal 12: Responsible consumption and production
Goal 5: Gender equality	Goal 9: Industry, innovation and infrastructure	**Goal 13: Climate action**

Future focus – progress with priorities set for 2018 and new priorities for 2019

Relevant material issue:	Progress against priorities set for 2018	Our priority actions for 2019
Environment • Climate Change	• Beginning the first action to implement CORSIA in preparation for emissions monitoring from January 2019 – see case study. • Using our new fuel efficiency software to identify more opportunities for fuel efficiency – see case study.	• Calling for government and industry support for a net zero emissions pathway. • Developing options for IAG on a net zero emissions pathway. • CORSIA implementation from January, beginning baseline monitoring and preparing our carbon offsetting strategy.

Future competitiveness
• Investors
• Customers
	• Driving continual improvement of our sustainability disclosures. In 2018 we achieved B in CDP and extended our disclosures to WDI.
	• Improving our external communications regarding sustainability initiatives:
	  • New IAG website including sustainability page
	  • Airlines updated websites sustainability content
	  • Collaborated with Sustainable Aviation on social media communications
	  • Airlines featuring regular articles in their in-flight magazines relating to sustainability.
		• Continuing to invest in innovative sustainable aviation fuels projects and seek ongoing opportunities following the Future of Fuels Challenge to UK universities.
		• Extending our work through Hangar 51 on innovations in fuel efficiency and low carbon technologies.

Corporate Governance • Compliance	• Continuing the roll-out of our environmental management system IEnvA. We continued implementation with Vueling and British Airways expected to achieve Phase 1 certification early in 2019.	• Developing proposals for aligning management performance incentives to carbon targets.

Data Governance

The scope of our sustainability performance data includes all our airline and air cargo operations except for some specific data for LEVEL Austria and LEVEL France which started operations in summer 2018. LEVEL Spain operations (three A330 aircraft) are included in scope of all our environment data. LEVEL Austria (four A321 aircraft) and LEVEL France (two A330 aircraft) are only reported in relation to ICAO CAEP Noise and NOx measures. The data for the 6 aircraft represents 1.1% of our total fleet in 2018 (573) and less than 1% of our Scope 1 emissions.

Avios and GBS functions, are currently included in scope of our workforce metrics but are not in scope of our environmental metrics (where they form less than 1% of material environmental aspects).

Our sustainability performance indicators are based on the GRI standards.

From 1st January 2019, our airlines have started monitoring, reporting and verifying CO_2 emissions data for international flights in compliance with CORSIA, the ICAO Carbon Offsetting and Reduction Scheme for International Aviation.

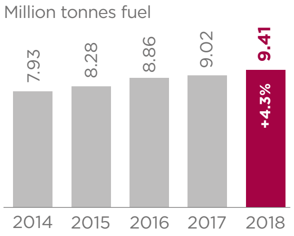
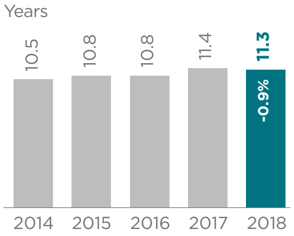
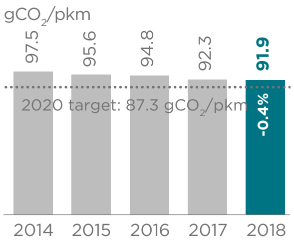
Our emissions data is calculated using UK and Spanish Government Greenhouse Gas conversion factors for company reporting.

Sustainability performance

This performance summary should be considered along with measures reported across the Strategic Report and Management Report to collectively understand our performance against our most material sustainability matters including environment, customers, workforce, social, supply chain and business integrity aspects.

In the charts below, the 2018 bar is colour coded: green for in-line with desired direction and red for against desired direction.

● Indicator improved ● Indicator not improved

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Jet fuel**[1] (Million tonnes)	As commercial aircraft remain reliant on liquid kerosene for the foreseeable future, IAG's climate change focus is on purchasing newer more fuel efficient aircraft, developing sustainable jet fuel, pursuing operational fuel efficiency and supporting CORSIA global carbon offsetting scheme.	• Jet fuel use has increased by 4.26% compared to 2017 while our business growth has grown faster – RPK up 7.1%. This shows an increase in fuel efficiency per unit output.	
	Average age of aircraft fleet (years)	Average age of all aircraft in our fleet calculated at the end of the reporting year and based on aircraft age from date of manufacture. This is a measure of the rate of new aircraft entry into our fleet.	• There has been a slight decrease in our average fleet age in 2018. This has been mainly driven by retirements of aircraft and deliveries of new generation aircraft. • 42 aircraft introduced. • 21 aircraft retired. • Total aircraft fleet at end of December 2018: 573.	
	Flights only CO_2 emissions intensity (gCO_2/pkm)	Target: 10% improvement by 2020 compared to 2014. Grammes of CO_2 per passenger kilometre is a standard industry measure of flight efficiency. Individual airline performance is reported on the relevant pages in this report.	• The 0.4% improvement in average carbon efficiency in 2018, gives a rolling five-year average of 1.33% per year, just less than the industry target of 1.5%. • The slightly slower rate of improvement in 2018 is due to the rate of fleet renewal as well as challenging operating conditions including disruption caused by European ATC strikes.	

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1 2018 Climate data provisional subject to further verification for compliance with EU ETS which is completed after publication of this report. As we file this report within two months of year-end, our EU ETS and Scope 1 (direct) emissions data is provisional and will be subject to further verification (to reasonable assurance) after publication of this report. Based on past trends, the difference between provisional and verified data is not material, typically less than 0.05%, but may result in some minor rounding of our 2018 scope 1 emissions data in subsequent reports.

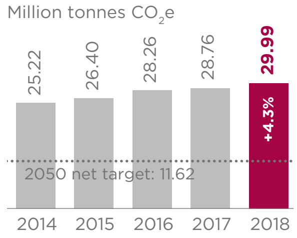
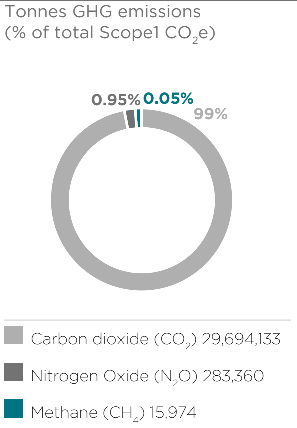
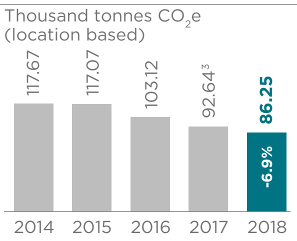
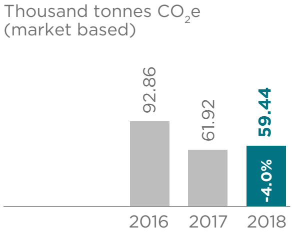
2 New measure in 2018

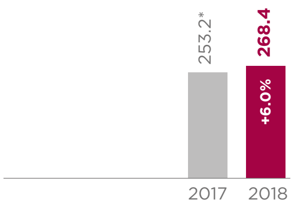
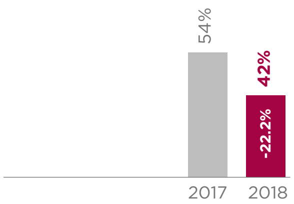
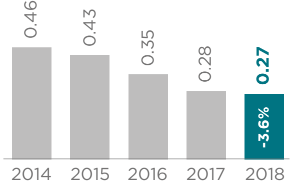
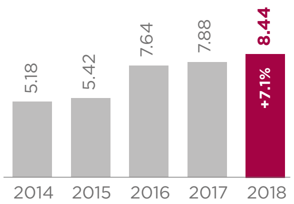
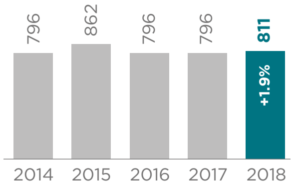
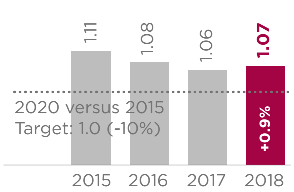
3 2017 location based figure is restated from previously reported figure (86,390 tonnes CO_2e) following revised calculations using new Spanish Government conversion factors.

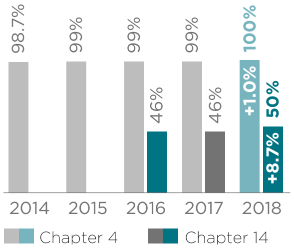
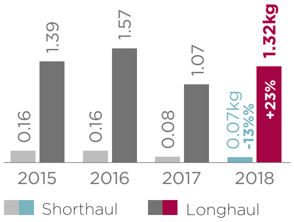
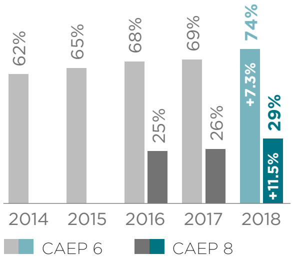
4 Emissions data for years 2017 and earlier have been third party verified to reasonable assurance for compliance with the EU ETS (covering flights within the European Economic Area). Furthermore, all of British Airways' Scope 1, 2 and 3 emissions data for years 2017 and earlier have also been third party verified (to reasonable assurance) and complies with ISO14064-3 international reporting standard.

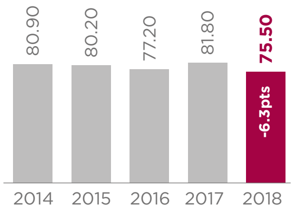
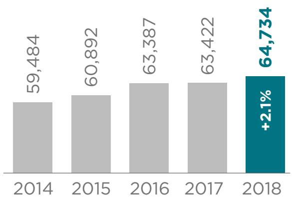
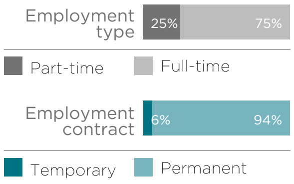
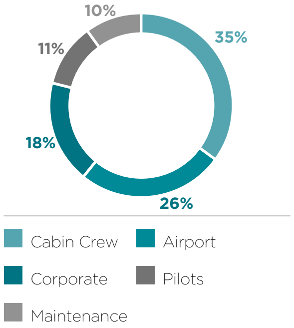
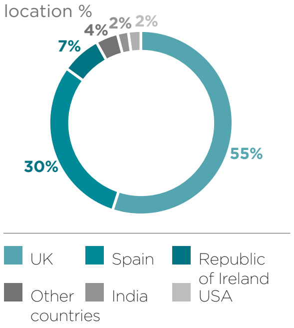
5 Scope 3 data reported 2018 was prepared for CDP report based on 2017 activity.

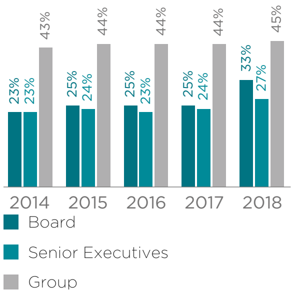
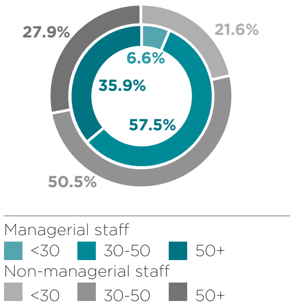
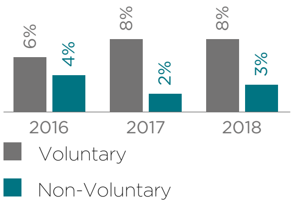
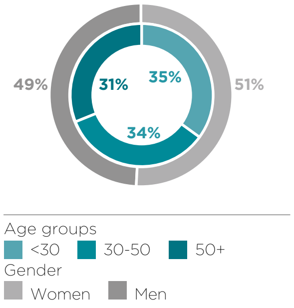
6 Based on headcount as at December 31, 2018.

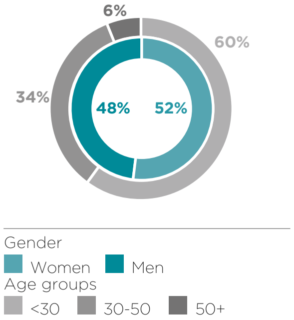
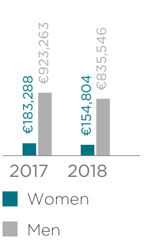
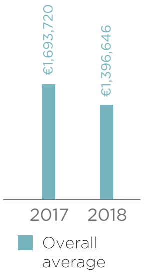
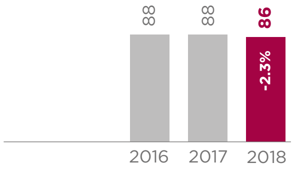
Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Scope 1[1] Direct GHG emissions** (Million tonnes CO_2e)	Direct emissions associated with our flying. In line with industry commitments which we were instrumental in securing in 2009, we have two targets over different timescales: 1 To achieve carbon neutral growth for our international aviation flights from 2020. 2 50% net reduction in CO_2 emissions by 2050 versus 2005 baseline (23.24 million tonnes).	- Scope 1 CO_2e emissions have increased but at a lower rate than activity of the airlines. - IAG contributed approximately 3 million tonnes of carbon reductions through our compliance with the EU ETS, bringing our net CO_2 emissions to c. 27 million tonnes CO_2e (provisional pending EU ETS verification).	 Targets: Carbon Neutral Growth by 2020 1 -50% net CO_2 by 2050 v's 2005 baseline (23,237,182)
	Scope 1 Other Greenhouse Gas Emissions[2]	We are reporting these measures for the first time in 2018. Previously we have reported all our greenhouse gas (GHG) emissions using the carbon dioxide equivalent metric (CO_2e) but have expanded this to reflect stakeholders interest in understanding the composition of the total.	- The majority of our GHG emissions comprise carbon dioxide emitted from aircraft fuel burn. - Emissions of other GHG's such as methane and nitrogen oxide also arise from aircraft fuel burn as well as the operation of ground vehicle fleets.	
	Reduction in GHG emissions from initiatives[2] (tonnes CO_2e)	Avoided emissions due to initiatives within any of the three scopes of emissions reporting. For example, enhanced fuel efficiency techniques yield scope 1 emissions reductions, switching from incandescent to LED lighting affects scope 2, and encouraging employees to car-share or utilise public transport affects scope 3.	- Efficiency initiatives have resulted in savings of 65,665 tonnes CO_2e, equivalent to 0.2% of our scope 1 emissions. - Key initiatives have included changes in operating procedures and on-board weight savings.	Thousand of tonnes CO_2e (First year reporting this) 
	Scope 2 Indirect GHG emissions[3] (Thousand tonnes CO_2e)	Buildings electricity. Scope 2 emissions reported here reflect national (location and market based) grid mix for UK, Spain and Ireland. Aer Lingus included from acquisition in August 2015. The location-based method considers emissions generated by the local power grid to which our facilities are connected. The market-based method considers emissions generated by the power companies that supply our energy and therefore includes factors such as renewables tariffs.	- Fluctuations in trend are influenced by airline acquisitions as well as the trend towards less carbon intensive electricity across Spain, UK and Ireland. - Our market-based emissions are significantly less than our location based emissions reflecting the portion of the Group's electricity supply being purchased from lower carbon sources. [3]	 

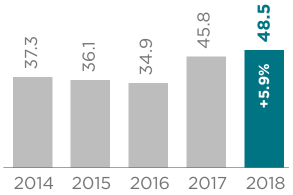
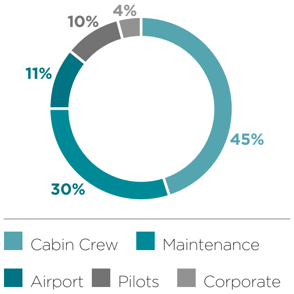
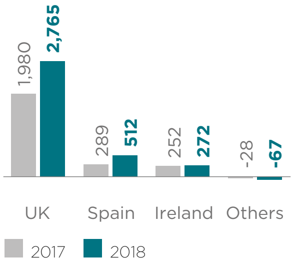
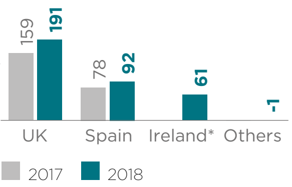
Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Electricity Used** (million kWh)[2]	Consumption of electricity across main facilities in millions of kilowatt hours. Includes usage in main offices, hub airports and maintenance facilities.	• Iberia energy efficiency initiatives included replacement of light bulbs that delivered the following savings in electricity usage: • Engine workshop: 2,679,979 KWh • Cargo terminal: 665,180 kWh	Million kWh electricity  * 2017 figure not previously reported
	Percentage renewable electricity[2] (%)	Percentage of electricity consumed as above that is generated by renewable sources. The primary source of IAG's renewable energy is wind. IAG aims to increase our overall percentage of renewable electricity used as part of our longer-term emissions reduction targets.	• 2018 renewable electricity use by airline: • Aer Lingus 52% • British Airways 61%, • Iberia 0% and • Vueling 0%	% Renewable electricity 
	Energy intensity per passenger kilometre (gCO_2/pkm)	This metric is designed to monitor our energy efficiency (Scope 2, location based) as a function of our business activity (passenger kilometres). It complements our flight only emissions intensity metric.	• Group wide electricity usage has increased in 2018 but has been slightly outpaced by growth in flying activity. • Our energy efficiency shows no change on last year. This is primarily due to completion of major energy efficiency projects in 2017 with minimal changes made in 2018.	Energy intensity per passenger kilometre (gCO_2e/pkm) 
	Scope 3 Other indirect GHG emissions[5] (Million tonnes CO_2e)	Other indirect emissions includes emissions associated with fuel production, transportation and distribution; aircraft manufacturing and disposal; waste processing; business travel and employee commuting; franchises and water consumption. More categories are now captured.	• The Scope 3 emissions increased by 7.1% in 2018 compared to 2017 partly due to business growth from expanding the scope of data captured. • We actively engage with suppliers to manage and reduce our scope 3 CO_2 emissions - see stakeholder engagement section.	Million tonnes CO_2e 
Economic return versus climate impact	**Revenue per tonne CO_2e** (€/tonne CO_2e for scope 1 and 2 emissions combined)	This metric is a long-term measure to track the connection between economic growth and climate impact of our operations.	• Revenue per tonne of CO_2 has improved slightly versus last year driven by the increased load factors and the value of cargo carried.	Revenue per tonne CO_2e €/t CO_2e (0%) 
Noise	**Average noise** (Based on Quota Count and number of Landing and Take Off cycles per year)	This metric measures average noise per flight considering arrival and departure noise for each aircraft type (using UK Government Quota Count values which are a relative categorisation based on certified noise levels) and the number of flights operated in a year. Note: for a single flight a Boeing 747 score would be 6.0 whereas an Airbus A320 (current engine option) would be 1.0.	• We are in the process of retiring some of our noisiest aircraft and replacing them with the next generation of quiet aircraft however our performance in 2018 declined slightly due to the increase in longhaul operations driving increased weight and therefore QC rating for some of our fleet.	Average noise QC/LTO cycle 

<table>
<tr><th>Aspect and link to SDG</th><th>Performance indicator</th><th>Description</th><th>2018 highlights</th><th>2018</th></tr>
<tr><td>Noise</td><td>Aircraft fleet noise certification (ICAO Chapter 4 and 14)</td><td>ICAO Chapter 4 noise certification comprises limits of 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.</td><td>• Our entire fleet meet ICAO Chapter 4 noise certification.
• During 2018 we have seen an increase in Chapter 14 certified aircraft and expect this to increase further during 2019 as new generation aircraft such as the Airbus A350 and A320neo join our fleet.</td><td>% ICAO noise standard
 </td></tr>
<tr><td></td><td>Continuous descent operations[2] (%)</td><td>Continuous descent operations (CDO) employ a smooth approach angle allowing aircraft to fly higher for longer compared to stepped approaches. This can help reduce fuel consumption as well as noise for those living under approach flightpaths.</td><td>• Our aim is to have all our airlines achieve over 80% average across UK airports.
• Prior to 2016 Iberia and Vueling had not been engaged in CDO initiatives but since then both airlines have made significant progress and are continuing their upward trend.
• Data does not include Level as they are not currently operating in the UK.</td><td>% Continuous Descents (UK average)
<table>
<tr><th>Airline</th><th>2013</th><th>2017</th><th>2018</th><th>%VLY</th></tr>
<tr><td>BA world</td><td>94.1</td><td>95.7</td><td>95.6</td><td>-0.1</td></tr>
<tr><td>BA domestic</td><td>87.0</td><td>87.3</td><td>88.8</td><td>1.5</td></tr>
<tr><td>Aer Lingus</td><td>86.8</td><td>87.5</td><td>86.6</td><td>-0.9</td></tr>
<tr><td>Iberia</td><td>58.2</td><td>84.7</td><td>85.4</td><td>0.7</td></tr>
<tr><td>Vueling</td><td>61.8</td><td>76.1</td><td>78.9</td><td>2.8</td></tr>
<tr><td>UK average</td><td>86.1</td><td>87.2</td><td>88.3</td><td>1.1</td></tr>
</table>
Source: NATS for Sustainable Aviation. 2013 is baseline year.</td></tr>
<tr><td>Waste</td><td>Average aircraft cabin waste (kg/passenger)</td><td>Cabin waste generated per passenger and split between shorthaul and longhaul operations.
We are working on being able to report this measure as a Group average.</td><td>• In 2018 Vueling average waste per passenger, including both catering and cabin waste was 0.19kg (shorthaul).
• For Iberia, shorthaul average waste per passenger was 0.14kg and for long haul was 1.75kg.
• For BA, shorthaul has improved slightly and longhaul has increased due to enhanced product offering.</td><td>Average cabin waste per passenger

* Data is British Airways data only</td></tr>
<tr><td>Air quality</td><td>Aircraft fleet that meet ICAO CAEP standard for NO_x emissions (%)</td><td>ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard.
The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014.
ICAO is also developing a standard for particulate matter from aircraft engines, expected to come into force in 2020.</td><td>• As 97% of our aircraft meet CAEP 4 NOx, we now focus on meeting the more stringent CAEP 6 and 8 standards.
• In 2018, we also measured average NOx emissions per landing and take-off cycle for the first time. The emissions generated during these phases influence air quality near the airports that we serve. The figure was 9.44 kg NOx/LTO for 2018. We will report trends on this in future years.</td><td>% ICAO NO_x standards
 </td></tr>
</table>

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Customers	**Customer satisfaction** (average Net Promoter Score)	Net Promoter Score (NPS) is a non-financial metric which measures the likelihood of a customer recommending an IAG operating carrier. Customer satisfaction with a company's products or services is key to a company's success and long-term competitiveness (see Key performance indicators section).	• We have established consistent methodology across our Group to achieve a single blended score. • The Voice of Customer (VoC) survey is the main tool of the customer experience programme and provides valuable feedback that helps to identify actionable insights to improve the customer proposition.	2018 **16.3** vly -0.5pts
	Punctuality (within 15 minutes)	Punctuality is defined as the percentage of flights that depart within 15 minutes of their published departure time. The moment of departure is defined as the moment the aircraft's brakes are released in preparation for pushback. As a major drive of customer satisfaction, and we strive to consistently improve our punctuality.	• Despite improved operational practices across our airlines punctuality performance has declined due to the very challenging environment caused by ATC strikes in Europe.	Punctuality % 
Workforce	**Employment** (Average manpower equivalent)	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 better reflect seasonality. Headcount is the actual number of people employed by the Group (employees).	• Our average manpower equivalent grew by 2.1% in a year when our overall ASKs increased by 6.1%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base. • The Group total headcount as at December 31, 2018, is 71,134	Average manpower equivalent 
	Composition[2, 6] (Employment type, contract and employee categories)	A part-time employee is one whose working schedule is less than 30 hours per week. A temporary employment contract has a defined end date. Our employee categories 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.	• This is being reported for the first time in 2018.	Employment type and contract  Employee categories breakdown % 
	Employees by country[2,6]	This indicator depicts the distribution of the Group's employees according to the country where they are based.	• As at the end of 2018, IAG had employees based in 83 countries. • 95% of the Group's workforce is based in the European Economic Area.	Employees by geographic location % 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Gender diversity[6]** **(% Women at Board, Senior Executive, & Group level)**	We are committed to building a workforce with diverse perspectives, experiences and backgrounds at all levels throughout the Group. In 2018 we have increased the proportion of women on the Board to 33% which was our published objective set for 2020. We also have an objective to reach 33% women across the Group's senior executive levels by 2025.	- In 2018 we have increased the number of women on our Board from 3 to 4. - The proportion of women in senior executive positions across the Group has increased from 24% to 27% in 2018. - All Group companies have updated their diversity and inclusion strategies to reflect IAG targets.	% Women 
	Age diversity[6]	An age diverse workforce balances the need for experienced individuals with maintaining a plan for succession through the recruitment of new talent.	- IAG reviews age diversity in the following ranges: less than 30 years, 30-50 years, over 50 years. - Further, we have also reported age diversity for staff in managerial and non-managerial roles.	Managerial and non-managerial staff 
	Employees with disabilities[2]	This measure is based on the total number of British Airways and Iberia employees with self-declared disabilities. The data is not currently available for our other operating companies. Between them, British Airways and Iberia represent over 80% of the Group's total headcount.	- This is being reported for the first time in 2018.	% of employees with disabilities **1.4%*** * British Airways and Iberia employees only
	Workforce turnover **(% voluntary and non-voluntary)**	IAG recognises the importance of retaining experience and talent in relation to the success of the business and we report turnover as a measure of the stability of our workforce. Workforce turnover is measured as the number of leavers as a percentage of the average number of Group employees in the year. 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, etc.).	- A total of 8,240 employees left the Group in 2018, of which 2,435 were non-voluntary.	% voluntary and non-voluntary  % gender and age breakdown of 2018 leavers 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Recruitment[2]** (by age and gender)	Total number of positions filled including both replacement hires and new positions.	• A total of 8,789 positions were filled across the Group, of which 52% were women.	Positions filled by gender and age % 
	Remuneration[2] (averages by gender)	Average remuneration for members of the board and management committee broken down by gender. For 2018, the board had two executive directors, both men. Their 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 board members who were on the Board for the whole of 2018, the board also had nine non-executive directors, consisting of six men and three women. Non-executive directors' remuneration is made up of basic fees and travel benefits. The Management Committee excludes the two executive directors who are board members. Including only Management Committee members who were in employment for the whole of 2018, the Management Committee consisted of eight men and two women. Their remuneration is made up of the same elements as for the executive directors. For 2017, only people who were in service for the whole year are included. The only difference being that the nine non-executive directors consisted of seven men and two women.	• 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 directors and the Chairman are all held by men. • Comparing 2018 to 2017, the average remuneration for men and women has fallen substantially because of the large fall in both the annual incentive pay-out and the long-term incentive. This affects the executive directors 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.	Average for Board  Average for Management Committee 
	Gender pay gap[2] (Median based on hourly rates)	Gender pay gap refers to the difference between men's and women's median earnings (based on hourly rates of pay) across the organisation, expressed as a percentage of men's earnings. A more in-depth report is available for each of our UK companies at: https://gender-pay-gap.service.gov.uk/	• For the first time, in 2018, UK companies with over 250 staff were required to report on their gender pay gap. This was reported in April 2018 based on data captured at the snapshot date, April 5, 2017. • At British Airways the gender pay gap is largely attributable to the low proportion of women pilots. When pilots are excluded from the calculations, the pay difference favours women by 1%.	Gender pay gap (median %) **2017** British Airways 10% Avios 32% British Airways Holidays 27% British Airways Maintenance Cardiff 20%
	Social Dialogue and Trade Unions[6] (% of employees covered by collective bargaining agreement)	Employee Relations are an important factor in improving and maintaining workforce engagement. All 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 employees. This includes regular review of matters relating to the health & safety of the workforce.	• IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group has operations, covering 95% of the Group's total workforce. EWC representatives are informed and consulted about matters which may impact the Group's employees in two or more EEA countries. Two meetings of the EWC were held in 2018.	% of employees covered by collective bargaining agreement 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Average hours of training** (average employee training hours per year, training hours by employee category)	Calculated by translating training data for airlines per FTE to show as training hours per Group Average Manpower Equivalent (AME).	• In 2018 IAG continued to invest in employee training across the Group with a focus on the customer proposition.	Average hours training per employee per year  Training hours by employee category % 
	Occupational Health & Safety[2] (Lost time injury frequency rate, lost time severity rate and fatalities)	A Lost Time Injury (LTI) is a non-fatal injury arising out of, or during work which leads to a loss of productive work time. The Lost Time Injury Frequency Rate (LTIFR) is calculated by multiplying the number of LTIs by 100,000 and dividing the result by the total number of hours worked in the year. The Lost Time Severity Rate (LTSR) measures the impact of occupational accidents as reflected in time off work by the injured employees. It is expressed as an average of days lost per LTI. This data does not include occupational diseases.	• British Airways introduced a new safety and security risk management system, AIR (Audit, Issue, Risk) that enables issues to be reported from a mobile device or web browser 24 hours a day, seven days a week, anywhere in the world. It provides rich data, in real time, helping to maintain the highest levels of safety and security in a smarter, intuitive way. • In 2018 the employees of the Group experienced 1.64 LTIs for every 100,000 hours worked and, on average, each of the LTIs resulted in 21.12 days off work. • Regrettably, there was one fatality at British Airways in 2018 due to a road traffic accident within the boundaries of Heathrow airport.	**2018** Lost Time Injury Frequency Rate: 1.64 Lost Time Severity Rate: 21.12 Number of fatalities: 1
Tax	**Profit / (loss)** € million	Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable. Subsidies have not been reported as they are not considered material.	• The increase in profits taxable in our main countries of operation in 2018 reflects improvements in the underlying financial performance of our operating companies. In the UK the increase is also driven by an exceptional gain arising in relation to British Airways pension schemes.	Profits by country €m 
	Income tax paid € million	Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.	• Total tax payments of €343m are lower than the expected tax charge for the Group of €671m primarily because tax relief for pensions in British Airways arises on a cash basis and is not based on accounting profits and losses. • The increase in taxes paid by country in our main countries of operation in 2018 reflects the increase in profits in our operating companies. The increase in tax paid in the UK is proportionately lower than the increase in profits because the exceptional gain in relation to pensions in British Airways is not a cash tax item. In Ireland, Aer Lingus offset its remaining tax losses from earlier years against taxable profits in 2017. Its remaining tax liability from 2017 together with its 2018 liability was paid in 2018.	Income tax paid by country  * 2017 was not calculated

Sustainability in action

Global aviation carbon offsetting scheme

The global aviation carbon offsetting scheme CORSIA is vital in enabling aviation to meet its long-term climate target of reducing net emissions to 50 per cent of 2005 levels by 2050. In 2018 IAG's representatives working with IATA and ICAO helped finalise the rules governing the scheme including those relating to Monitoring, Reporting and Verification (MRV), the treatment of Sustainable Aviation Fuels and the rules for airlines and carbon offsetting programmes relating to eligible carbon offsets. All IAG airlines prepared their CORSIA Emissions Monitoring Plans ahead of the deadline of September 30, 2018 and were ready to begin baseline monitoring from January 1, 2019.

We continue to comply with the EU Emissions Trading System and while we had hoped that CORSIA would replace aviation's inclusion in the EU ETS, as agreed in the 2016 ICAO General Assembly resolution, it seems likely now that both schemes will run in parallel during the initial years of CORSIA. We are continuing to work with IATA, our regional and domestic trade associations and directly with national governments to call for single tier regulation to avoid market distortion and carbon leakage. We are also liaising with the UK Government on options for the treatment of aviation after the UK exits the EU.

Fleet investment and modernisation

Fleet modernisation is a core part of IAG's strategy to reduce our flight only emissions intensity to 87.3 gCO_2/pkm by 2020 and to reduce noise by 10% per flight achieving an average noise quota count of 1.0 by 2020.

2018 saw the entry of three new aircraft types to the IAG fleet; the Airbus A320neo, A321neo and A350. In addition, we received further deliveries of A330 and Boeing 787 aircraft. The new aircraft are up to 20% more fuel efficient than the aircraft they replace and up to 50% quieter bringing benefit to communities close to the airports we serve.

2018 also marked the end of an era for some of IAG's fleet as eight of British Airways' last Boeing 767s and one Boeing 747 aircraft were retired. British Airways remaining 747 aircraft will be fully phased out by 2024. In the meantime, efficiency projects are in progress, including engine upgrades and weight savings to get the best operational performance from these aircraft while they remain in the fleet.

Fleet modernisation will continue in coming years with further deliveries of 92 A320neo series aircraft, 41 A350s and 12 Boeing 787s. These new aircraft will help our airlines to continue to improve passenger experience while minimising both climate and noise impacts.

Sustainable aviation fuel

Sustainable Aviation Fuels (SAF) will play an important part in enabling the aviation industry to meet its long-term climate goals. IAG remains at the forefront in influencing domestic, regional and international policy to support the development of SAF and action on SAF is gaining momentum.

In 2018, in partnership with Airbus and Total, the delivery of Iberia's first Airbus A350 aircraft was powered by a 10 per cent SAF blend.

British Airways' partnership with Velocys and Shell has progressed with Velocys receiving a development grant from the UK Department for Transport. The project, to build Europe's first commercial plant to convert household waste to renewable jet fuel, has concluded the initial engineering design, feedstock supply feasibility work and secured a site. IAG continues to work with several technology developers to establish a range of supply options for the future.

In anticipation of its centenary celebrations in 2019, British Airways also launched the Future of Fuels competition open to academics at UK universities. Winners will be awarded a £25,000 grant to further their research along with an opportunity to present their winning proposal at the industry leading IATA Alternative Fuels Symposium and ATAG Global Sustainable Aviation Summit.

The Department for Transport, Sustainable Aviation and Innovate UK have also sponsored a Special Interest Group which has provided support to researchers and small and medium-sized enterprises (SMEs) wishing to develop new SAF projects.

Carbon fund

Customer donations to the British Airway's Carbon Fund have helped us to support many community projects around the world focussed on renewable energy, energy efficiency, and carbon reduction. The fund supported 12 projects in 2018, investing in solar panels, high efficiency lighting, insulation and energy storage in schools, community and sports centres in the UK and in Africa. This brings the total number of projects funded to date to 39, providing benefits to over 200,000 people.

The second phase of a project with the Ol Pejeta Conservancy was completed with a £70,000 grant from the Carbon Fund enabling the replacement of two diesel powered borehole pumps with solar pumps. These provide clean water as well as improving air quality and providing free Wi-Fi for schoolchildren within 15km of the pumps.

Closer to home, a British Airways Carbon Fund grant supported the conversion of a derelict building on the grounds of a primary school in Renfrewshire, Scotland to a low carbon community hub.

Fuel efficiency

In 2018 our Honeywell GoDirect Fuel efficiency software went live in Iberia, British Airways and Aer Lingus in November 2018 with Vueling and the Group Portal due to follow in first quarter 2019. This new tool will help identify further fuel efficiency opportunities and enable group-wide benchmarking and reporting on aircraft fuel efficiency performance.

Vueling and Iberia began working under the Eurocontrol Collaborative Environmental Management framework with the Spanish air traffic control authority AENA to collectively develop more sustainable Spanish airspace targeting noise and CO_2 emissions reductions.

Other examples of the fuel efficiency initiatives delivered by our airlines in 2018 include; landing lights retraction, single engine taxi without APU, Boeing Winds, departure altitude release, weight reduction and optimised engine wash programmes. Collectively these saved over 65,000 tonnes of CO_2. We also began an innovative collaboration with Signol, behavioural economics experts, as part of IAG's start-up accelerator programme Hangar 51.

Noise

Minimising the noise impact of our aircraft operations on quality of life for communities around the airports where we operate remains an important focus of our sustainability programme. While we are proud of the progress that has been made in reducing aircraft noise over time, we recognise, and are committed to addressing, the ongoing concerns of communities regarding aircraft noise.

As well as our investment in new aircraft we have also been modifying existing aircraft to help reduce noise impact. For example in 2018 Aer Lingus fitted 28 of their 37 Airbus A320/21 aircraft with airflow deflectors which help prevent the generation of a whistling sound during a phase of descent. In addition, all our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible.

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. For example, British Airways participates in the Heathrow Community Noise Forum and worked with the group in 2018 to improve adherence to departure routings that are designed to minimise noise from the airport as well as a trial testing the impact of climb gradients on noise.

British Airways also contributed to a UK Government study on departure noise mitigation, which found that the two main departure procedures used by airlines distribute community noise in slightly different ways, but that overall the total noise exposure is similar.

In 2018 we also worked with UK Sustainable Aviation (SA) partners including other airlines, airport operators, aircraft manufacturers and the UK air traffic control authority NATS to review our joint action on noise. SA reports have demonstrated the industry has made good progress in reducing its noise footprint in recent years while future programmes in SA will focus on supporting further operational improvements and better understanding the non-acoustic quality of life options for managing the impacts of aircraft noise.

Waste

Our airlines are working with suppliers to reduce unnecessary waste and where possible avoid the use of single use plastics. For example, Vueling removed plastic tea cups from their shorthaul catering services, replacing them with biodegradable alternatives.

Iberia have also made changes to their service on board aircraft and in their Dalí Premium Lounge in Madrid Airport including:

- replaced plastic wrap for Business class earphones with paper saving 436,000 plastic bags per year (1.5 tonnes less plastic waste)
- canned drinks replaced with returnable glass, saving 1 million cans per year (23.5 tonnes less aluminium waste)
- individual plastic salad pots replaced with buffet salads, saving almost 200,000 containers (6 tonnes less plastic waste)
- wines in plastic bottles replaced with glass which is recycled, saving 25,000 plastic bottles (575 kg less plastic waste).

In 2018 Iberia's work on the EU LIFE+ Zero Cabin Waste project also progressed with the design of a new on-board waste trolley to facilitate separation of waste for cabin crew and a series of trial flights between Madrid and Barcelona, London and Geneva to test the new product. Initial data shows an average of an additional 13kg waste per flight being diverted from disposal to recycling.

British Airways appointed over 120 cabin crew as 'War on Waste champions' to help tackle waste. Successes from their first few months in action included:

- reduced the use of plastic swizzle sticks for drinks by 30 per cent
- changed the packing of Club Kitchen products saving over 100,000 products a year from disposal
- collecting bottle corks, now sending c. 10kg of corks each month to Re-Corked UK for recycling
- adding waste reduction and recycling training to the Cabin Crew New Entrant Training course.

IAG and British Airways are also tackling waste at our London headquarters. In April we introduced a levy on disposable coffee cups, plastic stirrers were removed, plastic take away containers and cutlery in the canteen was replaced with reusable alternatives and plastic water cups were removed from water dispensers. In total, over 1 million individual single-use plastic items were saved in the first 8 months from launch.

Inspire work experience programme

British Airways award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry. In 2018 over 24,000 young people were engaged through staff volunteering opportunities. 600 students were also hosted on work experience weeks across 25 departments and British Airways was re-awarded the work experience Gold Standard. Teacher Take Off Days also gave teachers a one-day work experience course and Your Flying Future campaign was launched to encourage young people from a variety of backgrounds to consider a flying career.

Air quality

Ground Service Equipment across the Group's main hubs of operation is being replaced where possible with electric vehicles, helping reduce our carbon footprint and improve air quality for local residents. 38% of Iberia Airport Services vehicles are now electric, up from 29% last year.

Aer Lingus purchased 61 electric baggage tractors, belt loaders, passenger stairs and pushback tugs. Electric vehicles currently comprise 38% of Aer Lingus Ground Service Equipment fleet.

Mototok, the electric remote-control pushback tug commercialised by British Airways is in use across all shorthaul operations at Heathrow Terminal 5. In addition to improving punctuality performance, the new tugs are powered by Heathrow's 100% renewable electricity supply saving 7,400 tonnes of CO_2 and 28 tonnes of NOx every year compared to the previous diesel-powered tugs. British Airways continues to work with Mototok, collaborating on development of a model for widebody aircraft.

Health and safety

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

We have robust governance in place led by the safety committees in each of our operating companies. The IAG 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.

Beyond accessibility

British Airways has committed to ensuring that the journey process is made simpler and easier for customers with disabilities. An internal communication campaign and a video featuring British Airways customers, called Beyond Accessibility, has been incorporated into colleague learning to help them to understand the challenges that customers with disabilities can face when they travel. They are also working with airport operators and handling agents to provide more consistent customer service including prioritisation during disruption, dedicated check in areas and more effective priority boarding. In addition, British Airways has partnered with the National Autistic Society to understand what can be done to help and support customers who have hidden and non-visible disabilities too.

Across the Group we comply with relevant legislation regarding accessibility for disabled employees and customers in our buildings and our operations.

Workforce diversity

The progression of women into leadership roles is vitally important and we have set a target to reach 33% women across our senior executive levels (top 200) 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 of these achievements in 2018 included:

- A series of roadshows across the Group to engage leadership teams and raise awareness.
- A diagnostic questionnaire for approximately 2000 managers across the Group in June, which identified their experiences around gender inclusion. Key actions are being developed in the individual Operating Company diversity plans.
- British Airway & Avios reported their Gender Pay Gap figures in April.
- International Women's Day was marked with British Airways and Aer Lingus flights crewed and operated by women colleagues in March.
- IAG partnered with Rocking Ur Teens, a social enterprise, hosting a teen STEM conference in November for 250 school girls aged 13 to 15. This was to help motivate and inspire the next generation of young women into the airline industry.
- Established mentoring and sponsorship programmes across the Group for senior managers.

Supply chain

IAG's Supplier Code of Conduct is the main framework setting out the standards to which suppliers engaging with IAG and its operating companies must comply. The Supplier Code of Conduct covers Labour, Health and Safety, Environment and Business Integrity standards.

In 2018, IAG established a more robust risk management process to facilitate due diligence and monitoring of our suppliers throughout the supplier lifecycle. IAG Global Business Services (GBS) has enlisted Bureau van Dijk, a major business intelligence provider, to enrich understanding of our suppliers' legal, social, environmental and financial compliance. To date, 5,500 suppliers have been screened during the first phase of deployment.

We monitor suppliers by the number of risks as well as the severity of each risk type. IAG reserves the right to conduct on-site audits, issue reviews and corrective action plans, and terminate contracts in serious instances. IAG aims to work collaboratively with poorly performing suppliers to improve their standards. Audits are carried out by trusted third-party auditors with track records in driving improvements in responsible business practices in global supply chains.

In 2019, we will continue to screen suppliers during initial set-up and on a quarterly basis to grow the number of suppliers covered. Results will be reviewed with appropriate risk owners on an ongoing basis.

Community giving

Aer Lingus celebrated the 21st anniversary of its partnership with UNICEF's Change for Good appeal, raising $1 million through on-board customer donations. Aer Lingus also continued its support of Special Olympics Ireland collecting over €8,000 and donating flights.

British Airways' charity partnership with Comic Relief, Flying Start reached a major milestone in 2018, hitting its 2020 target of raising £20 million two years early. Following a tsunami in Indonesia in September, British Airways customers raised £188,576 for the Disasters Emergency Committee appeal. A joint event with Aerobility saw 99 wheelchair users pull a Boeing 787-9 aircraft 100 metres, raising £16,000 and achieving a Guinness World Record.

Iberia's partnership with Amadeus to support UNICEF's immunisation programme has been extended to 2020. Since 2013, the collaboration has raised €935,000 and has resulted in the vaccination of over 1 million children in Chad, Angola and Cuba.

Vueling's collaboration with Save the Children generated €235,000 in customer donations in 2018. Vueling donated 120 tickets to the Make-A-Wish foundation, helping children with serious illnesses to have life-changing experiences. Vueling has also teamed up with Nutrition Without Borders, donating unused bottles of water from flights in an initiative which also reduces on-board waste.

Modern slavery

Human Trafficking is of real concern in the airline industry and it is a topic we have focused on more acutely since 2015 with the reform of the Spanish Criminal Code and the introduction of the UK Modern Slavery Act.

Transporting over 100 million passengers per year and with tens of thousands of suppliers, Group Slavery and Human Trafficking is relevant for 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 June 2018 we published our second Group Slavery and Human Trafficking Statement as set out under the UK Modern Slavery Act 2015. Modern Slavery clauses now feature in all new supplier contracts as well as those coming up for renewal. IAG representatives attended an IATA seminar on Modern Slavery to share knowledge, learnings and best practice. The seminar culminated in a resolution denouncing human trafficking and reaffirms commitments to tackling human trafficking including sharing of best practices, staff training and reporting. This resolution was passed by IATA at its 2018 Annual General Meeting.

Aer Lingus has had human trafficking training for pilots and cabin crew since 2016 and run recurrent human trafficking training on a 3-year basis. Guidance and procedures for flight crew and cabin crew is also included in their Operations Manual. British Airways is also ensuring all cabin crew are trained to recognise the signs of human trafficking with an awareness training session now included in annual mandatory training.

Ethics and integrity

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. All directors and employees are expected to act with integrity and in accordance with the laws of the countries they operate in. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers. In 2019, IAG will be implementing a new Group-wide Code of Conduct that will apply to all directors, managers and employees of IAG, as well as its third parties.

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. A new e-learning to support the new Code of Conduct will be rolled out in 2019 and this will be applicable to all Group employees and directors.

Resources are available across the Group for employees to get advice or to report grievances or any alleged or actual wrongdoing. There are whistle-blowing 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 whistle-blowing channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; and, any issues raised of significance to the financial statements. The annual review is coordinated by the Head of Group Audit. In 2018 a total of 201 reports were received through the confidential reporting channels. This is compared to 205 reports received in 2017. All reports were followed up and investigated where appropriate and reported to the Audit and Compliance Committee.

Anti-bribery and corruption policy and programme

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our company 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. These compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks across the Group. The main risks identified during the 2018 review relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality.

Anti-bribery training courses include e-learning and 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. An updated e-learning course is being rolled out in 2019 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 particular third-party presents. In 2018 the Group implemented integrity-based screenings into its new Group-wide vendor management system and in 2019 a new third-party management tool for higher risk third parties will be implemented, together with updated procedures.

The Audit and Compliance Committee of the IAG Board receives an annual update on the programme.

Anti-money Laundering

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

ANNUAL CORPORATE GOVERNANCE REPORT

The 2018 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 2/2018, of June 12, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2018 Financial Statements, is available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND SUBSIDIARIES

Independent limited assurance report on the Consolidated Statement of Non-Financial Information for the year ended December 31, 2018

Building a better
working world

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INDEPENDENT LIMITED ASSURANCE REPORT ON THE 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 NFS) for the year ended December 31, 2018, of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Management's Report of the Group.

The content of the NFS 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 Appendix of the accompanying NFS.

Responsibility of the Board of Directors

The Board of Directors of the Group is responsible for the approval and content of the NFS included in the Consolidated Management's Report of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and following Sustainability Reporting Standards selected criteria of the Global Reporting Initiative (GRI), as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the Appendix of the NFS.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

They are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

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 behavior.

Our Firm applies International Standard on Quality Control 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 requirements.

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

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, that refers exclusively to 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. 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 smaller 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 NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- Meetings with Group personnel to gain understanding of the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- Analyzing the scope, relevance and integrity of the content included in the 2018 NFS based on the materiality analysis made by the Group and described in section "General Information" of the NFS, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS and its correct compilation from the data sources.
- Obtaining a representation letter from the Board of Directors and Management.

Basis for a modified conclusion

As explained in section "Table of contents", included in the appendix of the attached Statement of Non-Financial Information, the Statement does not include the disclosures regarding social and employee-related issues related to the staff absentee rate, the average remuneration and the gender pay gap, required by the Law 11/2018, of 28 December, amending the Commercial Code, the Revised Text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010, of 2 July and Law 22/2015 of 20 July on Auditing, on the subject of non-financial information and diversity.

Modified conclusion

Based on the procedures performed and the evidence obtained, except for the impact of the matters described in the "Basis for a modified conclusion", no additional matter came to our attention that would lead us to believe that the NFS of the Group for the year ended December 31, 2018 has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and following 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 appendix of the NFS.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

Capella

Antonio Capella Elizalde

March 4, 2019

Consolidated statement of non-financial information

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

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

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Business model

Brief description of the group's business model, including its business environment, organization 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

Number 1 position in Barcelona, London and Madrid, second position in Dublin, in relation to available seat kilometres (ASK)

Passengers transported 113 million vly +7.7%

Available seat kilometres 324,808 million vly +6.1%

Cargo tonnes kilometres 5,713 million vly -0.9%

Destinations 268

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
- Enhancing the common integrated platform

We achieve our priorities through:

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

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

Refer to Risk management and principal risk factors section included in the appendix

General information

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

We have also included details of the materiality study and the data governance and scope.

Our sustainability performance indicators are based on the GRI standards and are selected to reflect our performance indicators.

Materiality

In autumn 2017 we completed a materiality analysis performed in line with Global Reporting Initiative Sustainability Reporting Guidelines as well as benchmarking with other materiality frameworks. We engaged a range of our principal external stakeholders including investors, corporate customers, suppliers and NGOs. The charitable trust Business in the Community was appointed to provide objective oversight of the process; facilitating workshops, reviewing interview feedback and preparing a materiality matrix.

In 2018 IAG worked with the Global Reporting Initiative (GRI) and the International Air Transport Association (IATA) to develop a GRI Sectorial Guidance Handbook for airlines. This will improve consistency and allow comparisons across the industry. The issues identified by IATA and GRI for the airline sector are aligned with the issues we identified for IAG.

IAG Sustainability material issues

Environment	Local Impacts and development	Workforce	Future competitiveness	Corporate governance
• Climate change (including emissions, fleet modernisation, fuel efficiency and Sustainable Aviation Fuels) • Energy use • Waste	• Noise • Local economic impacts (job creation) • Air quality • Community engagement & charitable support	• Employee satisfaction • Diversity and equality • Talent management	• Financial performance (short term investor returns and long term sustainability) • Customer satisfaction • Carbon pricing • Innovation, research and development	• Compliance with legislation and regulation • Supply chain management

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

Data Governance

The scope of our sustainability performance data includes all our airline and air cargo operations except for some specific data for LEVEL Austria and LEVEL France which started operations in summer 2018. LEVEL Spain operations (three A330 aircraft) are included in scope of all our environment data. LEVEL Austria (four A321 aircraft) and LEVEL France (two A330 aircraft) are only reported in relation to ICAO CAEP Noise and NOx measures. The data for the 6 aircraft represents 1.1% of our total fleet in 2018 (573) and less than 1% of our Scope 1 emissions.

Avios and GBS functions, are currently included in scope of our workforce metrics but are not in scope of our environmental metrics (where they form less than 1% of material environmental aspects).

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

The structure of the Group means that each Operating Company has responsibility for the policies and procedures relating to its direct workforce, 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 (Group Instruction 4) intended to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

Due to our diverse Operating Companies in the Group, 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. Across the Group, the following core corporate training courses are run by all Operating Companies:

- Code of Conduct (to be added in 2019 with the launch of our new Group Code)
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

A description of the main risks associated with social and employee-related matters

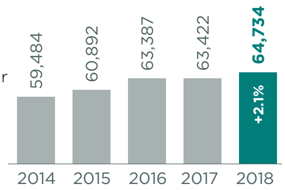
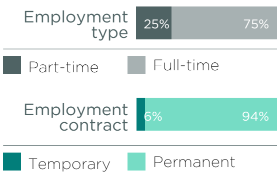
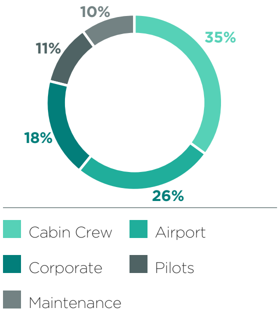
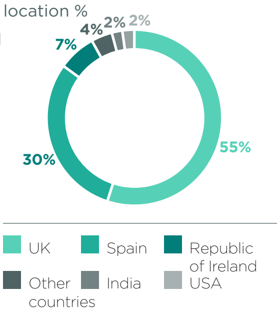
Refer to Risk management and principal risk factors section included in the appendix

Results and KPIs

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

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

● Indicator improved ● Indicator not improved

Performance indicator	Description	2018 highlights	2018
Employment **(Average manpower equivalent)**	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 better reflect seasonality. Headcount is the actual number of people employed by the Group (employees).	• Our average manpower equivalent grew by 2.1% in a year when our overall ASKs increased by 6.1%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base. • The Group total headcount as at December 31, 2018, is 71,134	Average manpower equivalent 
Composition[1] **(Employment type, contract and employee categories)**	A part-time employee is one whose working schedule is less than 30 hours per week. A temporary employment contract has a defined end date. Our employee categories 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.	• This is being reported for the first time in 2018.	Employment type and contract  Employee categories breakdown % 
Employees by country[1]	This indicator depicts the distribution of the Group's employees according to the country where they are based.	• As at the end of 2018, IAG had employees based in 83 countries. • 95% of the Group's workforce is based in the European Economic Area.	Employees by geographic location % 

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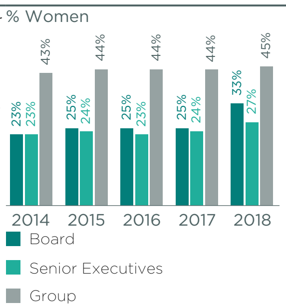
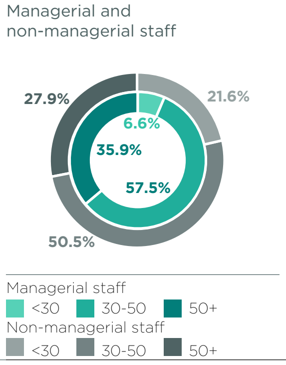
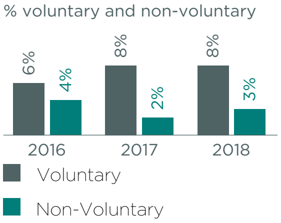
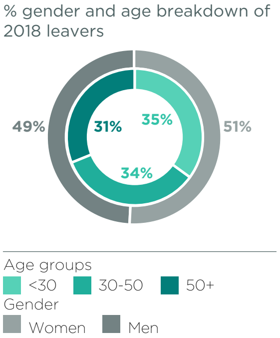
1 Based on headcount as at December 31, 2018.

Total number of dismissals and distribution by gender, age and job category

Performance indicator	Description	2018 highlights	2018
Gender diversity[1] (% Women at Board, Senior Executive, & Group level)	We are committed to building a workforce with diverse perspectives, experiences and backgrounds at all levels throughout the Group. In 2018 we have increased the proportion of women on the Board to 33% which was our published objective set for 2020. We also have an objective to reach 33% women across the Group's senior executive levels by 2025.	• In 2018 we have increased the number of women on our Board from 3 to 4. • The proportion of women in senior executive positions across the Group has increased from 24% to 27% in 2018. • All Group companies have updated their diversity and inclusion strategies to reflect IAG targets.	

Performance indicator	Description	2018 highlights	2018
Age diversity[1]	An age diverse workforce balances the need for experienced individuals with maintaining a plan for succession through the recruitment of new talent.	• IAG reviews age diversity in the following ranges: less than 30 years, 30-50 years, over 50 years. • Further, we have also reported age diversity for staff in managerial and non-managerial roles.	

Performance indicator	Description	2018 highlights	2018
Workforce turnover (% voluntary and non-voluntary)	IAG recognises the importance of retaining experience and talent in relation to the success of the business and we report turnover as a measure of the stability of our workforce. Workforce turnover is measured as the number of leavers as a percentage of the average number of Group employees in the year. 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, etc.).	• A total of 8,240 employees left the Group in 2018, of which 2,435 were non-voluntary.	 

Average remuneration broken down by gender, age and job category

The company will not be able to report any information about the average remuneration of the of the workforce this year. The company does not have the information system to collect and report this information at corporate level.

Gender Pay gap

Performance indicator	Description	2018 highlights	2018
Gender pay gap (Median based on hourly rates)	Gender pay gap refers to the difference between men's and women's median earnings (based on hourly rates of pay) across the organisation, expressed as a percentage of men's earnings. A more in-depth report is available for each of our UK companies at: https://gender-pay-gap.service.gov.uk/	• For the first time, in 2018, UK companies with over 250 staff were required to report on their gender pay gap. This was reported in April 2018 based on data captured at the snapshot date, April 5, 2017. • At British Airways the gender pay gap is largely attributable to the low proportion of women pilots. When pilots are excluded from the calculations, the pay difference favours women by 1%.	Gender pay gap (median %)

Gender pay gap (median %)	**2017**
British Airways	10%
Avios	32%
British Airways Holidays	27%
British Airways Maintenance Cardiff	20%

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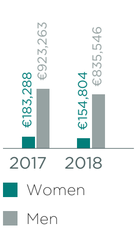
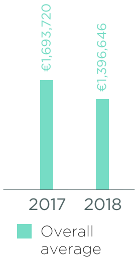
1 Based on headcount as at December 31, 2018.

Average remuneration of board members and directors, including variable remuneration, allowances, professional indemnity, contributions to pension and welfare systems and any other concept part of the remuneration broken down by sex

Performance indicator	Description	2018 highlights	2018
Remuneration (averages by gender)	Average remuneration for members of the board and management committee broken down by gender. For 2018, the board had two executive directors, both men. Their 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 board members who were on the Board for the whole of 2018, the board also had nine non-executive directors, consisting of six men and three women. Non-executive directors' remuneration is made up of basic fees and travel benefits. The Management Committee excludes the two executive directors who are board members. Including only Management Committee members who were in employment for the whole of 2018, the Management Committee consisted of eight men and two women. Their remuneration is made up of the same elements as for the executive directors. For 2017, only people who were in service for the whole year are included. The only difference being that the nine non-executive directors consisted of seven men and two women.	• 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 directors and the Chairman are all held by men. • Comparing 2018 to 2017, the average remuneration for men and women has fallen substantially because of the large fall in both the annual incentive pay-out and the long-term incentive. This affects the executive directors 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.	*Average for Board  Average for Management Committee 

Implementation of policies to allow employees to disconnect from work

Promoting work-life balance - Across the Group, there are many examples of policies and initiatives designed to promote a healthy work-life balance. For example, British Airways has policies to support worklife balance such as the right to request working flexibly, job share, maternity, adoption, paternity and shared parental leave. There are also initiatives to encourage employees to disconnect from work by take a proper break. For example, in 2018 British Airways ran an initiative called 'Let's talk about holidays' to help ensure that employees feel supported in taking their holiday entitlement and having a break from work. British Airways also promotes informal flexible working such as working away from the office or working from home, dependent on job role. There are also local informal arrangements such as flexible start times, ability to swap shifts or rosters and for flying staff to bid for certain routes. British Airways celebrated work-life balance week in 2018 by holding a theatre event on promoting awareness and the benefits of flexible working. This highlighted the 24/7 nature of the operation to highlight services and facilities that are available to shift workers. Roadshows were held to promote working carers and working parents online network groups which provide support services to employees.

Number of employees with disabilities

Performance indicator	Description	2018 highlights	2018
Employees with disabilities	This measure is based on the total number of British Airways and Iberia employees with self-declared disabilities. The data is not currently available for our other operating companies. Between them, British Airways and Iberia represent over 80% of the Group's total headcount.	• This is being reported for the first time in 2018.	% of employees with disabilities **1.4%*** * British Airways and Iberia employees only

Working hours organization; measures to promote work-life balance and co-parenting responsibilities

See answer to Implementation of policies to allow employees to disconnect from work

Number of hours of absenteeism

The company does not report any information.

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. The IAG 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.

Also see Risk management and principal risk factors section in the Appendix and the Management report

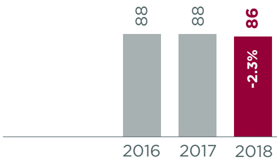
Accident rates, especially frequency and severity, as well as occupational illnesses, broken down by gender

We report accidents that result in lost time and their severity through the average number of days lost.

<table>
<tr><th>Performance indicator</th><th>Description</th><th>2018 highlights</th><th>2018</th></tr>
<tr>
<td>Occupational Health and Safety
(Lost time injury frequency rate, lost time severity rate and fatalities)</td>
<td>A Lost Time Injury (LTI) is a non-fatal injury arising out of, or during work which leads to a loss of productive work time.
The Lost Time Injury Frequency Rate (LTIFR) is calculated by multiplying the number of LTIs by 100,000 and dividing the result by the total number of hours worked in the year.
The Lost Time Severity Rate (LTSR) measures the impact of occupational accidents as reflected in time off work by the injured employees. It is expressed as an average of days lost per LTI.
This data does not include occupational diseases.</td>
<td>• British Airways introduced a new safety and security risk management system, AIR (Audit, Issue, Risk) that enables issues to be reported from a mobile device or web browser 24 hours a day, seven days a week, anywhere in the world. It provides rich data, in real time, helping to maintain the highest levels of safety and security in a smarter, intuitive way.
• In 2018 the employees of the Group experienced 1.64 LTIs for every 100,000 hours worked and, on average, each of the LTIs resulted in 21.12 days off work.
• Regrettably, there was one fatality at British Airways in 2018 due to a road traffic accident within the boundaries of Heathrow airport.</td>
<td><table>
<tr><th></th><th>2018</th></tr>
<tr><td>Lost Time Injury Frequency Rate</td><td>1.64</td></tr>
<tr><td>Lost Time Severity Rate</td><td>21.12</td></tr>
<tr><td>Number of fatalities</td><td>1</td></tr>
</table></td>
</tr>
</table>

Labour relations

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

<table>
<tr><th>Performance indicator</th><th>Description</th><th>2018 highlights</th><th>2018</th></tr>
<tr>
<td>Social Dialogue and Trade Unions[1]
(% of employees covered by collective bargaining agreement)</td>
<td>Employee Relations are an important factor in improving and maintaining workforce engagement.
All 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 employees. This includes regular review of matters relating to the health & safety of the workforce.</td>
<td>• IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group has operations, covering 95% of the Group's total workforce. EWC representatives are informed and consulted about matters which may impact the Group's employees in two or more EEA countries. Two meetings of the EWC were held in 2018.</td>
<td>% of employees covered by collective bargaining agreement

</td>
</tr>
</table>

Refer to Risk management and principal risk factors section included in the appendix.

Percentage of employees covered by collective agreements, by country

See answer above.

Results of collective agreements, especially in the field of health and safety

See answer above.

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[1] Based on headcount as at December 31, 2018.

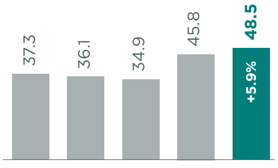
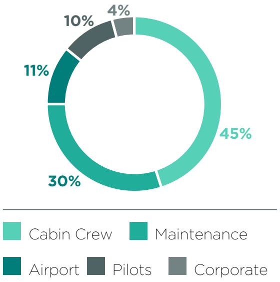
Training

Training policies implemented

Training Policies - Due to our diverse set of Operating Companies in the Group, all training policies and programmes are implemented at Operating Company level. Each Operating Company 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. Across the Group, the following core corporate training courses are run by all Operating Companies:

- Code of Conduct (to be added in 2019 with the launch of our new Group Code)
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Number of hours of training by professional category

Performance indicator	Description	2018 highlights	2018
Average hours of training (average employee training hours per year, training hours by employee category)	Calculated by translating training data for airlines per FTE to show as training hours per Group Average Manpower Equivalent (AME).	• In 2018 IAG continued to invest in employee training across the Group with a focus on the customer proposition.	Average hours training per employee per year  Training hours by employee category % 

Accessibility

Universal accessibility of people with disabilities

Arrangements to provide 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 external best practice organisations such as the Business Disability Forum in the UK, designed to support organisations with their disability strategy for employees and customers. British Airways has achieved Level 2 of the Government's Disability Confident Scheme which demonstrates their commitment to recruit, develop and retain people with disabilities.

Equality

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

Workforce diversity - The progression of women into leadership roles is vitally important and we have set a target to reach 33% women across our senior executive levels (top 200) 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 of these achievements in 2018 included:

- A series of roadshows across the Group to engage leadership teams and raise awareness.
- A diagnostic questionnaire for approximately 2,000 managers across the Group in June, which identified their experiences around gender inclusion. Key actions are being developed in the individual Operating Company diversity plans.
- British Airway and Avios reported their Gender Pay Gap figures in April.
- International Women's Day was marked with British Airways and Aer Lingus flights crewed and operated by women colleagues in March.
- IAG partnered with Rocking Ur Teens, a social enterprise, hosting a teen STEM conference in November for 250 school girls aged 13 to 15. This was to help motivate and inspire the next generation of young women into the airline industry.
- Established mentoring and sponsorship programmes across the Group for senior managers.

Management approach

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

Our sustainability programmes are co-ordinated at Group level to develop and implement sustainability policy and strategy, establish targets and programmes and ensure appropriate governance and accountability across all our operating companies. The IAG Management Committee provides the forum for review, challenge and setting strategic direction. Further oversight and direction is provided by the IAG Board and the Audit and Compliance Committee.

The IAG Group Sustainability Policy sets the context and ambition for our sustainability programmes. 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.

In addition, we have continued to make progress with the adoption of the IATA Environmental Assessment (IEnvA) programme. IEnvA is the airline industry version of ISO14001 tailored specifically for airlines and fully certified by the International Standards Organisation (ISO). We expect Vueling and British Airways to achieve Phase 1 certification early in 2019 and Iberia later in the year.

Sustainability forms part of 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 we are committed to minimizing our environmental impact delivering best practice and demonstrating thought leadership to drive global improvements in the aviation industry's sustainability performance. We have aligned our sustainability programmes to IAG's strategic priorities and value propositions:

1. Strengthening a portfolio of world-class brands and operations

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

2. Growing global leadership positions

- Demonstrating industry leadership, advocating for carbon pricing
- Maturing our transition pathway towards low carbon economy
- Leadership in carbon disclosures

3. Enhancing IAG's common integrated platform

- Investing in efficient aircraft fleet and delivering best practice in operational efficiency
- Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low carbon technologies.

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

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

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 is included

Summary of sustainability challenges and opportunities

Type	Description and potential impact	How we manage it
Climate Transition Challenges and Opportunities		
	Emergence of global patchwork of uncoordinated national and regional climate policies – regulation 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, IATA and ICAO to lobby for and help deliver a single effective global carbon pricing solution for aviation, CORSIA. Regular updates on progress are provided to the IAG Management Committee and IAG Board.
	Climate regulation – regional application 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 mentoring other airlines to ensure CORSIA is adopted successfully. • Supporting development of robust rules for CORSIA on Monitoring Reporting and Verification and Emissions Unit Criteria. • Lobbying for single tier adoption of CORSIA.
	Sustainable aviation fuels – regulation IAG believes fuel mandates, if applied, should only be applied at Global level. EU and Spanish proposals to mandate proportion of sustainable aviation fuels would drive production but could force airlines to purchase SAF at a price premium compared to conventional fuels creating competitive distortion.	• 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 challenge and opportunity 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 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 production opportunity Commercial and environmental opportunity to source cost effective sustainable fuel and reduce our CO_2 emissions thereby reducing compliance costs for CORSIA.	• Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the Global, EU, and UK levels. • British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate SAF development.
	Higher carbon price and strong policy incentives challenge and opportunity Challenge from higher cost of carbon adding to our operating cost and corresponding opportunity with stronger business case for investment in low carbon technologies which would accelerate progress in decarbonisation pathway.	• 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. • Forward purchase of carbon credits to protect against price volatility. • Innovation and collaboration on future fuels and carbon technologies through our Hangar 51 accelerator programme.

Type	Description and potential impact	How we manage it
Climate physical challenges and opportunities		
	Extreme weather impact on operating costs 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 increase fuel cost with increased potable water carriage.	• IAG climate strategy (all the measures above) and our support for strong global action to tackle climate change. • Partnerships to find solutions to mitigate operational disruption. Example is project with partners in NATS and Heathrow Airport to implement innovative technology, the 'Time Based Spacing' system, enabling landing rates at Heathrow to be maintained in the event of strong winds. This has reduced delays, fuel burn and emissions and avoided extra costs due to disrupted operations.
	Destinations becoming unattractive for visitors 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. Climate change could also 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 profiles.
Other sustainability challenges and opportunities		
	Operational noise restrictions and charges 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 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, 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 An inadvertent breach of compliance requirements with associated reputational damage and fines.	• Adopting group-wide Environmental Management System, the IATA IEnvA programme. • 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 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.

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

Sustainability governance - Our sustainability programmes are co-ordinated at Group level to develop and implement sustainability policy and strategy, establish targets and programmes and ensure appropriate governance and accountability across all our operating companies. The IAG Management Committee provides the forum for review, challenge and setting strategic direction. Further oversight and direction is provided by the IAG Board and the Audit and Compliance Committee. The IAG Group Sustainability Policy sets the context and ambition for our sustainability programmes. It covers our Group policies and objectives, governance structure, strategy and targets on climate change and noise, sustainability performance indicators, communications and stakeholder engagement plans. In addition, we have continued to make progress with the adoption of the IATA Environmental Assessment (IEnvA) programme with Vueling and British Airways expected to achieve Phase 1 certification early in 2019, IEnvA is the airline industry version of IS014001 tailored specifically for airlines and fully certified by the International Standards Organisation (ISO).

Resources devoted to environmental risk prevention

We are allocating significant resource to environmental risk management including investment of over 1 million euros over five years in our new fuel efficiency software and over 400 million dollars over the next twenty years in sustainable aviation fuels infrastructure development and offtake agreements.

Implementation of the precautionary principle

See answer to A description of the policies implemented by the company associated with environmental matters

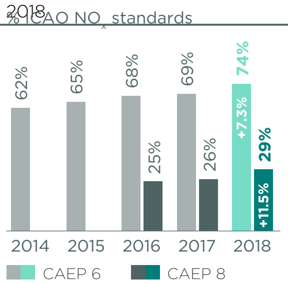
Amount of provisions and warranties for environmental risks

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.

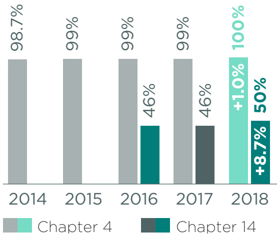
Pollution

Measures to prevent, reduce or repair emissions

Air quality - Ground Service Equipment across the Group's main hubs of operation is being replaced where possible with electric vehicles, helping reduce our carbon footprint and improve air quality for local residents. 38% of Iberia Airport Services vehicles are now electric, up from 29% last year. Aer Lingus purchased 61 electric baggage tractors, belt loaders, passenger stairs and pushback tugs. Electric vehicles currently comprise 38% of Aer Lingus Ground Service Equipment fleet. Mototok, the electric remote control pushback tug commercialised by British Airways is in use across all short haul operations at Heathrow Terminal 5. In additional to improving punctuality performance, the new tugs are powered by Heathrow's 100% renewable electricity supply saving 7,400 tonnes of CO_2 and 28 tonnes of NO_X every year compared to the previous diesel-powered tugs, British Airways continues to work with Mototok, collaborating on development of a model for widebody aircraft.

Performance indicator	Description	2018 highlights	2018
Aircraft fleet that meet ICAO CAEP standard for NO_x emissions (%)	ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard. The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014. ICAO is also developing a standard for particulate matter from aircraft engines, expected to come into force in 2020.	• As 97% of our aircraft meet CAEP 4 NOx, we now focus on meeting the more stringent CAEP 6 and 8 standards. • In 2018, we also measured average NOx emissions per landing and take-off cycle for the first time. The emissions generated during these phases influence air quality near the airports that we serve. The figure was 9.44 kg NOx/LTO for 2018. We will report trends on this in future years.	

Noise - Minimising the noise impact of our aircraft operations on quality of life for communities around the airports where we operate remains an important focus of our sustainability programme. While we are proud of the progress that has been made in reducing aircraft noise over time, we recognise, and are committed to addressing, the ongoing concerns of communities regarding aircraft noise, As well as our investment in new aircraft we have also been modifying existing aircraft to help reduce noise impact. For example in 2018 Aer Lingus fitted 28 of their 37 Airbus A320/21 aircraft with airflow deflectors which help the generation of a whistling sound during a phase of descent. In addition, all our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible. 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. For example, British Airways participate in the Heathrow Community Noise Forum and worked with the group in 2018 to improve adherence to departure routings that are designed to minimise[.]

Performance indicator	Description	2018 highlights	2018
Aircraft fleet noise certification (ICAO Chapter 4 and 14)	ICAO Chapter 4 noise certification comprises limits of 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.	• Our entire fleet meet ICAO Chapter 4 noise certification. • During 2018 we have seen an increase in Chapter 14 certified aircraft and expect this to increase further during 2019 as new generation aircraft such as the Airbus A350 and A320neo join our fleet.	% ICAO noise standard 
Continuous descent operations (%)	Continuous descent operations (CDO) employ a smooth approach angle allowing aircraft to fly higher for longer compared to stepped approaches. This can help reduce fuel consumption as well as noise for those living under approach flightpaths.	• Our aim is to have all our airlines achieve over 80% average across UK airports. • Prior to 2016 Iberia and Vueling had not been engaged in CDO initiatives but since then both airlines have made significant progress and are continuing their upward trend. • Data does not include Level as they are not currently operating in the UK.	% Continuous Descents (UK average)

% Continuous Descents (UK average)

Airline	2013	2017	**2018**	%VLY
BA world	94.1	95.7	**95.6**	-0.1
BA domestic	87.0	87.3	**88.8**	1.5
Aer Lingus	86.8	87.5	**86.6**	-0.9
Iberia	58.2	84.7	**85.4**	0.7
Vueling	61.8	76.1	**78.9**	2.8
UK average	86.1	87.2	**88.3**	1.1

Source: NATS for Sustainable Aviation. 2013 is baseline year.

Circular economy and waste prevention and management

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

Waste - Our airlines are working with suppliers to reduce unnecessary waste and where possible avoid the use of single use plastics. For example, Vueling removed plastic tea cups from their short haul catering services, replacing them with biodegradable alternatives. Iberia have also made changes to their service on board aircraft and in their Dali Premium Lounge in Madrid Airport including:

- replaced plastic wrap for Business class earphones with paper saving 436,000 plastic bags per year (1.5 tonnes less plastic waste)
- canned drinks replaced with returnable glass, saving 1 million cans per year (23.5 tonnes less aluminium waste)
- individual plastic salad pots replaced with buffet salads, saving almost 200,000 containers (6 tonnes less plastic waste)
- wines in plastic bottles replaced with glass which is recycled, saving 25,000 plastic bottles (575 kg less plastic waste).

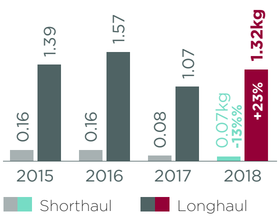
In 2018 Iberia's work on the EU LIFE+ Zero Cabin Waste project also progressed with the design of a new on-board waste trolley to facilitate separation of waste for cabin crew and a series of trial flights between Madrid and Barcelona, London and Geneva to test the new product. Initial data shows an average of an additional 13kg waste per flight being diverted from disposal to recycling.

British Airways appointed over 120 cabin crew as 'War on Waste champions' to help tackle waste.

Successes from their first few months in action included:

- reduced the use of plastic swizzle sticks for drinks by 30 per cent
- changed the packing of Club Kitchen products saving over 100,000 products a year from disposal
- collecting bottle corks, now sending Ci 10kg of corks each month to Re-Corked UK for recycling
- adding waste reduction and recycling training to the Cabin Crew New Entrant Training course.

IAG and British Airways are also tackling waste at our London headquarters. In April we introduced a levy on disposable coffee cups, plastic stirrers were removed, plastic take away containers and cutlery in the canteen was replaced with reusable alternatives and plastic water cups were removed from water dispensers. In total, over 1 million individual single-use plastic items were saved in the first g months from launch.

Performance indicator	Description	2018 highlights	2018
Average aircraft cabin waste (kg/passenger)	Cabin waste generated per passenger and split between shorthaul and longhaul operations. We are working on being able to report this measure as a Group average.	• In 2018 Vueling average waste per passenger, including both catering and cabin waste was 0.19kg (shorthaul). • For Iberia, shorthaul average waste per passenger was 0.14kg and for long haul was 1.75kg. • For BA, shorthaul has improved slightly and longhaul has increased due to enhanced product offering.	Average cabin waste per passenger  * Data is British Airways data only

Actions to avoid food waste

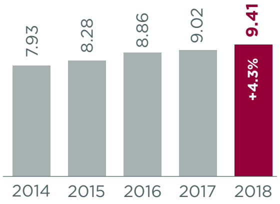
See answer above.

Sustainable use of resources

Water consumption and water supply in accordance with local limitations

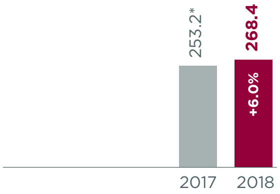
Water consumption is not material as per Sustainability materiality analysis. The document explains that this information is not considered as material

Raw material consumption and measures to improve use efficiency

Performance indicator	Description	2018 highlights	2018
Jet fuel[1] (Million tonnes)	As commercial aircraft remain reliant on liquid kerosene for the foreseeable future, IAG's climate change focus is on purchasing newer more fuel efficient aircraft, developing sustainable jet fuel, pursuing operational fuel efficiency and supporting CORSIA global carbon offsetting scheme.	• Jet fuel use has increased by 4.26% compared to 2017 while our business growth has grown faster – RPK up 7.1%. This shows an increase in fuel efficiency per unit output.	Million tonnes fuel 

Direct and indirect energy consumption

Performance indicator	Description	2018 highlights	2018

Electricity Used (million kWh)	Consumption of electricity across main facilities in millions of kilowatt hours.
	Includes usage in main offices, hub airports and maintenance facilities.
		• Iberia energy efficiency initiatives included replacement of light bulbs that delivered the following savings in electricity usage:
		  • Engine workshop: 2,679,979 KWh
		  • Cargo terminal: 665,180 kWh
			Million kWh electricity
			
			* 2017 figure not previously reported

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[1] 2018 Climate data provisional subject to further verification for compliance with EU ETS which is completed after publication of this report. As we file this report within two months of year-end, our EU ETS and Scope 1 (direct) emissions data is provisional and will be subject to further verification (to reasonable assurance) after publication of this report. Based on past trends, the difference between provisional and verified data is not material, typically less than 0.05%, but may result in some minor rounding of our 2018 scope 1 emissions data in subsequent reports.

Measures to improve energy efficiency

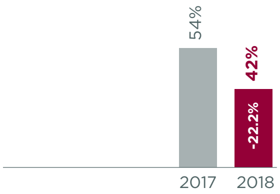
Fuel efficiency - In 2018 our Honeywell GoDirect Fuel efficiency software went live in Iberia, British Airways and Aer Lingus in November 2018 with Vueling and the Group Portal due to follow in first quarter 2019. This new tool will help identify further fuel efficiency opportunities and enable group-wide benchmarking and reporting on aircraft fuel efficiency performance. Vueling and Iberia began

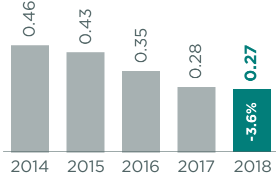
Working under the Eurocontrol Collaborative Environmental Management framework with the Spanish air traffic control authority AENA to collectively develop more sustainable Spanish airspace targeting noise and C02 emissions reductions. Other examples of the fuel efficiency initiatives delivered by our airlines in 2018 include; landing lights retraction, single engine taxi without APU, Boeing Winds, departure altitude release, weight reduction and optimised engine wash programmes. Collectively these saved over 65,000 tonnes of C02. We also began an innovative collaboration Signol, behavioural economics experts, as part of IAG's start-up accelerator programme Hangar 51.

Performance indicator	Description	2018 highlights	2018
Reduction in GHG emissions from initiatives (tonnes CO_2e)	Avoided emissions due to initiatives within any of the three scopes of emissions reporting. For example, enhanced fuel efficiency techniques yield scope 1 emissions reductions, switching from incandescent to LED lighting affects scope 2, and encouraging employees to car-share or utilise public transport affects scope 3.	• Efficiency initiatives have resulted in savings of 65,665 tonnes CO_2e, equivalent to 0.2% of our scope 1 emissions. • Key initiatives have included changes in operating procedures and on-board weight savings.	Thousand of tonnes CO_2e (First year reporting this) 2018 **65.66**

We also look to improve our use of renewable electricity across our operations. We report our use of renewable electricity in our annual report as below.Refer to Sustainability section included in this appendix and in the Management report.

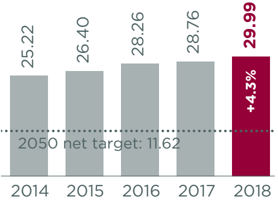
Performance indicator	Description	2018 highlights	2018

Percentage renewable electricity (%)	Percentage of electricity consumed as above that is generated by renewable sources. The primary source of IAG's renewable energy is wind.
	IAG aims to increase our overall percentage of renewable electricity used as part of our longer-term emissions reduction targets.
		• 2018 renewable electricity use by airline:
		  • Aer Lingus 52%
		  • British Airways 61%,
		  • Iberia 0% and
		  • Vueling 0%
			% Renewable electricity
			

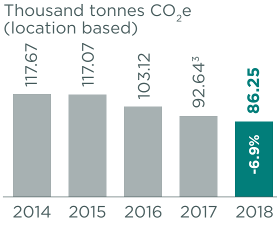
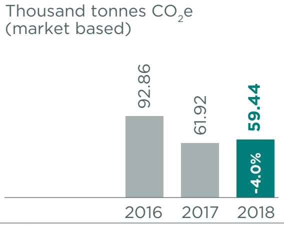
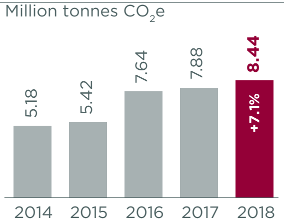
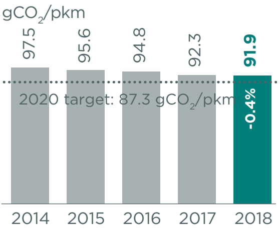
Energy intensity per passenger kilometre (gCO_2/pkm)	This metric is designed to monitor our energy efficiency (Scope 2, location based) as a function of our business activity (passenger kilometres). It complements our flight only emissions intensity metric.	• Group wide electricity usage has increased in 2018 but has been slightly outpaced by growth in flying activity. • Our energy efficiency shows no change on last year. This is primarily due to completion of major energy efficiency projects in 2017 with minimal changes made in 2018.	Energy intensity per passenger kilometre (gCO_2e/pkm) 

Climate change

Relevant aspects regarding greenhouse gas emissions

Performance indicator	Description	2018 highlights	2018
Scope 1[1] Direct GHG emissions (Million tonnes CO_2e)	Direct emissions associated with our flying. In line with industry commitments which we were instrumental in securing in 2009, we have two targets over different timescales: 1 To achieve carbon neutral growth for our international aviation flights from 2020. 2 50% net reduction in CO_2 emissions by 2050 versus 2005 baseline (23.24 million tonnes).	• Scope 1 CO_2e emissions have increased but at a lower rate than activity of the airlines. • IAG contributed approximately 3 million tonnes of carbon reductions through our compliance with the EU ETS, bringing our net CO_2 emissions to c. 27 million tonnes CO_2e (provisional pending EU ETS verification).	Million tonnes CO_2e  Targets: Carbon Neutral Growth by 2020 1 -50% net CO_2 by 2050 v's 2005 baseline (23,237,182)

[1] 2018 Climate data provisional subject to further verification for compliance with EU ETS which is completed after publication of this report. As we file this report within two months of year-end, our EU ETS and Scope 1 (direct) emissions data is provisional and will be subject to further verification (to reasonable assurance) after publication of this report. Based on past trends, the difference between provisional and verified data is not material, typically less than 0.05%, but may result in some minor rounding of our 2018 scope 1 emissions data in subsequent reports.

Performance indicator	Description	2018 highlights	2018
Scope 2[1] Indirect GHG emissions (Thousand tonnes CO_2e)	Buildings electricity. Scope 2 emissions reported here reflect national (location and market based) grid mix for UK, Spain and Ireland. Aer Lingus included from acquisition in August 2015. The location-based method considers emissions generated by the local power grid to which our facilities are connected. The market-based method considers emissions generated by the power companies that supply our energy and therefore includes factors such as renewables tariffs.	• Fluctuations in trend are influenced by airline acquisitions as well as the trend towards less carbon intensive electricity across Spain, UK and Ireland. • Our market-based emissions are significantly less than our location based emissions reflecting the portion of the Group's electricity supply being purchased from lower carbon sources.[3]	 
Scope 3[2] Other indirect GHG emissions (Million tonnes CO_2e)	Other indirect emissions includes emissions associated with fuel production, transportation and distribution; aircraft manufacturing and disposal; waste processing; business travel and employee commuting; franchises and water consumption. More categories are now captured.	• The Scope 3 emissions increased by 7.1% in 2018 compared to 2017 partly due to business growth from expanding the scope of data captured. • We actively engage with suppliers to manage and reduce our scope 3 CO_2 emissions - see stakeholder engagement section.	
Flights only CO_2 emissions intensity (gCO_2/pkm)	Target: 10% improvement by 2020 compared to 2014. Grammes of CO_2 per passenger kilometre is a standard industry measure of flight efficiency. Individual airline performance is reported on the relevant pages in this report.	• The 0.4% improvement in average carbon efficiency in 2018, gives a rolling five-year average of 1.33% per year, just less than the industry target of 1.5%. • The slightly slower rate of improvement in 2018 is due to the rate of fleet renewal as well as challenging operating conditions including disruption caused by European ATC strikes.	

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 is included

We recognise that there could be impacts on our operations and impacts on some destinations.

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

IAG climate targets:

- 10% improvement in fuel efficiency to 87.3 gCO_2/pkm by 2020 versus baseline of 97.5 gCO_2/pkm in 2014.
- Carbon neutral growth from 2020.
- Net reduction of 50% CO_2 emissions by 2050 versus 2005.

In addition, we are calling for Government and industry support for a target of net zero CO_2 emissions by 2050. We are also developing details for the potential introduction of management incentives aligned to our carbon targets to improve the alignment of our business strategy and decarbonisation pathway and therefore support delivery of our climate change and fuel efficiency targets.

Biodiversity

Measures to preserve or restore biodiversity

Biodiversity is not material as per Sustainability materiality analysis. The document explains that this information is not considered as material.

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[1] 2017 location based figure is restated from previously reported figure (86,390 tonnes CO_2e) following revised calculations using new Spanish Government conversion factors.

[2] Scope 3 data reported 2018 was prepared for CDP report based on 2017 activity.

Management approach

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

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. All directors and employees are expected to act with integrity and in accordance with the laws of the countries they operate in. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers. In 2019, IAG will be implementing a new Group-wide Code of Conduct that will apply to all directors, managers and employees of IAG, as well as its third parties.

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. A new e-learning to support the new Code of Conduct will be rolled out in 2019 and this will be applicable to all Group employees and directors.

A description of the main risks associated with human rights matters

Human Trafficking is of real concern in the airline industry and it is a topic we have focused on more acutely since 2015 with the reform of the Spanish Criminal Code and the introduction of the UK Modern Slavery Act.

Transporting over 100 million passengers per year and with tens of thousands of suppliers, Group Slavery and Human Trafficking is relevant for 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 June 2018 we published our second Group Slavery and Human Trafficking Statement as set out under the UK Modern Slavery Act 2015. Modern Slavery clauses now feature in all new supplier contracts as well as those coming up for renewal. IAG representatives attended an IATA seminar on Modern Slavery to share knowledge, learnings and best practice. The seminar culminated in a resolution denouncing human trafficking and reaffirms commitments to tackling human trafficking including sharing of best practices, staff training and reporting. This resolution was passed by IATA at its 2018 Annual General Meeting.

Aer Lingus has had human trafficking training for pilots and cabin crew since 2016 and run recurrent human trafficking training on a 3-year basis. Guidance and procedures for flight crew and cabin crew is also included in their Operations Manual. British Airways is also ensuring all cabin crew are trained to recognise the signs of human trafficking with an awareness training session now included in annual mandatory training.

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

See answer to A description of the main risks associated with human rights matters

Reported cases of human rights violations

See answer to A description of the main risks associated with human rights matters

Promotion and compliance with ILO's provisions related to freedom of association and collective bargaining; the elimination of work discrimination, forced or compulsory labor and the effective abolition of child labor

Over 95% of our employees are based in European countries which comply with the conventions of the International Labour Organisation (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

Anti-bribery and corruption policy and programme - IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our company policies which are available to all directors and employees. Each Group Operating Company a Compliance Department responsible for managing the anti-bribery programme in their business. These compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks across the Group. The main risks identified during the 2018 review relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. Anti-bribery training courses include e-learning and 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. An updated e-learning course is being rolled out in 2019 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 particular third-party presents. In 2018 the Group implemented integrity-based screenings into its new Group-wide vendor management system and in 2019 a new third-party management tool for higher risk third parties will be implemented, together with updated procedures. The Audit and Compliance Committee of the IAG Board receives an annual update on the programme.

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

Refer to Risk management and principal risk factors section included in the appendix

Non-financial KPIs associated with corruption and bribery matters

Resources are available across the Group for employees to get advice or to report grievances or any alleged or actual wrongdoing. There are whistle-blowing 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 whistle-blowing channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; and, any issues raised of significance to the financial statements. In 2018 a total of 201 reports were received through the confidential reporting channels. This is compared to 205 reports received in 2017. All reports were followed up, investigated where appropriate and reported to the Audit and Compliance Committee.

Information related to corruption and bribery

Measures to prevent corruption and bribery

See answer to a description of the policies implemented by the company 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 a Group Finance Instruction which help to combat money laundering in our business.

Contributions to non-for-profit organizations

Community giving - Aer Lingus celebrated the 21st anniversary of its partnership with UNICEF's Change for Good appeal, raising 1 million USD dollars through on-board customer donations. Aer Lingus also continued its support of Special Olympics Ireland collecting over €8,000 and donating flights. British Airways' charity partnership with Comic Relief, Flying Start reached a major milestone in 2018, hitting its 2020 target of raising €20 million two years early. Following a tsunami in Indonesia in September, British Airways customers raised £188,576 for the Disasters Emergency Committee appeal. A joint event with Aerobility saw 99 wheelchair users pull a Boeing 787-9 aircraft 100 metres, raising £16,000 and a Guinness World Record. Iberia's partnership with Amadeus to support UNICEF's immunisation programme has been extended to 2020. Since 2013, the collaboration has raised €935,000 and has resulted in the vaccination of over 1 million children in Chad, Angola and Cuba. Vueling's collaboration with Save the Children generated €235,000 in customer donations in 2018. Vueling donated 120 tickets to the Make-A-Wish foundation, helping children with serious illnesses to have life-changing experiences. Vueling has also teamed up with Nutrition Without Borders, donating unused bottles of water from flights in an initiative which also reduces on-board waste.

Management approach

Description of the policies implemented by the company associated with society matters

We align our sustainability programme with the UN Sustainable Development Goals (SDG) as outlined below:

Goal 3:
Good health and wellbeing

Goal 4:
Quality education

Goal 5:
Gender equality

Goal 7:
Affordable and clean energy

Goal 8:
Decent work and economic growth

Goal 9:
Industry, innovation and infrastructure

Goal 11:
Sustainable cities and communities

Goal 12:
Responsible consumption and production

Goal 13:
Climate action

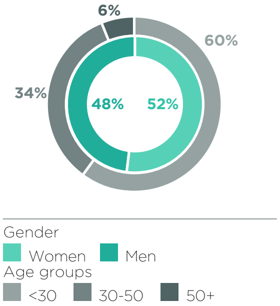
A description of the main risks associated with society matters linked to the company's operations

Refer to Risk management and principal risk factors section included in this report

Commitment with sustainable development

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

British Airways award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry. In 2018 over 24,000 young people were engaged through staff volunteering opportunities. 600 students were also hosted on work experience weeks across 25 departments and British Airways was re-awarded the work experience Gold Standard. Teacher Take Off Days also gave teachers a one-day work experience course and Your Flying Future campaign was launched to encourage young people from a variety of backgrounds to consider a flying career.

Performance indicator	Description	2018 highlights	2018
Recruitment (by age and gender)	Total number of positions filled including both replacement hires and new positions.	• A total of 8,789 positions were filled across the Group, of which 52% were women.	Positions filled by gender and age % 

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

We focus on reducing the noise and air quality impacts of our operations on the local communities at the airports we operate as outlined in the measures reported below.

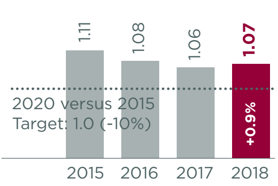
Minimising the noise impact of our aircraft operations on quality of life for communities around the airports where we operate remains an important focus of our sustainability programme. While we are proud of the progress that has been made in reducing aircraft noise over time, we recognise, and are committed to addressing, the ongoing concerns of communities regarding aircraft noise.

As well as our investment in new aircraft we have also been modifying existing aircraft to help reduce noise impact. For example, in 2018 Aer Lingus fitted 28 of their 37 A320/21 aircraft with airflow deflectors which help the generation of a whistling sound during a phase of descent. In addition, all our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible.

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. For example, British Airways participate in the Heathrow Community Noise Forum, and worked with the group in 2018 to improve adherence to departure routings that are designed to minimise noise.

British Airways also contributed to a UK Government study on departure noise mitigation, which found that the two main departure procedures used by airlines distribute community noise in slightly different ways, but that overall the total noise exposure is similar.

In 2018 we also worked with UK Sustainable Aviation (SA) partners including other airlines, airport operators, aircraft manufacturers and the UK air traffic control authority NATS to review our joint action on noise. SA reports have demonstrated the industry has made good progress in reducing its noise footprint in recent years while future programmes in SA will focus on supporting further operational improvements and better understanding the non-acoustic quality of life options for managing the impacts of aircraft noise.

<table>
<tr><th>Performance indicator</th><th>Description</th><th>2018 highlights</th><th>2018</th></tr>
<tr>
<td>Average noise
(Based on Quota Count and number of Landing and Take Off cycles per year)</td>
<td>This metric measures average noise per flight considering arrival and departure noise for each aircraft type (using UK Government Quota Count values which are a relative categorisation based on certified noise levels) and the number of flights operated in a year. Note: for a single flight a Boeing 747 score would be 6.0 whereas an Airbus A320 (current engine option) would be 1.0.</td>
<td>• We are in the process of retiring some of our noisiest aircraft and replacing them with the next generation of quiet aircraft however our performance in 2018 declined slightly due to the increase in longhaul operations driving increased weight and therefore QC rating for some of our fleet.</td>
<td>Average noise QC/LTO cycle
 </td>
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<td>Aircraft fleet noise certification
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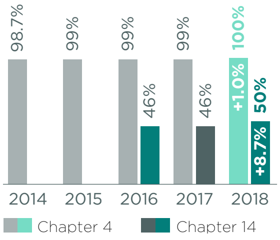
The ICAO Chapter 4 technology standard for aircraft noise applies to new aircraft certified from January 1, 2006 and Chapter 14 applies to new aircraft certified from January 1, 2017.</td>
<td>• Our entire fleet meet ICAO Chapter 4 noise certification.
• During 2018 we have seen an increase in Chapter 14 certified aircraft and expect this to increase further during 2019 as new generation aircraft such as the Airbus A350 and A320neo join our fleet.</td>
<td>% ICAO noise standard
 </td>
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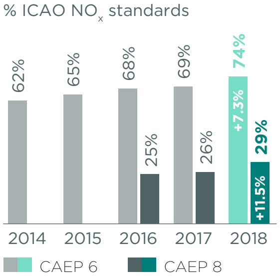
<td>Continuous descent operations
(%)</td>
<td>Continuous descent operations (CDO) employ a smooth approach angle allowing aircraft to fly higher for longer compared to stepped approaches. This can help reduce fuel consumption as well as noise for those living under approach flightpaths.</td>
<td>• Our aim is to have all our airlines achieve over 80% average across UK airports.
• Prior to 2016 Iberia and Vueling had not been engaged in CDO initiatives but since then both airlines have made significant progress and are continuing their upward trend.
• Data does not include Level as they are not currently operating in the UK.</td>
<td>% Continuous Descents (UK average)
<table>
<tr><th>Airline</th><th>2013</th><th>2017</th><th>2018</th><th>%VLY</th></tr>
<tr><td>BA world</td><td>94.1</td><td>95.7</td><td>95.6</td><td>-0.1</td></tr>
<tr><td>BA domestic</td><td>87.0</td><td>87.3</td><td>88.8</td><td>1.5</td></tr>
<tr><td>Aer Lingus</td><td>86.8</td><td>87.5</td><td>86.6</td><td>-0.9</td></tr>
<tr><td>Iberia</td><td>58.2</td><td>84.7</td><td>85.4</td><td>0.7</td></tr>
<tr><td>Vueling</td><td>61.8</td><td>76.1</td><td>78.9</td><td>2.8</td></tr>
<tr><td>UK average</td><td>86.1</td><td>87.2</td><td>88.3</td><td>1.1</td></tr>
</table>
Source: NATS for Sustainable Aviation. 2013 is baseline year.</td>
</tr>
</table>

Ground Service Equipment across the Group’s main hubs of operation is being replaced where possible with electric vehicles, helping reduce our carbon footprint and improve air quality for local residents. 38% of Iberia Airport Services vehicles are now electric, up from 29% last year.

Aer Lingus purchased 61 electric baggage tractors, belt loaders, passenger stairs and pushback tugs. Electric vehicles currently comprise 38% of Aer Lingus Ground Service Equipment fleet.

Mototok, the electric remote-control pushback tug commercialised by British Airways is in use across all short haul operations at Heathrow Terminal 5. In additional to improving punctuality performance, the new tugs are powered by Heathrow's 100% renewable electricity supply saving 7,400 tonnes of CO_2 and 28 tonnes of NO_x every year compared to the previous diesel-powered tugs. British Airways continues to work with Mototok, collaborating on development of a model for widebody aircraft.

Performance indicator	Description	2018 highlights	2018
Aircraft fleet that meet ICAO CAEP standard for NO_x emissions (%)	ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard. The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014. ICAO is also developing a standard for particulate matter from aircraft engines, expected to come into force in 2020.	• As 97% of our aircraft meet CAEP 4 NOx, we now focus on meeting the more stringent CAEP 6 and 8 standards. • In 2018, we also measured average NOx emissions per landing and take-off cycle for the first time. The emissions generated during these phases influence air quality near the airports that we serve. The figure was 9.44 kg NOx/LTO for 2018. We will report trends on this in future years.	

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

See answer above

Sustainable supply chain

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

IAG's Supplier Code of Conduct is the main framework setting out the standards to which suppliers engaging with IAG and its operating companies must comply. The Supplier Code of Conduct covers Labour, Health and Safety, Environment and Business Integrity standards.

In 2018, IAG established a more robust risk management process to facilitate due diligence and monitoring of our suppliers throughout the supplier lifecycle. IAG Global Business Services (GBS) has enlisted Bureau van Dijk, a major business intelligence provider, to enrich understanding of our suppliers' legal, social, environmental and financial compliance. To date, 5,500 suppliers have been screened during the first phase of deployment.

We monitor suppliers by the number of risks as well as the severity of each risk type, IAG reserves the right to conduct on-site audits, issue reviews and corrective action plans, and terminate contracts in serious instances. IAG aims to work collaboratively with poorly performing suppliers to improve their standards.

Audits are carried out by trusted third-party auditors with track records in driving improvements in responsible business practices in global supply chains. In 2019, we will continue to screen suppliers during initial set-up and on a quarterly basis to grow the number of suppliers covered. Results will be reviewed with appropriate risk owners on an ongoing basis.

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

See answer above

Supervision and audit systems and their results

See answer above.

Consumer relationship management

Measures to protect consumers' health and safety

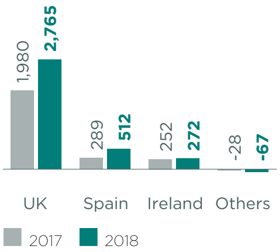
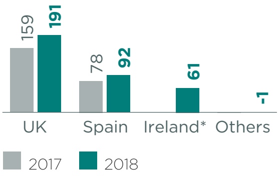
We have robust governance in place to manage Health and Safety within each of our Operating Companies and the Group recognises the importance of effective safety management to ensure that our employees, customers and all others affected by our activities are not exposed to unacceptable risks. The IAG 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. We comply with all relevant legislation in the countries in which we operate and the policies and processes in place across the Group are designed to protect our employees and customers alike.

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 can 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.

Tax information

Profits obtained per-country, taxes paid on profits, public subsidies received

Performance indicator	Description	2018 highlights	2018
Profit / (loss) **€ million**	Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable.	• The increase in profits taxable in our main countries of operation in 2018 reflects improvements in the underlying financial performance of our operating companies. In the UK the increase is also driven by an exceptional gain arising in relation to British Airways pension schemes.	Profits by country €m 
Income tax paid € million	Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.	• Total tax payments of €343m are lower than the expected tax charge for the Group of €671m primarily because tax relief for pensions in British Airways arises on a cash basis and is not based on accounting profits and losses. • The increase in taxes paid by country in our main countries of operation in 2018 reflects the increase in profits in our operating companies. The increase in tax paid in the UK is proportionately lower than the increase in profits because the exceptional gain in relation to pensions in British Airways is not a cash tax item. In Ireland, Aer Lingus offset its remaining tax losses from earlier years against taxable profits in 2017. Its remaining tax liability from 2017 together with its 2018 liability was paid in 2018.	Income tax paid by country  * 2017 was not calculated

Subsidies have not been reported as they are not considered material.

APPENDIX

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N/A - Not applicable

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

* The information is partially provided for 2018 because it is not currently captured in a consistent way across the Group and therefore is not reported at the corporate level.

** The information has not been provided for 2018 because it is not currently captured in a consistent way across the Group and therefore is not reported at the corporate level. For the gender pay gap, we provide 2017 data for British Airways and Avios.

This is due to operating companies having different systems and processes, particularly with regard to their employees. Work is underway to align these processes where possible, to enable to the missing information to be tracked and reported for 2019.

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

Delivering value by embedding 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. It 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. IAG 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 its 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.

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 consider 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 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 2016 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 Group 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. We remain 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, events outside of our control causing operational disruption, fuel price and foreign exchange volatility and 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 regulation of monopoly suppliers.

In general the Group's strategic risk was stable during the year with continued competitor capacity growth being monitored and assessed within the Group. The Group continues to support deregulation, manage the 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 were impacted by the significant level of Air Traffic Control strikes in Europe, requiring additional resilience to be built into the networks.

The theft of data from British Airways customers in September 2018 as a result of a criminal attack on its website demonstrates the increased risk threat around cyber. The Group continues to lead the response to technical and organisational security defences and incident response plans for each operating company.

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.

In 2018, events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange.

Compliance and regulatory

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

Link to strategy

1 **Strengthening a portfolio of world-class brands and operations**

2 **Growing global leadership positions**

3 **Enhancing IAG's common integrated platform**

Key: Risk trend

↑ Increase

↔ Stable

↓ Decrease

Strategic

Risk	Risk context	Management and mitigation
Airports, infrastructure and critical third parties ↑ 1 3	IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities which impact operations but are outside of the Group's control.	London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose third runway solution. The Group's airlines participate in the slot trading market, including at London airports.
	IAG is dependent on the oil industry making sufficient investment in the fuel supply infrastructure to ensure that our flight operations can be delivered as scheduled.	The Group enters into long-term contracts with fuel suppliers to ensure fuel supply at a reasonable cost. Potential fuel shortages are addressed by contingency plans, including appropriate investment in securing fuel supply. Capacity issues are regularly reviewed by the IAG Management Committee and form part of the annual Business Plan.
	IAG is dependent on the performance of suppliers such as airport operators, border control and caterers.	Supplier performance risks are mitigated by active supplier management and contingency plans.
	IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience.	The Group mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers. The Group has been impacted by ongoing issues with Rolls Royce Trent and Pratt and Witney engines in the year.
	IAG is dependent on resilience within the operations of Air Traffic Control (ATC) services to ensure that our flight operations are delivered as scheduled.	The Group continues to lobby and raise awareness of the negative impacts of air traffic control strikes and ATC performance issues on the aviation sector and economies across Europe.

Strategic

Risk	Risk context	Management and mitigation
Brand reputation ↔ 1	The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability. If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.	Each brand is supported by initiatives within the Group Business Plan, where capital expenditure is reviewed and approved by the Board of Directors. The Group has undertaken a significant review of the portfolio of brands within IAG to understand customer preferences and better position its offerings. There are multiple product investments across the Group's brands to enhance on-board product, ancillaries, lounges and customer experience. Success of these investments is measured, including their impact on customer satisfaction through the Net Promoter Score (NPS). The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position.
Competition ↓ 1 2	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. Competitor capacity growth in excess of demand growth could materially impact margins. Some competitors have lower cost structures or 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. The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. In 2018, IAG continued expansion of LEVEL, launching short haul operations from Vienna and long haul operations from Paris. The Group's strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base help mitigate competition risk.
Consolidation and deregulation ↔ 2	Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. Failing airlines can be rescued by government support, delaying the opportunity for more efficient airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.	The Group maintains rigorous cost control and targeted product investment to remain competitive. The Group has the flexibility to react to market opportunities arising from competitors. The Group continues to consider organic and inorganic growth options. The portfolio of brands provides flexibility in this regard as capacity can be deployed at short notice as needed.
	Joint business arrangements such as the agreements with American Airlines, JAL and Qatar Airways include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business. Any failure of a joint business or a joint business partner could adversely impact our business. The Group has a number of franchise partners that feed traffic into our hubs or major outstations. Any failure of a franchise partner will reduce traffic feed.	The IAG Management Committee regularly reviews the commercial performance of joint business agreements.
	The Group is reliant on the other members of the **one**world alliance to help safeguard the alliance proposition.	The Group maintains a leading presence in **one**world to ensure that the alliance attracts and retains the right members, which is key to ongoing development of the network.
Digital disruption ↔ 1 2 3	Competitors and new entrants to the travel market may use technology to more effectively disrupt the Group's business model or technology disruptors may use tools to position themselves between our brands and our customers.	The Group's focus on the customer experience, together with the Group's exploitation of technology, reduces the impact digital disruptors can have. 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.

Strategic

Risk	Risk context	Management and mitigation
Government intervention ↔ 2 3	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.	The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.
	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on the operational and financial performance of the Group.	The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).
Business and operational		
Cyber attack and data security ↑ 2 3	The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, terrorists or foreign governments. If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.	The IAG Management Committee regularly reviews cyber risk and supports Group-wide initiatives to enhance defences and response plans. The Committee ensures that the Group is up to date with industry standards and addresses identified weaknesses. 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 GDPR programme was implemented across the Group in 2018 as part of its ongoing privacy programmes. During 2018, the Network and Information Systems (NIS) Directive was implemented. British Airways, Iberia, Vueling and Aer Lingus are all within scope of the requirements, which are being addressed as part of a broader programme of activity to continuously improve cyber defences. In September, British Airways reported the theft of data from its customers as a result of a criminal attack on its website. The fast moving nature of this risk means that the Group will always retain a level of vulnerability.
Event causing significant network disruption ↔ 1 3	An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel. Example scenarios include persistent air traffic control industrial action; war; civil unrest or terrorism; closure of airports or airspace; major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions or pandemic.	Management has business continuity plans to mitigate this risk to the extent feasible. The significant level of ATC strikes in Europe impacted the Group airlines operational performance. Response plans to manage and reduce impact on the Group's customers and operations have been put in place.
IT systems and IT infrastructure ↑ 1 3	IAG is dependent on IT systems for most key business processes. The failure of a critical system may cause significant disruption to the operation and lost revenue. 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.	System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. The Group continues to work with world class partners and is increasing resilience by implementing agreed plans which include investing in new technology, updates and a robust operating platform.
Landing fees and security charges ↔ 2 3	Airport charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are itemised to passengers, others are not.	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports. The Group is active both at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive. In some cases, regulation provides some assurance that such costs will not increase in an uncontrolled manner.

Business and operational

Risk	Risk context	Management and mitigation
People and employee relations ↓ ① ③	The Group has a large unionised workforce represented by a number of different trade unions. 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.	Collective bargaining takes place on a regular basis with the operating companies' human resources departments with a significant level of negotiation across the Group's operating companies. Management focuses on leveraging employee expertise and ensuring the development of talent. Succession planning is in place across all operating companies and we aim to move our best people across our businesses.
Political and economic conditions ↑ ① ②	IAG remains sensitive to political and economic conditions in the markets globally. Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility.	The IAG 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. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational 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 the monitoring of financial and business performance. Wider macro economic trends are being monitored such as tensions between the US and China, currency devaluation in Argentina and the changing political landscape. Following the UK referendum decision in 2016, the UK is expected to leave the EU on March 29, 2019. The Group has continued to engage extensively with the relevant authorities to ensure IAG's views on post-Brexit aviation arrangements are understood and taken into account. This has included frequent dialogue with the UK, Spanish and Irish governments, as well as the European Commission and Members of the European Parliament. The completion of a Withdrawal Agreement between the negotiators confirmed that there would be no change to aviation arrangements until the end of the transition period on December 31, 2020 and that the future relationship between the parties would include a comprehensive air transport agreement. As the Withdrawal Agreement is subject to ratification by the UK and EU parliaments, both the European Commission and the UK Government published separate plans to allow air services to continue in the event that the Withdrawal Agreement (or an amended version of it) cannot be ratified. These include mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes. As part of this, the EU is in the process of adopting a Regulation on basic connectivity between the EU and UK that may result in some restrictions on code share flexibility. In addition, in November the UK signed new air services agreements with the USA and Canada to replace existing EU-wide agreements once the UK leaves the EU, securing market access and regulatory arrangements for the future. IAG has had detailed and constructive engagement with its national regulators and governments about ownership and control. These discussions will continue, including with the European Commission, and IAG remains confident that its operating companies will comply with the relevant ownership and control rules post Brexit. IAG is a Spanish company, its airlines have long-established Air Operator Certificates (AOCs) and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011. IAG's assessment remains that, even in the event of no-deal, Brexit will have no significant long-term impact on its business.

Business and operational

Risk	Risk context	Management and mitigation
Safety/security incident ↔ ②	The safety and security of our customers and employees are fundamental values for the Group. 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 corresponding safety committees of each of the airlines of the Group satisfy themselves that it has 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		
Debt funding ↔ ② ③	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 continues to have good access to a range of financing solutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.
Financial risk ↔ ② ③	Volatility in the price of oil and petroleum products can have a material impact on our operating results.	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions. The approach to fuel risk management is set out in note 25 to the Group financial statements.
	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.	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. The approach to financial risk management is set out in note 25 to the Group financial statements.
	The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.	When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route.
	Interest rate risk arises on floating rate debt and floating rate leases.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 25 to the Group financial statements.
	The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging. Failure of financial counterparties may result in financial losses.	The approach to 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.
Tax ↔ ② ③	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.	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

Risk	Risk context	Management and mitigation
Group governance structure ⇔ 3	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.	The governance structure is being extended to other Group airlines, including Aer Lingus (see page 34 for further details). IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
Non-compliance with key regulation including competition, bribery and corruption law ⇔ 2 3	The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in reputational damage, fines or losses to the Group.	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 in these matters. Compliance professionals specialising in competition law and anti-bribery legislation support and advise our businesses.

Viability statement

The directors have assessed the viability of the Group over the five years to December 2023.

The directors have determined that a five-year period is an appropriate timeframe for assessment as it is in line with the Group Business Plan strategic planning period.

The directors have evaluated the impact of severe but plausible downside scenarios on the Group Business Plan and assessed the likely effectiveness of the mitigations that management reasonably believes would be available and effective over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing over the period to December 2023.

The scenarios modelled considered the potential impact of a global economic downturn, fuel price shock and the impact of risks that would result in operational disruption. These scenarios considered the principal risks which could have the greatest potential impact on viability in that period.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023.

Sustainability overview

Section contents:

Sustainability overview: governance, strategy, materiality, targets, stakeholder engagement, disclosures, challenges and opportunities, climate related scenarios, UN sustainable development goals, future focus and progress since last year.

Sustainability performance: performance trends against our most material issues including climate, fuel efficiency, energy, noise, waste, air quality, customers and workforce.

Sustainability in action: summary of key actions in 2018 relating to; climate, fleet, sustainable aviation fuels, carbon fund, fuel efficiency, waste, noise, air quality, supply chain, workforce diversity, work experience, accessibility, community giving, modern slavery, occupational health & safety, ethics & integrity and anti-bribery & corruption.

Sustainability governance

Our sustainability programmes are co-ordinated at Group level to develop and implement sustainability policy and strategy, establish targets and programmes and ensure appropriate governance and accountability across all our operating companies. The IAG Management Committee provides the forum for review, challenge and setting strategic direction. Further oversight and direction is provided by the IAG Board and the Audit and Compliance Committee.

The IAG Group Sustainability Policy sets the context and ambition for our sustainability programmes. 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.

In addition, we have continued to make progress with the adoption of the IATA Environmental Assessment (IEnvA) programme. IEnvA is the airline industry version of ISO14001 tailored specifically for airlines and fully certified by the International Standards Organisation (ISO). We expect Vueling and British Airways to achieve Phase 1 certification early in 2019 and Iberia later in the year.

Sustainability strategy

Sustainability forms part of 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 we are committed to minimising our environmental impact delivering best practice and demonstrating thought leadership to drive global improvements in the aviation industry's sustainability performance.

We have aligned our sustainability programmes to IAG's strategic priorities and value propositions:

1. Strengthening a portfolio of world-class brands and operations
   - Ensuring customers have visibility of, and are engaged in, our sustainability programmes
2. Growing global leadership positions
   - Demonstrating industry leadership, advocating for carbon pricing
   - Maturing our transition pathway towards low carbon economy
   - Leadership in carbon disclosures
3. Enhancing IAG's common integrated platform
   - Investing in efficient aircraft fleet and delivering best practice in operational efficiency
   - Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low carbon technologies

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

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

Workforce governance and training

The structure of the Group means that each Operating Company has responsibility for the policies and procedures relating to its direct workforce, 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 (Group Instruction 4) intended to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation.

Due to our diverse Operating Companies in the Group, 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. Across the Group, the following core corporate training courses are run by all Operating Companies:

- Code of Conduct (to be added in 2019 with the launch of our new Group Code)
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection

Over 95% of our employees are based in European countries which comply with the conventions of the International Labour Organisation (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.

Materiality

In autumn 2017 we completed a materiality analysis performed in line with Global Reporting Initiative Sustainability Reporting Guidelines as well as benchmarking with other materiality frameworks. We engaged a range of our principal external stakeholders including investors, corporate customers, suppliers and NGOs. The charitable trust Business in the Community was appointed to provide objective oversight of the process; facilitating workshops, reviewing interview feedback and preparing a materiality matrix.

In 2018 IAG worked with the Global Reporting Initiative (GRI) and the International Air Transport Association (IATA) to develop a GRI Sectorial Guidance Handbook for airlines. This will improve consistency and allow comparisons across the industry. The issues identified by IATA and GRI for the airline sector are aligned with the issues we identified for IAG.

IAG Sustainability material issues

Environment	Local Impacts and development	Workforce	Future competitiveness	Corporate governance
• Climate change (including emissions, fleet modernisation, fuel efficiency and Sustainable Aviation Fuels) • Energy use • Waste	• Noise • Local economic impacts (job creation) • Air quality • Community engagement & charitable support	• Employee satisfaction • Diversity and equality • Talent management	• Financial performance (short term investor returns and long term sustainability) • Customer satisfaction • Carbon pricing • Innovation, research and development	• Compliance with legislation and regulation • Supply chain management

All of these issues are addressed in this report either in the 'Sustainability performance' table where specific performance metrics are reported or in the 'Sustainability in action' section where we describe our most recent work relating to these topics.

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

Sustainability targets

For our Group sustainability targets we focus on two material aspects: Climate and Noise. Our airlines have additional targets associated with other non-financial measures including waste, energy efficiency, punctuality, customer net promoter score and diversity, among others.

IAG climate targets:

- 10% improvement in fuel efficiency to 87.3 gCO_2/pkm by 2020 versus baseline of 97.5 gCO_2/pkm in 2014.
- Carbon neutral growth from 2020.
- Net reduction of 50% CO_2 emissions by 2050 versus 2005.

In addition, we are calling for Government and industry support for a target of net zero CO_2 emissions by 2050. We are also developing details for the potential introduction of management incentives aligned to our carbon targets to improve the alignment of our business strategy and decarbonisation pathway and therefore support delivery of our climate change and fuel efficiency targets.

IAG noise target:

- To reduce noise per flight by 10% by 2020 compared to 2015 based on average aircraft noise certification standards.

Stakeholder engagement

We actively engage with industry partners and associations, policy makers, shareholders, investors and governments to influence policy and drive action to meet our sustainability objectives.

We lobby governments at the domestic, European and global scale and actively participate in International Civil Aviation organisation (ICAO) programmes to develop global policy for aviation and environment including on aviation carbon targets, carbon pricing and sustainable aviation fuels.

We participate in a range of industry coalitions and associations to develop common policy positions and enhance our lobbying effectiveness. These include Sustainable Aviation, Airlines 4 Europe, IATA and Air Transport Action Group (ATAG) as well as specialist forums such as the Sustainable Aviation Fuels Users Group.

We partner with suppliers, for example we are collaborating with fuel suppliers and waste companies to develop technology and production facilities for sustainable aviation fuels and with Air Traffic Control authorities and Airport Operators to achieve more fuel-efficient flight operations. We are also working with aircraft manufacturers to improve fuel efficiency.

We engaged our top five corporate customers who contract with British Airways and Iberia on large business travel accounts in our materiality study and engage with other customers though CDP supply chain disclosures and customer sustainability surveys.

Finally, we engage with communities around our main hubs such as by participating in airport community forums to manage noise performance and engaging local schools in sports, charity and learning events.

Disclosures

Since 2011, IAG's sustainability reporting has been based on our assessment of which metrics are material to our business with GRI G4 Sustainability Reporting Guidelines as a secondary reference point. We review emerging disclosure standards to ensure we disclose relevant and meaningful data about our sustainability performance. This includes compliance with our obligations under Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain.

In October 2016, the UN Global Sustainability Standards Board introduced new GRI Sustainability Reporting Standards to replace the previous G4 version by July 2018. Our sustainability performance indicators are based on the GRI standards and are selected to reflect performance against our material issues.

In addition to the disclosures made in our Annual Report and Accounts and Management Report, we disclose non-financial information in several frameworks including CDP (previously the Carbon Disclosure Project) and the Workforce Disclosure Initiative (WDI).

Carbon disclosures

IAG achieved B Management level status in the 2018 CDP Climate global disclosure system. The new transport services scoring methodology introduced in 2018 proved challenging for airline responders, particularly in relation to thresholds in scope 1 and 2 renewable energy consumption and target setting which puts leadership in these categories out of reach for airlines. We will be working with CDP during 2019 to propose a more relevant and progressive assessment on these topics for airline responders. We also achieved A- Leadership level in the 2018 CDP ratings for Supplier Engagement.

Taskforce on climate related financial disclosure

In addition, we are pleased to have been one of the early signatories to the Task Force on Climate Related Financial Disclosure (TCFD), an initiative led by the Financial Stability Board which complements the CDP framework and introduces further steps to promote the integration of climate-related aspects into our strategy. Further details are included in the section on sustainability challenges.

Sustainability challenges and opportunities

Sustainability challenges and opportunities including those related to climate are assessed in line with IAG Enterprise Risk Management (ERM) methodology for likelihood (remote, possible, probable and likely) and impact (manageable, moderate, serious and critical).

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

We have identified and assessed longer term climate-related challenges and opportunities for IAG through our ERM process, materiality review and the application of scenario analysis in line with the TCFD process.

We are allocating significant resource to environmental risk management including investment of over 1 million euros over five years in our new fuel efficiency software and over 400 million dollars over the next 20 years in sustainable aviation fuels infrastructure development and offtake agreements.

The IAG Sustainability team is responsible for identifying and monitoring sustainability and climate-related challenges. These are reviewed by the ERM team and reported at least annually to the IAG Management Committee and the Audit and Compliance Committee of the IAG Board.

Climate related scenario analysis

In line with our commitment to TCFD we have undertaken climate-related scenario analysis to review the resilience of our business strategies in the context of climate change. We regard this as an iterative process and will be continuing to consider further climate scenarios and develop more quantitative conclusions.

In 2018 we followed the TCFD six step process to consider two contrasting scenarios:

- 2^{0}C scenario, consistent with meeting the Paris Agreement Goal (Representative Concentration Pathway ‘RCP 2.6’)
- 4^{0}C scenario as an alternative high emission scenario (RCP 8.5)

We considered the implications of these two climate scenarios on our business in 2030, assuming we have the same business activities as we do today. 2030 was selected as a nearer term consideration en-route to 2050, which is the target year for our 50% net CO_2 reduction target.

The analysis included an initial qualitative assessment of potential IAG response in terms of changes to business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

Broadly, the 2 degrees scenario demonstrated that IAG would incur additional operating costs, mainly as a result of the increased cost of carbon or other policy interventions. The 4 degrees scenario also demonstrated that IAG would incur additional operating costs, but in this case, these would more likely arise from increased cost of operational disruption due to increased frequency of extreme weather events.

Initial outcomes of the exercise have resulted in IAG establishing new partnerships through our accelerator programme ‘Hangar51’, to deliver innovations in fuel efficiency and low carbon technologies. Other initiatives are also being developed. The process has also meant that we have identified and disclosed several new climate-related challenges this year.

In 2019 we will consider a 1.5 degree scenario and potential IAG pathways towards achieving net zero emissions by 2050.

Summary of sustainability challenges and opportunities

Type	Description and potential impact	How we manage it
Climate Transition Challenges and Opportunities		
	Emergence of global patchwork of uncoordinated national and regional climate policies – regulation 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, IATA and ICAO to lobby for and help deliver a single effective global carbon pricing solution for aviation, CORSIA. Regular updates on progress are provided to the IAG Management Committee and IAG Board.
	Climate regulation – regional application 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 mentoring other airlines to ensure CORSIA is adopted successfully. • Supporting development of robust rules for CORSIA on Monitoring Reporting and Verification and Emissions Unit Criteria. • Lobbying for single tier adoption of CORSIA.
	Sustainable aviation fuels – regulation IAG believes fuel mandates, if applied, should only be applied at Global level. EU and Spanish proposals to mandate proportion of sustainable aviation fuels would drive production but could force airlines to purchase SAF at a price premium compared to conventional fuels creating competitive distortion.	• 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 challenge and opportunity 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 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 production opportunity Commercial and environmental opportunity to source cost effective sustainable fuel and reduce our CO_2 emissions thereby reducing compliance costs for CORSIA.	• Ongoing lobbying for sustainable aviation fuel inclusion and prioritisation in renewable fuel policies at the Global, EU, and UK levels. • British Airways investing with partners in waste-to-jet fuel production projects and launched Future of Fuels challenge to UK universities to accelerate SAF development.
	Higher carbon price and strong policy incentives challenge and opportunity Challenge from higher cost of carbon adding to our operating cost and corresponding opportunity with stronger business case for investment in low carbon technologies which would accelerate progress in decarbonisation pathway.	• 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. • Forward purchase of carbon credits to protect against price volatility. • Innovation and collaboration on future fuels and carbon technologies through our Hangar 51 accelerator programme.

Summary of sustainability challenges and opportunities continued

Type	Description and potential impact	How we manage it
Climate physical challenges and opportunities		
	Extreme weather impact on operating costs 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 increase fuel cost with increased potable water carriage.	• IAG climate strategy (all the measures above) and our support for strong global action to tackle climate change. • Partnerships to find solutions to mitigate operational disruption. Example is project with partners in NATS and Heathrow Airport to implement innovative technology, the 'Time Based Spacing' system, enabling landing rates at Heathrow to be maintained in the event of strong winds. This has reduced delays, fuel burn and emissions and avoided extra costs due to disrupted operations.
	Destinations becoming unattractive for visitors 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. Climate change could also 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 profiles.
Other sustainability challenges and opportunities		
	Operational noise restrictions and charges 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 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, 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 An inadvertent breach of compliance requirements with associated reputational damage and fines.	• Adopting group-wide Environmental Management System, the IATA IEnvA programme. • 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 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.

UN Sustainable Development Goals

The United Nations has adopted a plan to "end poverty, fight inequality and injustice, and tackle climate change by 2030." At the heart of this Agenda 2030 are 17 Sustainable Development Goals (SDGs). Fulfilling these goals will take significant effort by all sectors in society and it is widely recognised business has an important role to play.

Aligning with IATA and Sustainable Aviation, we draw links to 9 relevant SDGs to our business, as shown in the table below. We reflect the links to these in our sustainability performance data on the following pages and regard SDGs number 5, 7, 8 and 13 as priority measures, most relevant to IAG.

Goal 3: Good health and wellbeing	**Goal 7: Affordable and clean energy**	Goal 11: Sustainable cities and communities
Goal 4: Quality education	**Goal 8: Decent work and economic growth**	Goal 12: Responsible consumption and production
Goal 5: Gender equality	Goal 9: Industry, innovation and infrastructure	**Goal 13: Climate action**

Future focus – progress with priorities set for 2018 and new priorities for 2019

Relevant material issue:	Progress against priorities set for 2018	Our priority actions for 2019
Environment • Climate Change	• Beginning the first action to implement CORSIA in preparation for emissions monitoring from January 2019 – see case study. • Using our new fuel efficiency software to identify more opportunities for fuel efficiency – see case study.	• Calling for government and industry support for a net zero emissions pathway. • Developing options for IAG on a net zero emissions pathway. • CORSIA implementation from January, beginning baseline monitoring and preparing our carbon offsetting strategy.

Future competitiveness
• Investors
• Customers
	• Driving continual improvement of our sustainability disclosures. In 2018 we achieved B in CDP and extended our disclosures to WDI.
	• Improving our external communications regarding sustainability initiatives:
	  • New IAG website including sustainability page
	  • Airlines updated websites sustainability content
	  • Collaborated with Sustainable Aviation on social media communications
	  • Airlines featuring regular articles in their in-flight magazines relating to sustainability.
		• Continuing to invest in innovative sustainable aviation fuels projects and seek ongoing opportunities following the Future of Fuels Challenge to UK universities.
		• Extending our work through Hangar 51 on innovations in fuel efficiency and low carbon technologies.

Corporate Governance • Compliance	• Continuing the roll-out of our environmental management system IEnvA. We continued implementation with Vueling and British Airways expected to achieve Phase 1 certification early in 2019.	• Developing proposals for aligning management performance incentives to carbon targets.

Data Governance

The scope of our sustainability performance data includes all our airline and air cargo operations except for some specific data for LEVEL Austria and LEVEL France which started operations in summer 2018. LEVEL Spain operations (three A330 aircraft) are included in scope of all our environment data. LEVEL Austria (four A321 aircraft) and LEVEL France (two A330 aircraft) are only reported in relation to ICAO CAEP Noise and NOx measures. The data for the 6 aircraft represents 1.1% of our total fleet in 2018 (573) and less than 1% of our Scope 1 emissions.

Avios and GBS functions, are currently included in scope of our workforce metrics but are not in scope of our environmental metrics (where they form less than 1% of material environmental aspects).

Our sustainability performance indicators are based on the GRI standards.

From 1st January 2019, our airlines have started monitoring, reporting and verifying CO_2 emissions data for international flights in compliance with CORSIA, the ICAO Carbon Offsetting and Reduction Scheme for International Aviation.

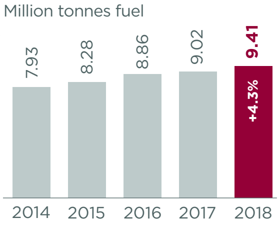
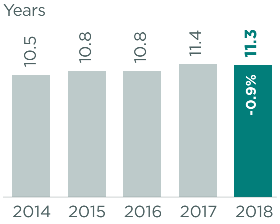
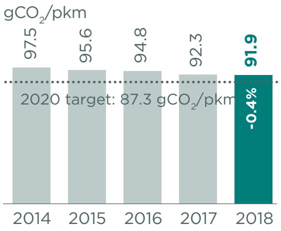
Our emissions data is calculated using UK and Spanish Government Greenhouse Gas conversion factors for company reporting.

Sustainability performance

This performance summary should be considered along with measures reported across the Strategic Report and Management Report to collectively understand our performance against our most material sustainability matters including environment, customers, workforce, social, supply chain and business integrity aspects.

In the charts below, the 2018 bar is colour coded: green for in-line with desired direction and red for against desired direction.

● Indicator improved ● Indicator not improved

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Jet fuel[1] (Million tonnes)**	As commercial aircraft remain reliant on liquid kerosene for the foreseeable future, IAG's climate change focus is on purchasing newer more fuel efficient aircraft, developing sustainable jet fuel, pursuing operational fuel efficiency and supporting CORSIA global carbon offsetting scheme.	• Jet fuel use has increased by 4.26% compared to 2017 while our business growth has grown faster – RPK up 7.1%. This shows an increase in fuel efficiency per unit output.	
	Average age of aircraft fleet (years)	Average age of all aircraft in our fleet calculated at the end of the reporting year and based on aircraft age from date of manufacture. This is a measure of the rate of new aircraft entry into our fleet.	• There has been a slight decrease in our average fleet age in 2018. This has been mainly driven by retirements of aircraft and deliveries of new generation aircraft. • 42 aircraft introduced. • 21 aircraft retired. • Total aircraft fleet at end of December 2018: 573.	
	Flights only CO_2 emissions intensity (gCO_2/pkm)	Target: 10% improvement by 2020 compared to 2014. Grammes of CO_2 per passenger kilometre is a standard industry measure of flight efficiency. Individual airline performance is reported on the relevant pages in this report.	• The 0.4% improvement in average carbon efficiency in 2018, gives a rolling five-year average of 1.33% per year, just less than the industry target of 1.5%. • The slightly slower rate of improvement in 2018 is due to the rate of fleet renewal as well as challenging operating conditions including disruption caused by European ATC strikes.	

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1 2018 Climate data provisional subject to further verification for compliance with EU ETS which is completed after publication of this report. As we file this report within two months of year-end, our EU ETS and Scope 1 (direct) emissions data is provisional and will be subject to further verification (to reasonable assurance) after publication of this report. Based on past trends, the difference between provisional and verified data is not material, typically less than 0.05%, but may result in some minor rounding of our 2018 scope 1 emissions data in subsequent reports.

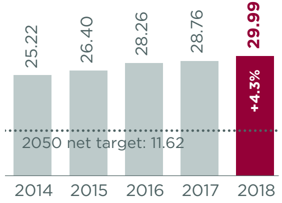
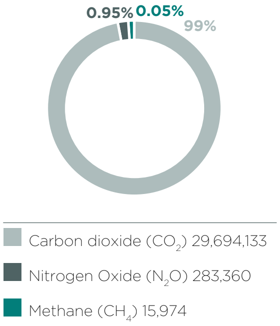
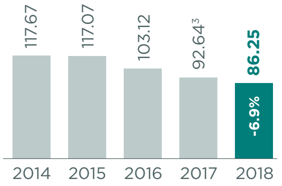
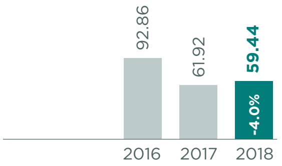
2 New measure in 2018

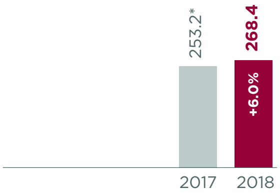
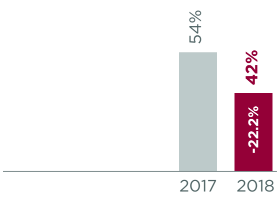
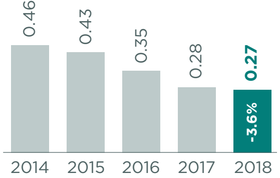
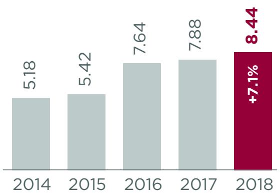
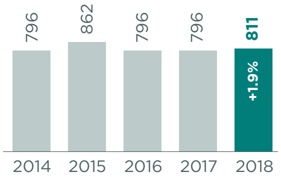
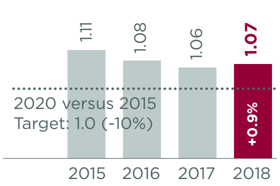
3 2017 location based figure is restated from previously reported figure (86,390 tonnes CO_2e) following revised calculations using new Spanish Government conversion factors.

4 Emissions data for years 2017 and earlier have been third party verified to reasonable assurance for compliance with the EU ETS (covering flights within the European Economic Area). Furthermore, all of British Airways' Scope 1, 2 and 3 emissions data for years 2017 and earlier have also been third party verified (to reasonable assurance) and complies with ISO14064-3 international reporting standard.

5 Scope 3 data reported 2018 was prepared for CDP report based on 2017 activity.

6 Based on headcount as at December 31, 2018.

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Scope 1[1] Direct GHG emissions** (Million tonnes CO_2e)	Direct emissions associated with our flying. In line with industry commitments which we were instrumental in securing in 2009, we have two targets over different timescales: 1 To achieve carbon neutral growth for our international aviation flights from 2020. 2 50% net reduction in CO_2 emissions by 2050 versus 2005 baseline (23.24 million tonnes).	- Scope 1 CO_2e emissions have increased but at a lower rate than activity of the airlines. - IAG contributed approximately 3 million tonnes of carbon reductions through our compliance with the EU ETS, bringing our net CO_2 emissions to c. 27 million tonnes CO_2e (provisional pending EU ETS verification).	Million tonnes CO_2e  Targets: Carbon Neutral Growth by 2020 1 -50% net CO_2 by 2050 v's 2005 baseline (23,237,182)
	Scope 1 Other Greenhouse Gas Emissions[2]	We are reporting these measures for the first time in 2018. Previously we have reported all our greenhouse gas (GHG) emissions using the carbon dioxide equivalent metric (CO_2e) but have expanded this to reflect stakeholders interest in understanding the composition of the total.	- The majority of our GHG emissions comprise carbon dioxide emitted from aircraft fuel burn. - Emissions of other GHG's such as methane and nitrogen oxide also arise from aircraft fuel burn as well as the operation of ground vehicle fleets.	Tonnes GHG emissions (% of total Scope1 CO_2e) 
	Reduction in GHG emissions from initiatives[2] (tonnes CO_2e)	Avoided emissions due to initiatives within any of the three scopes of emissions reporting. For example, enhanced fuel efficiency techniques yield scope 1 emissions reductions, switching from incandescent to LED lighting affects scope 2, and encouraging employees to car-share or utilise public transport affects scope 3.	- Efficiency initiatives have resulted in savings of 65,665 tonnes CO_2e, equivalent to 0.2% of our scope 1 emissions. - Key initiatives have included changes in operating procedures and on-board weight savings.	Thousand of tonnes CO_2e (First year reporting this) **2018** **65.66**
	Scope 2 Indirect GHG emissions[3] (Thousand tonnes CO_2e)	Buildings electricity. Scope 2 emissions reported here reflect national (location and market based) grid mix for UK, Spain and Ireland. Aer Lingus included from acquisition in August 2015. The location-based method considers emissions generated by the local power grid to which our facilities are connected. The market-based method considers emissions generated by the power companies that supply our energy and therefore includes factors such as renewables tariffs.	- Fluctuations in trend are influenced by airline acquisitions as well as the trend towards less carbon intensive electricity across Spain, UK and Ireland. - Our market-based emissions are significantly less than our location based emissions reflecting the portion of the Group's electricity supply being purchased from lower carbon sources. [3]	Thousand tonnes CO_2e (location based)  Thousand tonnes CO_2e (market based) 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Electricity Used (million kWh)[2]**	Consumption of electricity across main facilities in millions of kilowatt hours. Includes usage in main offices, hub airports and maintenance facilities.	Iberia energy efficiency initiatives included replacement of light bulbs that delivered the following savings in electricity usage: • Engine workshop: 2,679,979 KWh • Cargo terminal: 665,180 kWh	Million kWh electricity  * 2017 figure not previously reported
	Percentage renewable electricity[2] (%)	Percentage of electricity consumed as above that is generated by renewable sources. The primary source of IAG's renewable energy is wind. IAG aims to increase our overall percentage of renewable electricity used as part of our longer-term emissions reduction targets.	2018 renewable electricity use by airline: • Aer Lingus 52% • British Airways 61%, • Iberia 0% and • Vueling 0%	% Renewable electricity 
	Energy intensity per passenger kilometre (gCO_2/pkm)	This metric is designed to monitor our energy efficiency (Scope 2, location based) as a function of our business activity (passenger kilometres). It complements our flight only emissions intensity metric.	• Group wide electricity usage has increased in 2018 but has been slightly outpaced by growth in flying activity. • Our energy efficiency shows no change on last year. This is primarily due to completion of major energy efficiency projects in 2017 with minimal changes made in 2018.	Energy intensity per passenger kilometre (gCO_2e/pkm) 
	Scope 3 Other indirect GHG emissions[5] (Million tonnes CO_2e)	Other indirect emissions includes emissions associated with fuel production, transportation and distribution; aircraft manufacturing and disposal; waste processing; business travel and employee commuting; franchises and water consumption. More categories are now captured.	• The Scope 3 emissions increased by 7.1% in 2018 compared to 2017 partly due to business growth from expanding the scope of data captured. • We actively engage with suppliers to manage and reduce our scope 3 CO_2 emissions - see stakeholder engagement section.	Million tonnes CO_2e 
Economic return versus climate impact	**Revenue per tonne CO_2e** (€/tonne CO_2e for scope 1 and 2 emissions combined)	This metric is a long-term measure to track the connection between economic growth and climate impact of our operations.	• Revenue per tonne of CO_2 has improved slightly versus last year driven by the increased load factors and the value of cargo carried.	Revenue per tonne CO_2e €/t CO_2e (0%) 
Noise	**Average noise** (Based on Quota Count and number of Landing and Take Off cycles per year)	This metric measures average noise per flight considering arrival and departure noise for each aircraft type (using UK Government Quota Count values which are a relative categorisation based on certified noise levels) and the number of flights operated in a year. Note: for a single flight a Boeing 747 score would be 6.0 whereas an Airbus A320 (current engine option) would be 1.0.	• We are in the process of retiring some of our noisiest aircraft and replacing them with the next generation of quiet aircraft however our performance in 2018 declined slightly due to the increase in longhaul operations driving increased weight and therefore QC rating for some of our fleet.	Average noise QC/LTO cycle 

Aspect and link to SDG | Performance indicator | Description | 2018 highlights | 2018

Noise

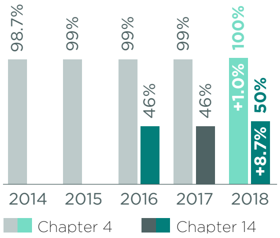
Aircraft fleet noise certification (ICAO Chapter 4 and 14)

ICAO Chapter 4 noise certification comprises limits of 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.

- Our entire fleet meet ICAO Chapter 4 noise certification.
- During 2018 we have seen an increase in Chapter 14 certified aircraft and expect this to increase further during 2019 as new generation aircraft such as the Airbus A350 and A320neo join our fleet.

% ICAO noise standard



Continuous descent operations[2] (%)

Continuous descent operations (CDO) employ a smooth approach angle allowing aircraft to fly higher for longer compared to stepped approaches. This can help reduce fuel consumption as well as noise for those living under approach flightpaths.

- Our aim is to have all our airlines achieve over 80% average across UK airports.
- Prior to 2016 Iberia and Vueling had not been engaged in CDO initiatives but since then both airlines have made significant progress and are continuing their upward trend.
- Data does not include Level as they are not currently operating in the UK.

% Continuous Descents (UK average)

Airline	2013	2017	**2018**	%VLY
BA world	94.1	95.7	**95.6**	-0.1
BA domestic	87.0	87.3	**88.8**	1.5
Aer Lingus	86.8	87.5	**86.6**	-0.9
Iberia	58.2	84.7	**85.4**	0.7
Vueling	61.8	76.1	**78.9**	2.8
UK average	86.1	87.2	**88.3**	1.1

Source: NATS for Sustainable Aviation. 2013 is baseline year.

Waste

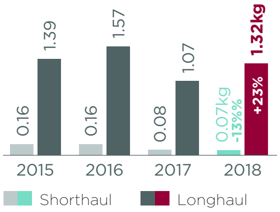
Average aircraft cabin waste (kg/passenger)

Cabin waste generated per passenger and split between shorthaul and longhaul operations.

We are working on being able to report this measure as a Group average.

- In 2018 Vueling average waste per passenger, including both catering and cabin waste was 0.19kg (shorthaul).
- For Iberia, shorthaul average waste per passenger was 0.14kg and for long haul was 1.75kg.
- For BA, shorthaul has improved slightly and longhaul has increased due to enhanced product offering.

Average cabin waste per passenger



* Data is British Airways data only

Air quality

Aircraft fleet that meet ICAO CAEP standard for NO_x emissions (%)

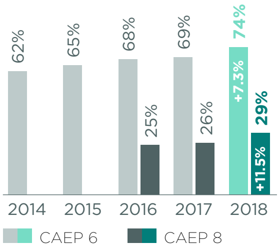
ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard.

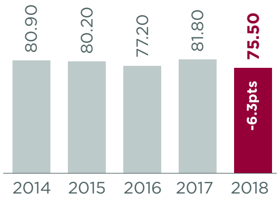
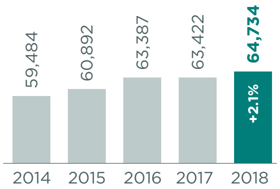
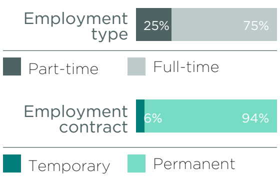
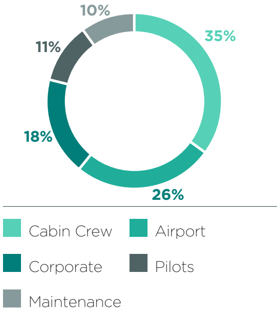
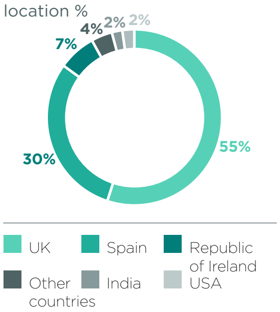
The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014.

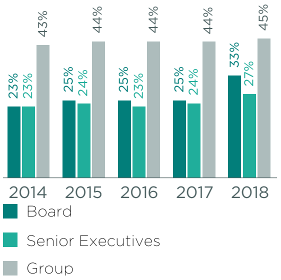
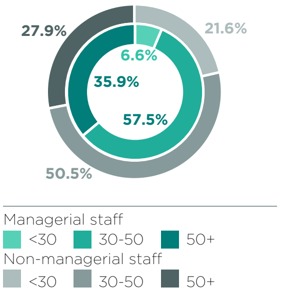
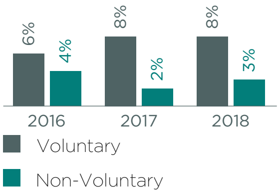
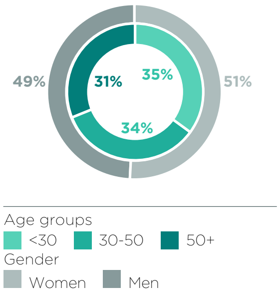
ICAO is also developing a standard for particulate matter from aircraft engines, expected to come into force in 2020.

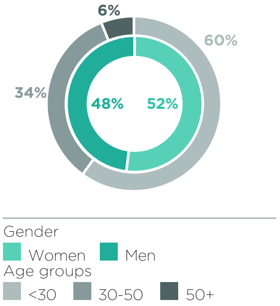
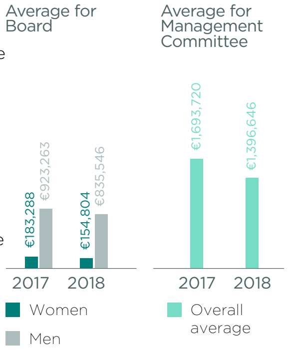
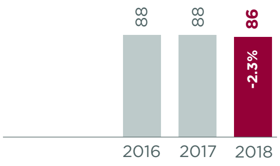
- As 97% of our aircraft meet CAEP 4 NOx, we now focus on meeting the more stringent CAEP 6 and 8 standards.
- In 2018, we also measured average NOx emissions per landing and take-off cycle for the first time. The emissions generated during these phases influence air quality near the airports that we serve. The figure was 9.44 kg NOx/LTO for 2018. We will report trends on this in future years.

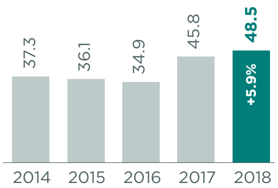
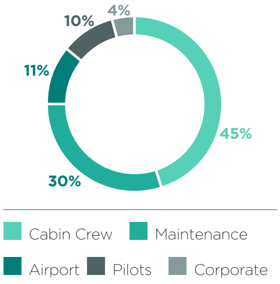
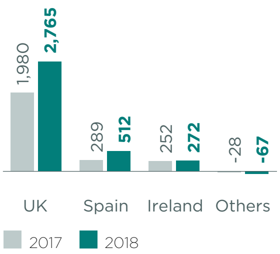
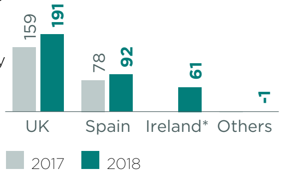
% ICAO NO_x standards



Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Customers	**Customer satisfaction (average Net Promoter Score)**	Net Promoter Score (NPS) is a non-financial metric which measures the likelihood of a customer recommending an IAG operating carrier. Customer satisfaction with a company's products or services is key to a company's success and long-term competitiveness (see Key performance indicators section).	- We have established consistent methodology across our Group to achieve a single blended score. - The Voice of Customer (VoC) survey is the main tool of the customer experience programme and provides valuable feedback that helps to identify actionable insights to improve the customer proposition.	**2018** **16.3** **vly -0.5pts**
	Punctuality (within 15 minutes)	Punctuality is defined as the percentage of flights that depart within 15 minutes of their published departure time. The moment of departure is defined as the moment the aircraft's brakes are released in preparation for pushback. As a major drive of customer satisfaction, and we strive to consistently improve our punctuality.	- Despite improved operational practices across our airlines punctuality performance has declined due to the very challenging environment caused by ATC strikes in Europe.	Punctuality % 
Workforce	**Employment (Average manpower equivalent)**	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 better reflect seasonality. Headcount is the actual number of people employed by the Group (employees).	- Our average manpower equivalent grew by 2.1% in a year when our overall ASKs increased by 6.1%. This has provided improved employment opportunities whilst achieving productivity gains to help maintain our competitive cost base. - The Group total headcount as at December 31, 2018, is 71,134	Average manpower equivalent 
	Composition[2, 6] (Employment type, contract and employee categories)	A part-time employee is one whose working schedule is less than 30 hours per week. A temporary employment contract has a defined end date. Our employee categories 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.	- This is being reported for the first time in 2018.	Employment type and contract  Employee categories breakdown % 
	Employees by country[2,6]	This indicator depicts the distribution of the Group's employees according to the country where they are based.	- As at the end of 2018, IAG had employees based in 83 countries. - 95% of the Group's workforce is based in the European Economic Area.	Employees by geographic location % 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Gender diversity[6] (% Women at Board, Senior Executive, & Group level)**	We are committed to building a workforce with diverse perspectives, experiences and backgrounds at all levels throughout the Group. In 2018 we have increased the proportion of women on the Board to 33% which was our published objective set for 2020. We also have an objective to reach 33% women across the Group's senior executive levels by 2025.	• In 2018 we have increased the number of women on our Board from 3 to 4. • The proportion of women in senior executive positions across the Group has increased from 24% to 27% in 2018. • All Group companies have updated their diversity and inclusion strategies to reflect IAG targets.	% Women 
	Age diversity[6]	An age diverse workforce balances the need for experienced individuals with maintaining a plan for succession through the recruitment of new talent.	• IAG reviews age diversity in the following ranges: less than 30 years, 30-50 years, over 50 years. • Further, we have also reported age diversity for staff in managerial and non-managerial roles.	Managerial and non-managerial staff 
	Employees with disabilities[2]	This measure is based on the total number of British Airways and Iberia employees with self-declared disabilities. The data is not currently available for our other operating companies. Between them, British Airways and Iberia represent over 80% of the Group's total headcount.	• This is being reported for the first time in 2018.	% of employees with disabilities **1.4%*** * British Airways and Iberia employees only
	Workforce turnover (% voluntary and non-voluntary)	IAG recognises the importance of retaining experience and talent in relation to the success of the business and we report turnover as a measure of the stability of our workforce. Workforce turnover is measured as the number of leavers as a percentage of the average number of Group employees in the year. 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, etc.).	• A total of 8,240 employees left the Group in 2018, of which 2,435 were non-voluntary.	% voluntary and non-voluntary  % gender and age breakdown of 2018 leavers 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Recruitment[2] (by age and gender)**	Total number of positions filled including both replacement hires and new positions.	• A total of 8,789 positions were filled across the Group, of which 52% were women.	Positions filled by gender and age % 
	Remuneration[2] (averages by gender)	Average remuneration for members of the board and management committee broken down by gender. For 2018, the board had two executive directors, both men. Their 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 board members who were on the Board for the whole of 2018, the board also had nine non-executive directors, consisting of six men and three women. Non-executive directors' remuneration is made up of basic fees and travel benefits. The Management Committee excludes the two executive directors who are board members. Including only Management Committee members who were in employment for the whole of 2018, the Management Committee consisted of eight men and two women. Their remuneration is made up of the same elements as for the executive directors. For 2017, only people who were in service for the whole year are included. The only difference being that the nine non-executive directors consisted of seven men and two women.	• 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 directors and the Chairman are all held by men. • Comparing 2018 to 2017, the average remuneration for men and women has fallen substantially because of the large fall in both the annual incentive pay-out and the long-term incentive. This affects the executive directors 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.	
	Gender pay gap[2] (Median based on hourly rates)	Gender pay gap refers to the difference between men's and women's median earnings (based on hourly rates of pay) across the organisation, expressed as a percentage of men's earnings. A more in-depth report is available for each of our UK companies at: https://gender-pay-gap.service.gov.uk/	• For the first time, in 2018, UK companies with over 250 staff were required to report on their gender pay gap. This was reported in April 2018 based on data captured at the snapshot date, April 5, 2017. • At British Airways the gender pay gap is largely attributable to the low proportion of women pilots. When pilots are excluded from the calculations, the pay difference favours women by 1%.	Gender pay gap (median %) **2017** British Airways: 10% Avios: 32% British Airways Holidays: 27% British Airways Maintenance Cardiff: 20%
	Social Dialogue and Trade Unions[6] (% of employees covered by collective bargaining agreement)	Employee Relations are an important factor in improving and maintaining workforce engagement. All 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 employees. This includes regular review of matters relating to the health & safety of the workforce.	• IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group has operations, covering 95% of the Group's total workforce. EWC representatives are informed and consulted about matters which may impact the Group's employees in two or more EEA countries. Two meetings of the EWC were held in 2018.	% of employees covered by collective bargaining agreement 

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Workforce	**Average hours of training** (average employee training hours per year, training hours by employee category)	Calculated by translating training data for airlines per FTE to show as training hours per Group Average Manpower Equivalent (AME).	• In 2018 IAG continued to invest in employee training across the Group with a focus on the customer proposition.	Average hours training per employee per year  Training hours by employee category % 
	Occupational Health & Safety[2] (Lost time injury frequency rate, lost time severity rate and fatalities)	A Lost Time Injury (LTI) is a non-fatal injury arising out of, or during work which leads to a loss of productive work time. The Lost Time Injury Frequency Rate (LTIFR) is calculated by multiplying the number of LTIs by 100,000 and dividing the result by the total number of hours worked in the year. The Lost Time Severity Rate (LTSR) measures the impact of occupational accidents as reflected in time off work by the injured employees. It is expressed as an average of days lost per LTI. This data does not include occupational diseases.	• British Airways introduced a new safety and security risk management system, AIR (Audit, Issue, Risk) that enables issues to be reported from a mobile device or web browser 24 hours a day, seven days a week, anywhere in the world. It provides rich data, in real time, helping to maintain the highest levels of safety and security in a smarter, intuitive way. • In 2018 the employees of the Group experienced 1.64 LTIs for every 100,000 hours worked and, on average, each of the LTIs resulted in 21.12 days off work. • Regrettably, there was one fatality at British Airways in 2018 due to a road traffic accident within the boundaries of Heathrow airport.	**2018** Lost Time Injury Frequency Rate: 1.64 Lost Time Severity Rate: 21.12 Number of fatalities: 1
Tax	**Profit / (loss) € million**	Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable. Subsidies have not been reported as they are not considered material.	• The increase in profits taxable in our main countries of operation in 2018 reflects improvements in the underlying financial performance of our operating companies. In the UK the increase is also driven by an exceptional gain arising in relation to British Airways pension schemes.	Profits by country €m 
	Income tax paid € million	Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.	• Total tax payments of €343m are lower than the expected tax charge for the Group of €671m primarily because tax relief for pensions in British Airways arises on a cash basis and is not based on accounting profits and losses. • The increase in taxes paid by country in our main countries of operation in 2018 reflects the increase in profits in our operating companies. The increase in tax paid in the UK is proportionately lower than the increase in profits because the exceptional gain in relation to pensions in British Airways is not a cash tax item. In Ireland, Aer Lingus offset its remaining tax losses from earlier years against taxable profits in 2017. Its remaining tax liability from 2017 together with its 2018 liability was paid in 2018.	Income tax paid by country  * 2017 was not calculated

Sustainability in action

Global aviation carbon offsetting scheme

The global aviation carbon offsetting scheme CORSIA is vital in enabling aviation to meet its long-term climate target of reducing net emissions to 50 per cent of 2005 levels by 2050. In 2018 IAG's representatives working with IATA and ICAO helped finalise the rules governing the scheme including those relating to Monitoring, Reporting and Verification (MRV), the treatment of Sustainable Aviation Fuels and the rules for airlines and carbon offsetting programmes relating to eligible carbon offsets. All IAG airlines prepared their CORSIA Emissions Monitoring Plans ahead of the deadline of September 30, 2018 and were ready to begin baseline monitoring from January 1, 2019.

We continue to comply with the EU Emissions Trading System and while we had hoped that CORSIA would replace aviation's inclusion in the EU ETS, as agreed in the 2016 ICAO General Assembly resolution, it seems likely now that both schemes will run in parallel during the initial years of CORSIA. We are continuing to work with IATA, our regional and domestic trade associations and directly with national governments to call for single tier regulation to avoid market distortion and carbon leakage. We are also liaising with the UK Government on options for the treatment of aviation after the UK exits the EU.

Fleet investment and modernisation

Fleet modernisation is a core part of IAG's strategy to reduce our flight only emissions intensity to 87.3 gCO_2/pkm by 2020 and to reduce noise by 10% per flight achieving an average noise quota count of 1.0 by 2020.

2018 saw the entry of three new aircraft types to the IAG fleet; the Airbus A320neo, A321neo and A350. In addition, we received further deliveries of A330 and Boeing 787 aircraft. The new aircraft are up to 20% more fuel efficient than the aircraft they replace and up to 50% quieter bringing benefit to communities close to the airports we serve.

2018 also marked the end of an era for some of IAG's fleet as eight of British Airways' last Boeing 767s and one Boeing 747 aircraft were retired. British Airways remaining 747 aircraft will be fully phased out by 2024. In the meantime, efficiency projects are in progress, including engine upgrades and weight savings to get the best operational performance from these aircraft while they remain in the fleet.

Fleet modernisation will continue in coming years with further deliveries of 92 A320neo series aircraft, 41 A350s and 12 Boeing 787s. These new aircraft will help our airlines to continue to improve passenger experience while minimising both climate and noise impacts.

Sustainable aviation fuel

Sustainable Aviation Fuels (SAF) will play an important part in enabling the aviation industry to meet its long-term climate goals. IAG remains at the forefront in influencing domestic, regional and international policy to support the development of SAF and action on SAF is gaining momentum.

In 2018, in partnership with Airbus and Total, the delivery of Iberia's first Airbus A350 aircraft was powered by a 10 per cent SAF blend.

British Airways' partnership with Velocys and Shell has progressed with Velocys receiving a development grant from the UK Department for Transport. The project, to build Europe's first commercial plant to convert household waste to renewable jet fuel, has concluded the initial engineering design, feedstock supply feasibility work and secured a site. IAG continues to work with several technology developers to establish a range of supply options for the future.

In anticipation of its centenary celebrations in 2019, British Airways also launched the Future of Fuels competition open to academics at UK universities. Winners will be awarded a £25,000 grant to further their research along with an opportunity to present their winning proposal at the industry leading IATA Alternative Fuels Symposium and ATAG Global Sustainable Aviation Summit.

The Department for Transport, Sustainable Aviation and Innovate UK have also sponsored a Special Interest Group which has provided support to researchers and small and medium-sized enterprises (SMEs) wishing to develop new SAF projects.

Carbon fund

Customer donations to the British Airway's Carbon Fund have helped us to support many community projects around the world focussed on renewable energy, energy efficiency, and carbon reduction. The fund supported 12 projects in 2018, investing in solar panels, high efficiency lighting, insulation and energy storage in schools, community and sports centres in the UK and in Africa. This brings the total number of projects funded to date to 39, providing benefits to over 200,000 people.

The second phase of a project with the Ol Pejeta Conservancy was completed with a £70,000 grant from the Carbon Fund enabling the replacement of two diesel powered borehole pumps with solar pumps. These provide clean water as well as improving air quality and providing free Wi-Fi for schoolchildren within 15km of the pumps.

Closer to home, a British Airways Carbon Fund grant supported the conversion of a derelict building on the grounds of a primary school in Renfrewshire, Scotland to a low carbon community hub.

Fuel efficiency

In 2018 our Honeywell GoDirect Fuel efficiency software went live in Iberia, British Airways and Aer Lingus in November 2018 with Vueling and the Group Portal due to follow in first quarter 2019. This new tool will help identify further fuel efficiency opportunities and enable group-wide benchmarking and reporting on aircraft fuel efficiency performance.

Vueling and Iberia began working under the Eurocontrol Collaborative Environmental Management framework with the Spanish air traffic control authority AENA to collectively develop more sustainable Spanish airspace targeting noise and CO_2 emissions reductions.

Other examples of the fuel efficiency initiatives delivered by our airlines in 2018 include; landing lights retraction, single engine taxi without APU, Boeing Winds, departure altitude release, weight reduction and optimised engine wash programmes. Collectively these saved over 65,000 tonnes of CO_2. We also began an innovative collaboration with Signol, behavioural economics experts, as part of IAG's start-up accelerator programme Hangar 51.

Noise

Minimising the noise impact of our aircraft operations on quality of life for communities around the airports where we operate remains an important focus of our sustainability programme. While we are proud of the progress that has been made in reducing aircraft noise over time, we recognise, and are committed to addressing, the ongoing concerns of communities regarding aircraft noise.

As well as our investment in new aircraft we have also been modifying existing aircraft to help reduce noise impact. For example in 2018 Aer Lingus fitted 28 of their 37 Airbus A320/21 aircraft with airflow deflectors which help prevent the generation of a whistling sound during a phase of descent. In addition, all our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible.

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. For example, British Airways participates in the Heathrow Community Noise Forum and worked with the group in 2018 to improve adherence to departure routings that are designed to minimise noise from the airport as well as a trial testing the impact of climb gradients on noise.

British Airways also contributed to a UK Government study on departure noise mitigation, which found that the two main departure procedures used by airlines distribute community noise in slightly different ways, but that overall the total noise exposure is similar.

In 2018 we also worked with UK Sustainable Aviation (SA) partners including other airlines, airport operators, aircraft manufacturers and the UK air traffic control authority NATS to review our joint action on noise. SA reports have demonstrated the industry has made good progress in reducing its noise footprint in recent years while future programmes in SA will focus on supporting further operational improvements and better understanding the non-acoustic quality of life options for managing the impacts of aircraft noise.

Waste

Our airlines are working with suppliers to reduce unnecessary waste and where possible avoid the use of single use plastics. For example, Vueling removed plastic tea cups from their shorthaul catering services, replacing them with biodegradable alternatives.

Iberia have also made changes to their service on board aircraft and in their Dalí Premium Lounge in Madrid Airport including:

- replaced plastic wrap for Business class earphones with paper saving 436,000 plastic bags per year (1.5 tonnes less plastic waste)
- canned drinks replaced with returnable glass, saving 1 million cans per year (23.5 tonnes less aluminium waste)
- individual plastic salad pots replaced with buffet salads, saving almost 200,000 containers (6 tonnes less plastic waste)
- wines in plastic bottles replaced with glass which is recycled, saving 25,000 plastic bottles (575 kg less plastic waste).

In 2018 Iberia's work on the EU LIFE+ Zero Cabin Waste project also progressed with the design of a new on-board waste trolley to facilitate separation of waste for cabin crew and a series of trial flights between Madrid and Barcelona, London and Geneva to test the new product. Initial data shows an average of an additional 13kg waste per flight being diverted from disposal to recycling.

British Airways appointed over 120 cabin crew as 'War on Waste champions' to help tackle waste. Successes from their first few months in action included:

- reduced the use of plastic swizzle sticks for drinks by 30 per cent
- changed the packing of Club Kitchen products saving over 100,000 products a year from disposal
- collecting bottle corks, now sending c. 10kg of corks each month to Re-Corked UK for recycling
- adding waste reduction and recycling training to the Cabin Crew New Entrant Training course.

IAG and British Airways are also tackling waste at our London headquarters. In April we introduced a levy on disposable coffee cups, plastic stirrers were removed, plastic take away containers and cutlery in the canteen was replaced with reusable alternatives and plastic water cups were removed from water dispensers. In total, over 1 million individual single-use plastic items were saved in the first 8 months from launch.

Inspire work experience programme

British Airways award-winning Inspire work experience programme allows young people to experience the excitement of the aviation industry. In 2018 over 24,000 young people were engaged through staff volunteering opportunities. 600 students were also hosted on work experience weeks across 25 departments and British Airways was re-awarded the work experience Gold Standard. Teacher Take Off Days also gave teachers a one-day work experience course and Your Flying Future campaign was launched to encourage young people from a variety of backgrounds to consider a flying career.

Air quality

Ground Service Equipment across the Group's main hubs of operation is being replaced where possible with electric vehicles, helping reduce our carbon footprint and improve air quality for local residents. 38% of Iberia Airport Services vehicles are now electric, up from 29% last year.

Aer Lingus purchased 61 electric baggage tractors, belt loaders, passenger stairs and pushback tugs. Electric vehicles currently comprise 38% of Aer Lingus Ground Service Equipment fleet.

Mototok, the electric remote-control pushback tug commercialised by British Airways is in use across all shorthaul operations at Heathrow Terminal 5. In addition to improving punctuality performance, the new tugs are powered by Heathrow's 100% renewable electricity supply saving 7,400 tonnes of CO_2 and 28 tonnes of NOx every year compared to the previous diesel-powered tugs. British Airways continues to work with Mototok, collaborating on development of a model for widebody aircraft.

Health and safety

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

We have robust governance in place led by the safety committees in each of our operating companies. The IAG 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.

Beyond accessibility

British Airways has committed to ensuring that the journey process is made simpler and easier for customers with disabilities. An internal communication campaign and a video featuring British Airways customers, called Beyond Accessibility, has been incorporated into colleague learning to help them to understand the challenges that customers with disabilities can face when they travel. They are also working with airport operators and handling agents to provide more consistent customer service including prioritisation during disruption, dedicated check in areas and more effective priority boarding. In addition, British Airways has partnered with the National Autistic Society to understand what can be done to help and support customers who have hidden and non-visible disabilities too.

Across the Group we comply with relevant legislation regarding accessibility for disabled employees and customers in our buildings and our operations.

Workforce diversity

The progression of women into leadership roles is vitally important and we have set a target to reach 33% women across our senior executive levels (top 200) 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 of these achievements in 2018 included:

- A series of roadshows across the Group to engage leadership teams and raise awareness.
- A diagnostic questionnaire for approximately 2000 managers across the Group in June, which identified their experiences around gender inclusion. Key actions are being developed in the individual Operating Company diversity plans.
- British Airway & Avios reported their Gender Pay Gap figures in April.
- International Women's Day was marked with British Airways and Aer Lingus flights crewed and operated by women colleagues in March.
- IAG partnered with Rocking Ur Teens, a social enterprise, hosting a teen STEM conference in November for 250 school girls aged 13 to 15. This was to help motivate and inspire the next generation of young women into the airline industry.
- Established mentoring and sponsorship programmes across the Group for senior managers.

Supply chain

IAG's Supplier Code of Conduct is the main framework setting out the standards to which suppliers engaging with IAG and its operating companies must comply. The Supplier Code of Conduct covers Labour, Health and Safety, Environment and Business Integrity standards.

In 2018, IAG established a more robust risk management process to facilitate due diligence and monitoring of our suppliers throughout the supplier lifecycle. IAG Global Business Services (GBS) has enlisted Bureau van Dijk, a major business intelligence provider, to enrich understanding of our suppliers' legal, social, environmental and financial compliance. To date, 5,500 suppliers have been screened during the first phase of deployment.

We monitor suppliers by the number of risks as well as the severity of each risk type. IAG reserves the right to conduct on-site audits, issue reviews and corrective action plans, and terminate contracts in serious instances. IAG aims to work collaboratively with poorly performing suppliers to improve their standards. Audits are carried out by trusted third-party auditors with track records in driving improvements in responsible business practices in global supply chains.

In 2019, we will continue to screen suppliers during initial set-up and on a quarterly basis to grow the number of suppliers covered. Results will be reviewed with appropriate risk owners on an ongoing basis.

Community giving

Aer Lingus celebrated the 21st anniversary of its partnership with UNICEF's Change for Good appeal, raising $1 million through on-board customer donations. Aer Lingus also continued its support of Special Olympics Ireland collecting over €8,000 and donating flights.

British Airways' charity partnership with Comic Relief, Flying Start reached a major milestone in 2018, hitting its 2020 target of raising £20 million two years early. Following a tsunami in Indonesia in September, British Airways customers raised £188,576 for the Disasters Emergency Committee appeal. A joint event with Aerobility saw 99 wheelchair users pull a Boeing 787-9 aircraft 100 metres, raising £16,000 and achieving a Guinness World Record.

Iberia's partnership with Amadeus to support UNICEF's immunisation programme has been extended to 2020. Since 2013, the collaboration has raised €935,000 and has resulted in the vaccination of over 1 million children in Chad, Angola and Cuba.

Vueling's collaboration with Save the Children generated €235,000 in customer donations in 2018. Vueling donated 120 tickets to the Make-A-Wish foundation, helping children with serious illnesses to have life-changing experiences. Vueling has also teamed up with Nutrition Without Borders, donating unused bottles of water from flights in an initiative which also reduces on-board waste.

Modern slavery

Human Trafficking is of real concern in the airline industry and it is a topic we have focused on more acutely since 2015 with the reform of the Spanish Criminal Code and the introduction of the UK Modern Slavery Act.

Transporting over 100 million passengers per year and with tens of thousands of suppliers, Group Slavery and Human Trafficking is relevant for 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 June 2018 we published our second Group Slavery and Human Trafficking Statement as set out under the UK Modern Slavery Act 2015. Modern Slavery clauses now feature in all new supplier contracts as well as those coming up for renewal. IAG representatives attended an IATA seminar on Modern Slavery to share knowledge, learnings and best practice. The seminar culminated in a resolution denouncing human trafficking and reaffirms commitments to tackling human trafficking including sharing of best practices, staff training and reporting. This resolution was passed by IATA at its 2018 Annual General Meeting.

Aer Lingus has had human trafficking training for pilots and cabin crew since 2016 and run recurrent human trafficking training on a 3-year basis. Guidance and procedures for flight crew and cabin crew is also included in their Operations Manual. British Airways is also ensuring all cabin crew are trained to recognise the signs of human trafficking with an awareness training session now included in annual mandatory training.

Ethics and integrity

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. All directors and employees are expected to act with integrity and in accordance with the laws of the countries they operate in. IAG also maintains a Supplier Code of Conduct which outlines the standards of behaviour we expect from our suppliers. In 2019, IAG will be implementing a new Group-wide Code of Conduct that will apply to all directors, managers and employees of IAG, as well as its third parties.

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. A new e-learning to support the new Code of Conduct will be rolled out in 2019 and this will be applicable to all Group employees and directors.

Resources are available across the Group for employees to get advice or to report grievances or any alleged or actual wrongdoing. There are whistle-blowing 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 whistle-blowing channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; and, any issues raised of significance to the financial statements. The annual review is coordinated by the Head of Group Audit. In 2018 a total of 201 reports were received through the confidential reporting channels. This is compared to 205 reports received in 2017. All reports were followed up and investigated where appropriate and reported to the Audit and Compliance Committee.

Anti-bribery and corruption policy and programme

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our company 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. These compliance teams meet regularly through Working Groups and Steering Groups and annually they conduct a review of bribery risks across the Group. The main risks identified during the 2018 review relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality.

Anti-bribery training courses include e-learning and 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. An updated e-learning course is being rolled out in 2019 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 particular third-party presents. In 2018 the Group implemented integrity-based screenings into its new Group-wide vendor management system and in 2019 a new third-party management tool for higher risk third parties will be implemented, together with updated procedures.

The Audit and Compliance Committee of the IAG Board receives an annual update on the programme.

Anti-money Laundering

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

FORMULATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2018

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 27, 2019 the Consolidated Financial Statements and the Consolidated Management Report of the mentioned company for the year to December 31, 2018, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 27, 2019:

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Patrick Jean Pierre Cescau

Enrique Dupuy de Lôme Chávarri

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Marjorie Morris Scardino

Lucy Nicola Shaw

Alberto Terol Esteban