INTERNATIONAL
AIRLINES
GROUP

Delivering
Achieving
Advancing
Strengthening
Transforming
Creating

Annual report and accounts **2018**

Strategic Report

Corporate Governance

Financial Statements

Additional Information

Management Report

IAG is required to prepare a Management Report 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 is composed by the following sections:

The Annual Corporate Governance Report is part of this Management Report but has been prepared separately.

This report has been file with the CNMV, together with the required statistical annex, in accordance with the CNMV Circular 2/2018, dated June 12. The Annual Corporate Governance Report and the statistical annex are also available on the company's website (www.iairgroup.com).

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

“IAG continues to **deliver** in a changing industry. We are responding to consumer needs, **deliver** on our financial targets, operate with sustainability at our heart and leverage technology to support our vision. We’re confident that we will continue to **deliver** for our customers and shareholders while investing in the future of our people and airlines. IAG is built to succeed and we hope you’ll join us on our journey as we move towards greater achievements together.”

Willie Walsh
Chief Executive Officer

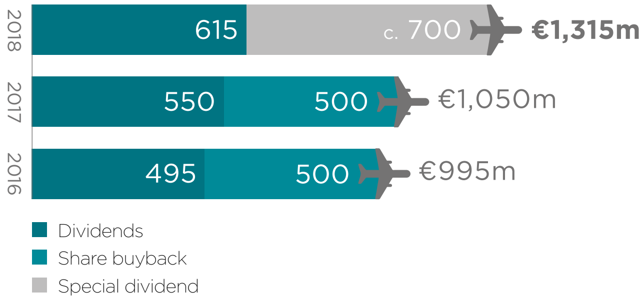
Our highlights

Operating profit before exceptional items (€m)[1]

+€280 million vly

Value returned to shareholders[3]

+25% vly



Return on Invested Capital[1]

BRITISH AIRWAYS	IBERIA	vueling	Aer Lingus
17.3%	**13.2%**[4]	**13.3%**	**26.8%**
+1.4pts	+1.0pts	-0.1pts	+3.8pts
ASK: 2.5%	ASK: 7.1%	ASK: 8.9%	ASK: 10.0%

IAG Platform

avios IAG IAGCargo IAGGBS

16.6%

+0.9pts

Our financial performance

Statutory results	**2018**	2017[1]	Versus last year
Total revenue	**€ 24,406m**	€ 22,880m	6.7%
Operating profit after exceptional items	**€ 3,678m**	€ 2,662m	38.2%
Profit after tax and exceptional items	**€ 2,897m**	€ 2,009m	44.2%
Basic earnings per share	**142.7€c**	95.2 €c	49.9%
Cash and interest-bearing deposits	**€ 6,274m**	€ 6,676m	(6.0%)
Interest-bearing long-term borrowings	**€ 7,509m**	€ 7,331m	2.4%

Alternative performance measures[2]	**2018**	2017[1]	Versus last year
Profit after tax before exceptional items	**€ 2,481m**	€ 2,231m	11.2%
Adjusted earnings per share	**117.7€c**	102.2 €c	15.1%
Adjusted net debt	**€ 8,355m**	€ 7,759m	7.7%
Adjusted net debt to EBITDAR	**1.6**	1.5	0.1 pts

[1] 2017 figures restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.
[2] Alternative performance measure calculations page 183.
[3] Presented in the year they were proposed
[4] Excluding LEVEL
For definitions see Glossary page 186.

A business model built for sustainable growth

Antonio Vázquez
Chairman

> **"I'm delighted to welcome you to our latest Annual Report which charts another year of high achievement for all our operating airlines in an increasingly testing economic environment."**

2018 was another year of strong growth for our business, despite significant economic and political challenges.

To report operating profits of €3,230 million before exceptional items (up by 9.5%) on revenues of €24.4 billion is a significant achievement at a time when oil prices were volatile and the geo-political environment uncertain.

Difficulties lie ahead on both these fronts, but we remain confident we have the right strategy, supported by a unique business model and a robust governance structure, to continue pursuing long-term growth.

Forecasts from the International Air Transport Association make good reading. They predict our industry's net profits will increase to $35.5 billion this year - the tenth consecutive year of profit for the industry, and, more importantly, the fifth in a row where returns will exceed the cost of capital, creating value for investors.

In some sectors, that wouldn't make a headline. In the airline industry, given its history, it is big news.

It matches our own vocation to deliver consistent returns to shareholders. We were delighted to return some €1 billion in dividends and share buy backs in 2018, for the second year running.

Brexit is certainly one of the biggest challenges we face. However, we remain confident a comprehensive air transport agreement between the UK and EU will be reached which allows flights to continue as normal.

Liberalisation in Europe has delivered so much, benefitting around 1 billion consumers and sustaining thousands of jobs each year. And IAG remains confident that its operating companies will comply with relevant ownership and control rules post Brexit.

Consolidation remains a prime motivation for IAG. It takes two different forms – full-blown M&A activity and, more frequently in recent times, acquiring distressed assets from airlines that fail. We have a business model ideally suited to pursuing both paths.

Joint business agreements are also crucial. We're very pleased that the agreement between British Airways, Iberia and LATAM received approval in Brazil, Uruguay and Colombia, promising real benefits for travellers between Europe and South America. Approval from the Chilean Free Competition Defence Court was also received in 2018, though this remains subject to final ruling by the Chilean Supreme Court following an appeal. These relationships have longevity. In February 2019 we celebrated the 20th anniversary of the oneworld alliance that includes both British Airways and Iberia.

This is IAG's eighth year. We remain a young company with a unique structure. To sustain our success we must apply the highest standards of governance and the new UK Corporate Governance Code's determined aspirations are and will be a big focus for the Board. We're thinking deeply about how IAG - a parent company, overseeing a diversity of brands and cultures – can make a meaningful reality of the Code's demands, not least on stakeholder engagement.

We also remain firmly fixed on growing sustainably. We are on track to meet our 10 per cent carbon efficiency improvement target of 87.3gCO_2/pkm by 2020 and are making big progress on reducing onboard waste.

More widely we are proud of the lead role we are playing in industry-wide action on carbon. Our sector is the first to agree a worldwide mechanism to reduce emissions and the global CORSIA offset and reduction programme, which we advocated for strongly, is an initiative few industries can match.

I hope in the following pages you can clearly see that IAG continues to grow and prosper, much of which is down to the terrific work done by people across the Group.

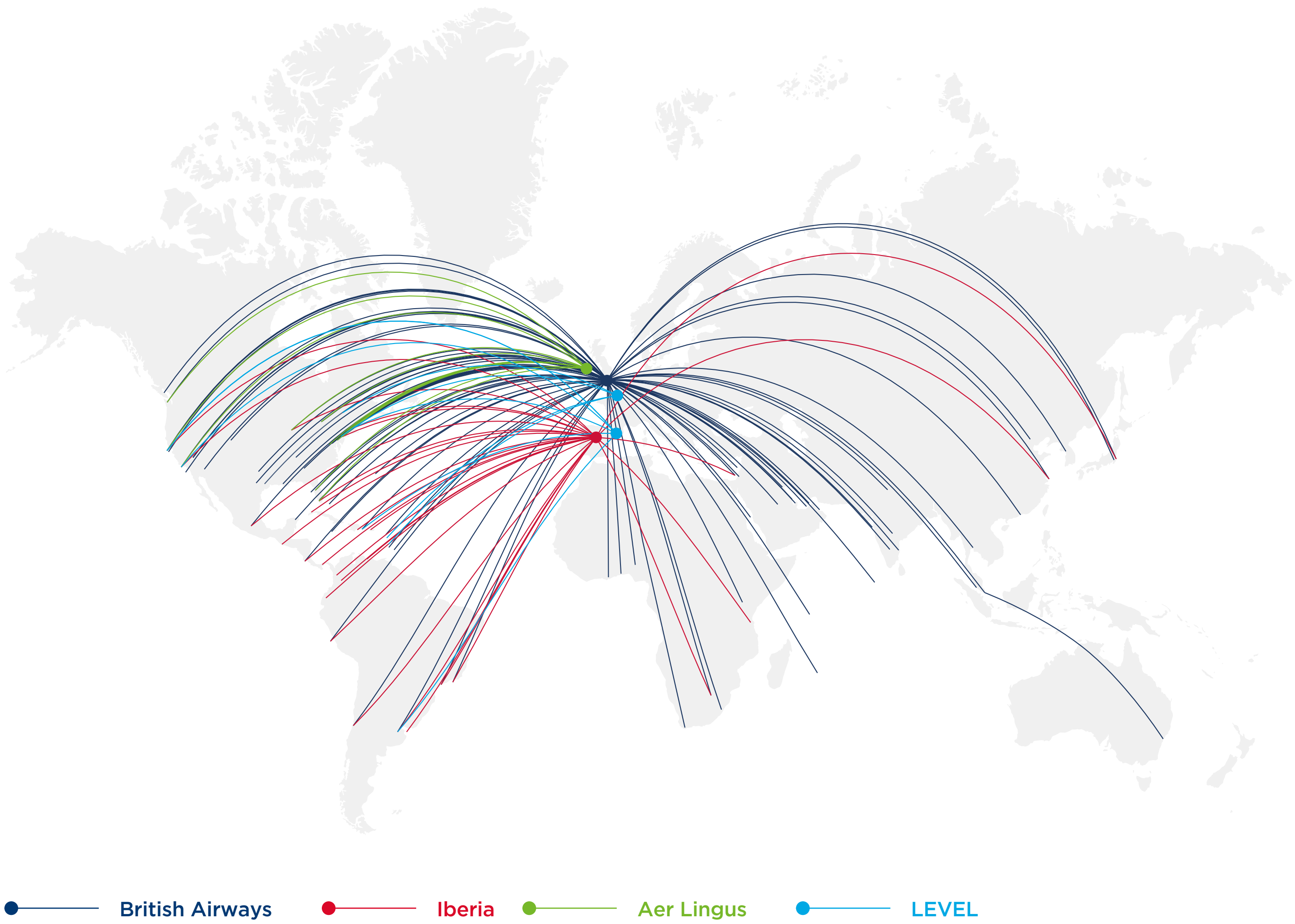
We are all conscious of the challenges we face, but very excited about the opportunities that lie ahead.

Antonio Vázquez
Chairman

Our business around the world

IAG combines leading airlines in the UK, Spain and Ireland, enabling them to enhance their presence in the aviation market while retaining their individual brands and current operations. The airlines' customers benefit from a larger combined network for both passengers and cargo, and a greater ability to invest in new products and services through improved financial robustness.

See pages 14 – 17 for more about our strategic priorities.



Passengers

113 million

+7.7% vly

Available seat kilometres

324,808 million

+6.1% vly

Destinations

268

Aircraft

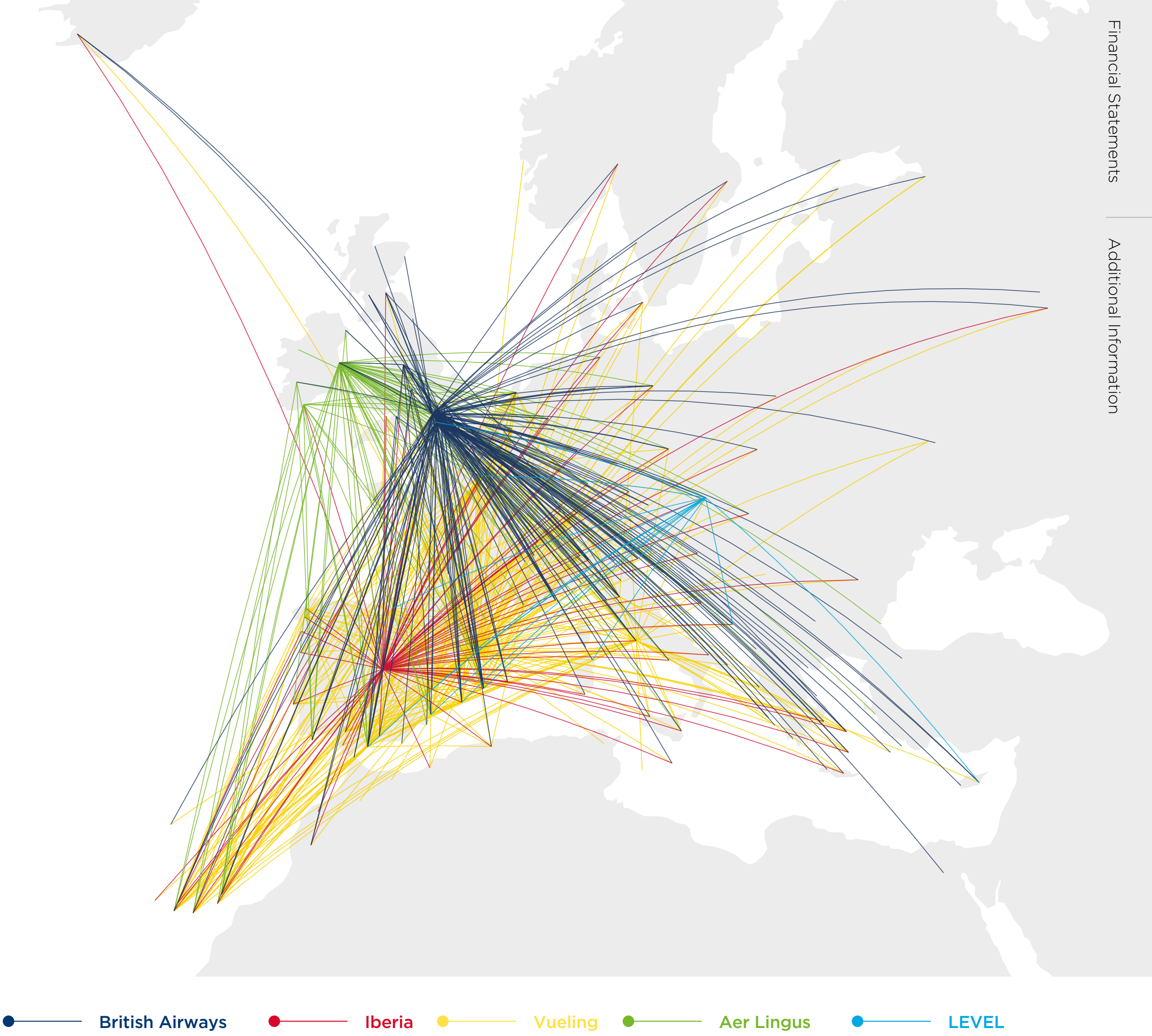
573

+27 aircraft vly

Cargo tonnes kilometres

5,713 million

-0.9% vly



Delivering continued growth across our brands

Willie Walsh
Chief Executive Officer

> **"IAG's unique business model has once again proved flexible and resilient, even in an increasingly turbulent environment, and all our airlines performed well in 2018. We go into 2019 committed to achieving continued growth."**

2018 was a good year for IAG and all of its airlines, once more underlining the unique strength and flexibility of our business model.

We started the year expecting to see some softening in our markets compared with 2017, but we were well positioned to take advantage of opportunities as they arose.

The macro-economic environment was relatively good, especially at the start of the year. As the year progressed, things became a little more turbulent with increasing noise around Brexit and growing worries about the impact of the China/US trade war.

These issues have an effect on market sentiment, but we didn't see much direct impact on our business. Where we encountered problems, it was down to local economic issues, in markets such as Argentina. Both premium and non-premium revenues held up strongly on services to North America and remained strong in Europe and on our Asian network.

The sharp rise in fuel prices was a surprise, however, and it certainly created problems for some of our competitors. We took a view at the end of 2017 that it was probably going to rise faster than generally expected and took some important pricing action through our hedging programme – so vital to our business, where fuel accounts for some 25 per cent of our cost base.

To offset the headwind of higher prices and increase operating profit before exceptional items from €2,950 million in 2017 to €3,230 million, while increasing investment in our customers right across our airlines, was a very good achievement.

We've been saying for some time that there is still a lot more we can do. Of course, it gets more difficult as time goes on. The more we achieve, the harder it is to keep improving.

But when I stand back and look across IAG, balancing the positives and the negatives, I can't help but feel a sense of continued confidence in the future.

I think it is inevitable that Brexit will have a greater impact in the months ahead. It has been quite shocking to get so far in the political process without having any real clarity about the future. That can't be positive for the economy.

Whether you are for or against the UK leaving the EU, all the credible forecasts I've seen predict that Brexit will have a negative economic impact in the short to medium term that is likely to damage consumer confidence and act as a further drag on business investment. We need to remain very agile in the months ahead.

Consolidation

We continue to explore opportunities to bring new airline brands into IAG and during the year we held discussions with Norwegian.

We've watched the airline closely over recent times, initially curious to see if they could make the low-cost, longhaul proposition work from the consumer's point of view. Most in the industry doubted they could make a reality of a fully unbundled longhaul fare, where the price of the ticket gets you on the aircraft and everything else, from bags to food, drink and pillows, is an extra charge.

We were pleasantly surprised with their success and it gave us confidence to believe there was a new segment of the market to be served, largely focused on the very price-conscious, leisure-orientated consumer. The challenge though is to have a genuinely low-cost base throughout the operation – including aircraft, crewing, product and airports – so that you can operate profitably. So far, Norwegian has not been able to prove that.

Nevertheless, having seen real potential in the model we looked to use it ourselves with the launch in 2017 of LEVEL, our own low-cost longhaul brand. But we also contacted Norwegian to see if they had an interest in becoming part of IAG, opportunistically acquiring a small stake. Although we made some progress in talks, ultimately, we concluded we would not make an offer. And, as I'd been clear that we would only hold an investment if it was a bridge to full acquisition, we announced our intention to sell our stake.

We wish Norwegian well. They've clearly got a challenge in trying to strengthen the balance sheet and generate additional cash. But we still believe there is a clear low-cost longhaul market to be addressed and we will do that organically through LEVEL.

Measuring customer satisfaction

We are now using the Net Promoter Score (NPS) in a consistent way across all our airlines, as a sensitive non-financial metric to gauge how customers respond to our services.

NPS is not about measuring our airlines against each other. More it is about tracking investment within the individual airlines to see how they are meeting customer expectations.

It gives us a huge amount of granular data, which we analyse in great detail, and lets us see the cause and effect of our investment decisions. If the customer response is not what we expected, we can dig into the data, see why and adjust. It is proving a very useful tool for the Management Committee as we plan future investment.

Operational highlights

We saw a strong performance right across our brands in 2018, even though each of our airlines experienced operating challenges.

British Airways had a very stong year, exceeding many of its targets. The increased investment in the customer that we spoke about last year is now showing real benefits, reflected in a fantastic, 10 percentage point uplift in the airline's NPS.

But there were difficulties too. In late summer British Airways faced a criminal data attack that caused huge concern to our customers and was a big disappointment to us. In my view the team handled the situation openly and with great skill, contacting affected customers quickly. The cyber security threat is a nasty reality for all businesses today and it is growing exponentially. It requires constant vigilance and we work closely with the world's leading experts to ensure our systems and processes are robust. It's a minute-by-minute challenge that we take very seriously.

British Airways has a lot to look forward to in 2019 as it celebrates its centenary. It's great to be able to trace our roots right back to August 25, 1919, when our predecessor company, Aircraft Transport and Travel, flew its first scheduled service from Hounslow Heath, near Heathrow, to Paris. The centenary provides British Airways with a platform to focus on its brand with new advertising, new business class products and the arrival of the Airbus A350-1000 in its fleet – all clear evidence of the increasing investment we are making in our customers.

British Airways also has the security of knowing the UK and US have agreed a new agreement that will take effect after Brexit, underpinning the airline's powerful transatlantic business. There had been a lot of scaremongering about this issue, but I was always confident the alignment of interests between the UK and US would result in a new deal, as it has.

Historically, airlines have often made the mistake of undergoing restructuring and then assuming the job is done. That is not what we've seen at Iberia, where the extraordinary transformation achieved in recent years is continuing to evolve in the second phase of its Plan de Futuro. It's a very structured approach to transformation and it is showing through in continued strong performance, an improving NPS, the arrival of new aircraft with the delivery of the Airbus A350-900, and with its brand well positioned in key markets.

The team at Iberia deserve great credit for all they've achieved but also for recognising that there is always more to do. They refuse to be complacent and know that further change will secure Iberia's position in its main markets, will give us continued confidence to invest and will offer its people a secure future. They've done a great job.

Aer Lingus continues to justify the investment we made in it. It has been a great acquisition for IAG and I'm convinced the team there has been able to achieve so much more than they could have done as a stand-alone airline.

We've seen significantly more expansion on North Atlantic routes than initially planned and this will continue in 2019 with the arrival of long-range Airbus A321s, allowing them to target new destinations, including Minneapolis/St Paul and Montreal. Thanks to our investment, Dublin is becoming a major transatlantic hub, bringing profitable growth to Aer Lingus and significant economic benefits to Ireland.

We were sad Stephen Kavanagh decided to step down as CEO but delighted he has agreed to remain on the Aer Lingus Board. He deserves huge congratulations for all he has achieved. Sean Doyle has stepped in to replace him, moving across from British Airways, and has hit the ground running. It's proof of the fantastic talent we have within IAG. People talk of seamless transition. Well, this was a very good example of that, although inevitably Sean will bring a different style of leadership to the role as he picks up where Stephen left off.

Vueling got hit very hard by last summer's air traffic control crisis within Europe, not least as a disproportionate number of flights from its Barcelona base pass through airspace controlled from the ATC centre in Marseille, a particular bottleneck.

The problems were severe. For the first eight months of the year there was a 3.5 per cent increase in all airlines' flights through European airspace. In the three peak months of June, July and August delays increased by 115 per cent with the average length of disruption increasing by 190 per cent. Some 61 per cent of delays were caused by ATC staffing issues, 30 per cent by weather and 9 per cent the result of strikes by controllers.

Clearly, many of these problems were outside Vueling's control yet affected its NPS metrics, although they have recovered strongly since and the airline continues to make great progress in other respects. The focus in the year ahead will be on increasing operational resilience as Vueling prepares for further air traffic problems this summer. Helped by analysis of the NPS data, the team is working hard to ensure we make the right scheduling decisions and have the right recovery plans in place to help customers through any disruption.

The ATC situation needs to change, and we have been campaigning with our competitors through the trade association, Airlines for Europe, to ensure this issue gets properly addressed by ATC operators. We are also pleased the European Commission has responded positively to our calls for action.

LEVEL has made good progress since its launch two years ago. It continues to build a strong market in Barcelona, without cannibalising Iberia services to Latin America from Madrid. Opening in Paris has proved more challenging. We are addressing operational issues at the new base, but are confident the brand has got real resonance there.

This year LEVEL has also started a shorthaul operation with the launch of a base in Vienna.

IAG Cargo had one of its strongest years on record, as we continued to offset the continuing imbalance in supply and demand by focusing on the premium end of the market. There will be challenges in the year ahead. Market statistics show there was a decline in traffic at the end of 2018 due to the US/China trade standoff. Fortunately, our

Our investment case

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

Unique approach

- Disciplined capital allocation
- Active portfolio management
- Flexibility and rapid decision making
- Platform with centralised functions to enable scale and plug & play

BRITISH AIRWAYS

61.1%

IBERIA

18.7%

Portfolio of world-class brands

- Portfolio caters to a diversified customer base
- Distinct brands with clear customer focus
- Complementary networks
- Airlines focused on operational performance

Brand contribution to growth

+6.1

IAG total growth measured in ASKs

Innovation

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

400+applicants

to our latest and biggest accelerator from 40 countries

HANGAR 51

Cost efficiency

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

11.1%

cost reduction since 2011

c.5.0%

target reduction by 2023

vueling

10.7%

Aer Lingus

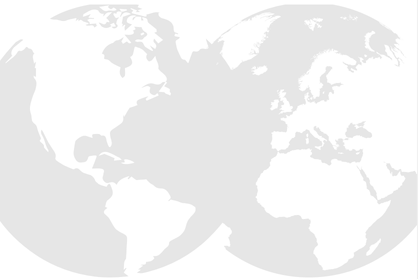
5.9%

Other Group Companies

3.6%

Global leadership positions

- Leading the consolidation of the airline sector
- Home markets: Barcelona, Dublin, London, Madrid
- Key routes: North Atlantic, South Atlantic, and intra-Europe
- Joint businesses help grow our global reach



#1 position in
Barcelona
London
Madrid

#2 in Dublin

Our structure creates additional shareholder value over and above the individual values generated by our operating companies. We have a unique structure with a strong neutral parent company, unlike other European airline groups which protect the interests of their main airline. IAG's independence enables dispassionate, flexible and rapid decision-making. We're disciplined and allocate capital to our operating companies based on strict return criteria in line with our Return on Invested Capital (RoIC) target of 15 per cent, which is significantly more than our cost of capital. And we manage a great portfolio of profitable businesses, each with an attractive and distinct market positioning, which diversifies our exposure to both mature and fast-growing customer segments. Synergies as a result of the creation of IAG generated an additional annual €856 million of operating income by 2015, when we last reported group synergies, a figure that will have increased further with our growth in size and profitability since 2015.

The result of our unique structure is superior returns to shareholders, with both EPS and dividend growth, and further cash returns. Our RoIC has exceeded targets since 2015 and generated 16.6 per cent in 2018, significantly higher than most of our competitors. The operating margin of all our companies has improved since they joined IAG and we continue to deliver the synergies of our combined airlines.

> **"We need to remain very agile in the months ahead."**

exposure in Asia is less pronounced than others. But, despite a more uncertain market outlook, we are investing in technology and in new facilities at our major hubs in a clear signal of our continued confidence.

Avios continues to grow and has enhanced the relationship with its partners while simplifying the business. UK members of the Avios Reward Scheme were moved into the British Airways Executive Club which gave them more options to collect and spend the currency. And they can become even more aware of Avios opportunities via a new rewards app. This is one of many digital initiatives that Avios has, and will continue to, embrace. Pay with Avios, where customers can cut their airfare using the currency, has been a particular success and now accounts for 30 per cent of all redemptions.

Financial goals and outlook

At our Capital Markets Day in November we updated the market on our five-year financial goals.

We've increased our forecast capital spending up to 2023 to reflect increased investment in aircraft, product and IT, and set higher targets for capacity and EBITDAR. But our other goals remained unchanged, including our challenging targets for an operating profit margin of 12 per cent to 15 per cent and return on capital invested of 15 per cent.

The message we wanted to convey to investors was clear – that even in a higher fuel price environment we are sticking to our goals.

2019 will bring new challenges, with Brexit the biggest unknown. But we refuse to be distracted by the uncertainty and are very focused on continuing IAG's recent record of success.

Management team

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

Robert Boyle
Director of Strategy

Steve Gunning
Director of Global Services

Julia Simpson
Chief of Staff

Chris Haynes
General Counsel

Alex Cruz
Chairman and Chief Executive Officer of British Airways

Luis Gallego Martin
Chairman and Chief Executive Officer of Iberia

Javier Sanchez Prieto
Chief Executive Officer of Vueling

Stephen Kavanagh
Chief Executive Officer of Aer Lingus

Andrew Crawley
Chief Executive Officer of Avios

Lynne Embleton
Chief Executive Officer of IAG Cargo

Sean Doyle
Chief Executive Officer of Aer Lingus

On January 1, 2019 Sean Doyle was appointed as Chief Executive Officer of Aer Lingus. Stephen Kavanagh will continue as non-executive director on the Board of Aer Lingus.

Executive Directors not pictured: Willie Walsh, Chief Executive Officer; Enrique Dupuy de Lôme, Chief Financial Officer
See pages 74-75 for our Board of Directors. For a full biography of each member please visit www.iairgroup.com.

Q&A with Chief Executive Officer Willie Walsh

Willie Walsh
Chief Executive Officer

> **“The message we wanted to convey to investors was clear – that even in a higher fuel price environment we are sticking to our goals.”**

Why has LEVEL launched shorthaul operations in Vienna?

It was an opportunistic move. We acquired an Austrian Air Operator’s Certificate to take advantage of additional slots in Vienna and use the LEVEL brand to give it more exposure in Central Europe. We’re very pleased with the performance so far. This launch re-enforces the strength of the IAG business model – a single economic entity, with multiple operating airlines, using the right brands in the right markets to target the right customers.

How is IAG responding to cyber security threats?

Every organisation, including IAG, is alive to these threats. They’re growing exponentially and we have to respond almost minute-by-minute, each day to ensure our systems and processes are robust enough to deal with them. To do so we work with world-class experts and, when required, can call on them for additional help.

What is the impact of Rolls-Royce’s Trent 1000 engine problems?

We faced many problems with the Trent 1000 engine in 2018, which meant a number of our aircraft were unavailable during the year. This was very disappointing. It’s not the sort of performance you expect from a company like Rolls-Royce. We’re receiving compensation, but, to be honest, I’d prefer to have the engines functioning properly. It’s fundamental to our future relationship with Rolls-Royce that they respond positively to this issue in 2019, because the situation last year was completely unacceptable.

What are you doing to increase diversity across the Group?

IAG is a very diverse organisation, but we have a challenge ensuring that women can progress right to the top. We’ve got so much great talent but if they can’t progress, then we are losing out. We’re looking at opportunities for everyone across IAG but with particular focus on women in roles that have traditionally been seen as male – engineering, pilots, senior management. I’m optimistic that, with the right actions and buy-in from everyone, we’ll improve our performance.

Following UK Parliamentary approval for a third runway at Heathrow last June, why has progress stalled since then?

Heathrow continues to struggle to justify the cost and, to date we’ve not seen a sufficiently robust plan to give us confidence to support expansion. This is a critical issue – not just for us, but for the UK. I’m delighted that other airlines and the Government agree with us that expansion must be done in a cost-efficient way that doesn’t result in higher passenger charges.

How have initiatives to innovate and invest in technology enabled you to disrupt your business and change the way you do things?

Investing in technology is both exciting and frightening. We’ve seen examples of how technology can disrupt what we do and also opportunities to invest in it to benefit customers. A great example is the Mototok remotely controlled tug that allows us to be much more efficient when aircraft push back from the stand. Previously this led to delays but we now have this fantastic bit of technology that we can use at Heathrow.

Watch the full interview on our website
www.iairgroup.com

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

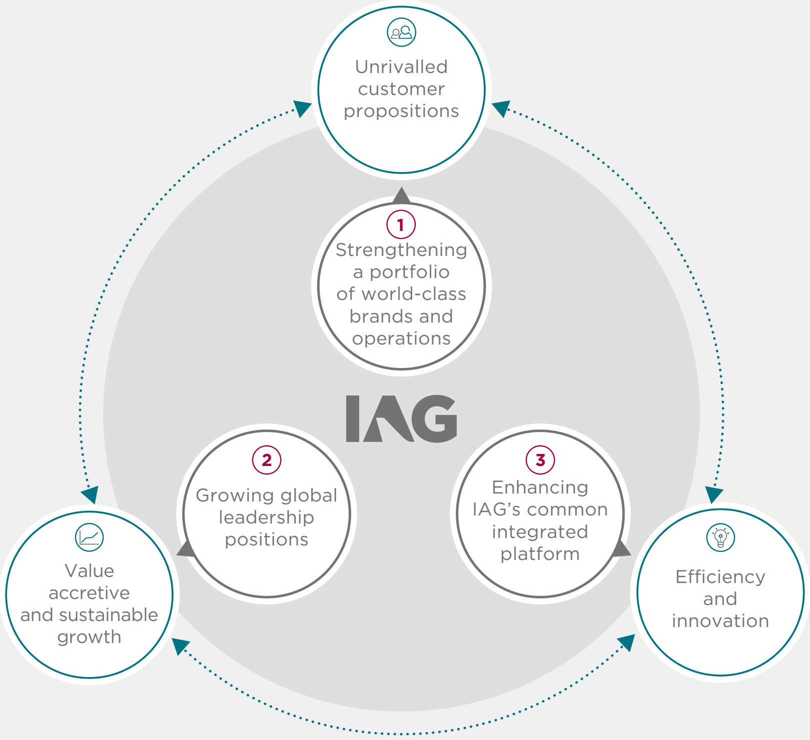
- Pursue value accretive organic and inorganic growth options to reinforce existing or pursue new global leadership positions
- Attract and develop the best people in the industry
- Set the industry standard for environmental stewardship, safety and security

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	**8.0%**
Manpower equivalent	Workforce voluntary turnover
+2.1% vly	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.

Ⓡ 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.

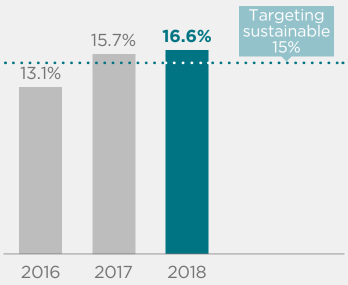
Our priorities for 2019

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]



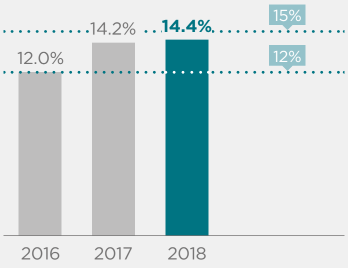
Ⓐ Definition and purpose

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 183-185.

KPI or industry measure

Average growth (ASKs)

2018
6.1%

Target
2019-2023*
6.0%
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.

* Last year's growth target over 2018–2022 was 5% per annum.

Average CAPEX (€m)[2]

2018
2,228

Target
2019-2023*
2,600
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.

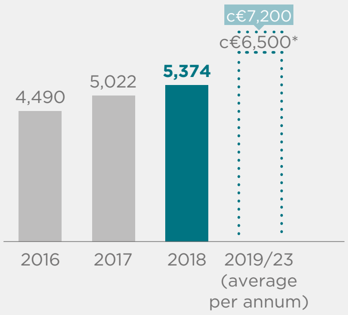
Planned CAPEX:

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.

* Last year's average CAPEX target over 2018–2022 was €2,100 per annum.

EBITDAR (€m)[1 2]



Ⓐ Definition and purpose

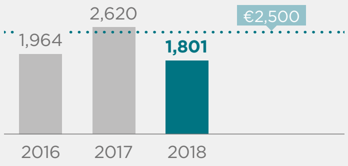
EBITDAR is the Group operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs. It is an indicator of the profitability of the business and of the core operating cash flows generated by our business model. This measure is not impacted by the 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.

* Last year's average EBITDAR target over 2018–2022 was €6,500 million per annum.

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 183-185.

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]

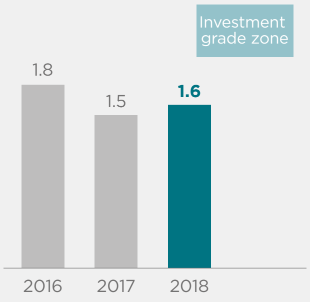
Ⓐ Definition and purpose

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

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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 183-185.

Increasing investment to sustain our growth

Alex Cruz
Chairman and Chief Executive Officer
of British Airways

> "Our plan balances three key priorities – achieving higher network growth, investing heavily in our customers and our people and sustaining a financial performance for the long-term."

British Airways statistics

Lease adjusted operating margin (%)	RoIC
15.6%	**17.3%**
vly +0.8pts	vly +1.4pts

Punctuality	Fleet
76.0%	**293**
vly -4pts	vly +0 aircraft

2018 was the second year of our extensive programme to turn British Airways into a truly customer-focused airline. The plan is well underway and I am glad to say we have already seen the benefits flowing through in ways our customers can clearly see, with our Net Promoter Score (NPS) up compared with 2017.

Yet again we achieved stronger profits during the year, creating a solid foundation for further growth over the next five years starting in 2019, British Airways' centenary year. As we approach this important anniversary, it was great to announce that we had raised a record £20 million for Flying Start, our charity partnership with Comic Relief, a full two years ahead of schedule.

These achievements came in a tough year. We faced rising fuel costs, intense competition, difficult weather and air traffic control strikes. The reliability of our operation was affected by the ongoing Rolls-Royce engine issues impacting our Boeing 787 fleet. In September, we suffered a criminal data breach which caused great concern to us as we take the protection of data very seriously. We are sorry for the disruption this caused our customers. The team has leveraged the expertise of strategic global partners to help ensure early detection of future threats.

Despite these challenges, our revenues have held up, increasing 5.7 per cent versus last year. Combined with a continued tight control of costs, the closure of legacy pension schemes and the completion of our restructuring programme, we achieved an operating profit of £1,952 million before exceptional items and a return on invested capital (RoIC) of 17.3 per cent.

From this solid base we are focusing hard on our three key priorities – achieving continued network growth, investing heavily in customers and people and sustaining our strong financial performance.

Highlights of 2018

Modernisation of the fleet continued at pace during the year. We took delivery of five more Boeing 787s to support our growing longhaul operation and 2018 also saw the first fuel-efficient NEOs, seven Airbus A320s and one Airbus A321 – join our shorthaul fleet, offering customers a brand new interior, in-seat power and a more efficient way to fly. Customers also responded well to improvements we have made to existing aircraft, not least on Boeing 777s operating from Gatwick and Boeing 747s where refurbished cabins include new seats and new in-flight entertainment systems.

In the air and on the ground, our overall plan is to continue to invest in the areas that our customers value most. New World Traveller catering was introduced during the year, with satisfaction scores among longhaul customers rising as a result. New Club World catering has now been rolled out across the network and we launched upgraded Club Europe food on shorthaul sectors in September. On the ground we opened new lounges at JFK, Rome and Aberdeen and upgraded facilities at 11 shorthaul airports to ensure that, from end-to-end of their journeys, customers enjoy a premium service.

We have used technology developments to enhance our customers' experience and reduce pinch points in their journey. Improvements to ba.com have streamlined the booking process, increasing the number of customers who book with us directly, and we have delivered additional functionality on our app, allowing our customers to do more through their mobile phones. In the US, we were the first airline to introduce biometric boarding without the use of a boarding pass or passport with trials conducted in Orlando and Los Angeles. This technology has enabled us to board an Airbus A380 in half the time, reducing queuing time for our customers and creating a more stress-free journey.

We continued to build on our network and schedule in London, two core strengths of our business. We are number one at Heathrow and London City and number two at Gatwick, by seat share. Shorthaul seat factors rose by three points in the summer compared with 2017, with newly acquired slots at Gatwick performing very well. We now have the flexibility to fly to more leisure destinations, operating a dynamic schedule more closely matched to customer demand. New longhaul routes were launched in 2018 to places such as Durban, the Seychelles and Nashville.

Achieving higher growth

We already offer more choice of destinations than any other UK airline and we are determined to strengthen our position by growing faster, offering more destinations and frequencies across the world. To reflect that ambition we have increased our projected compound annual growth rate over the next five years to 3 – 4 per cent, up by 1 percentage point.

We operate the most comprehensive network between Europe and North America. Following new route announcements to Pittsburgh and Charleston, we will soon serve 34 destinations, consolidating our position as the largest longhaul carrier into North America by points served. We have had great success in opening routes to markets such as Austin, New Orleans and Nashville and will look for further opportunities in the US. As we develop the longhaul network further, our relationship with joint business partners will remain critical in offering customers better frequency and easier connections in the markets we serve. 2019 will see us launch new services to Islamabad and Osaka as we continue to expand our presence elsewhere in the world.

Thanks to its range, capacity and cost efficiency, the Boeing 787 allows us to launch new routes quickly and effectively. We have a further 12 Boeing 787s on order to bolster our current fleet of 30 aircraft. The Airbus A380 is helping us cement our position in key cities, flying to nine airports worldwide where demand exists. In sought after markets like New York we are using aircraft with a higher proportion of premium seats. The Airbus A350 will arrive in 2019 and will be a great replacement for our retiring Boeing 747s, offering the same capacity but with a much-improved product, greater customer comfort and greater fuel efficiency.

In shorthaul our priority is to capitalise on our strong position in London. That means using dynamic peak summer scheduling to increase seat factors at Heathrow, expanding our Gatwick presence by using slots acquired in 2018 to their full potential and expanding at London City by adding four new aircraft to the fleet from 2019.

Significant investment in customers and our people

Our customers and our people are a key focus and as we start our centenary year, you will see a significant increase in investment in both. Indeed, to underline that commitment we have increased our planned investment in improving the customer experience over the next five years from the £4.5 billion previously announced to £6.7 billion.

Benefits of this increased investment will continue to show throughout 2019. A new Club World seat, with all-aisle access, gate-to-gate entertainment, more stowage and greater privacy, will be launched on our first Airbus A350 in the second half of 2019 and rolled out across the longhaul fleet in the coming years. We will upgrade the product in both First and World Traveller Plus cabins where customers will enjoy improved catering and amenities in the first half of 2019, including better food with more choice and extra comforts, such as pyjamas, amenity kits, quilts and larger pillows. New in-flight entertainment systems will also be embodied to more aircraft. Wi-Fi will be fully installed on 80 per cent of our longhaul and all of our shorthaul aircraft by the year end. Lounge renovations at JFK (Club), San Francisco, Johannesburg and Geneva will be completed this year and, as we grow the network, we will launch new facilities, all the time improving the food and beverages we offer in existing lounges.

Technology will play an increasingly important role in ensuring a smooth experience for customers and we will continue investing significantly in the digital experience. For instance, we want to further improve ba.com and the app to make every step of the journey – from booking a flight to returning home – as easy and seamless as possible.

We are increasingly keen to trial new digital technologies. We are testing chatbots to assist our contact centres and robot process automation where it can help customers and our people. Elsewhere we will deploy Mototoks – the remote controlled aircraft tugs that we have used so successfully in shorthaul to increase efficiency at departure time – on longhaul aircraft and we will extend trials of biometric boarding to other US stations, including Houston and New York in 2019.

But we cannot hope to deliver for our customers without the right people with the right training. Our people are critical to delivering the best customer experience.

This year we will recruit some 3,000 people, of which around 2,000 will be cabin crew. All of them will receive an extra five days training, while service training for the remainder of our 28,500 front-line colleagues will also be increased.

At Heathrow our newly launched First Contact Resolution programme is transforming how our people interact with customers in the terminal, giving them the skills and tools to resolve problems and issues at first contact. For example, this will increase our rebooking capability when services are disrupted, so that colleagues can provide customers with the kind of consistent service and personal attention that makes all the difference at stressful times.

Sustaining our financial performance

We are determined to keep growing and investing in our business. But those ambitions depend on the third critical part of our plan – our need to sustain our strong financial performance for the long-term.

Maintaining our discipline on cost and capital is absolutely vital if we are to meet our targets to achieve a 15 per cent lease-adjusted operating margin and a 15 per cent return on invested capital over the economic cycle. Meeting these stretching targets will be challenging but we will make sure British Airways continues to thrive.

At the end of another strong year, where we demonstrated the resilience of the business in the face of some tough challenges, I am confident that we can indeed meet those targets. I look forward to an exciting 2019 and, especially, to celebrating our centenary year with colleagues across the business and customers around the world.

Striving for excellence through continued transformation

Luis Gallego Martin
Chairman and Chief Executive Officer of Iberia

Iberia statistics

Lease adjusted operating margin (%)	RoIC
10.0%	13.2%
vly +0.4pts	vly +1.0pt
Punctuality	Fleet
87.2%	104
vly -2.8pts	vly +6 aircraft

The transformation of Iberia is continuing under our comprehensive *Plan de Futuro*, first launched five years ago. In the first phase we focused on returning the airline to profitability. Now, under phase 2, we are concentrating on achieving excellence across every aspect of our operations.

While the work we have done to date is extensive, it's clear that we have a long way to go to achieve our ambitions for the airline. That means 2019 will again be a demanding year for us, with a lot of hard work still to do.

But we are looking ahead with cautious optimism, convinced we can take advantage of our cost base to gain an increasing competitive edge and sustain our financial performance, while continuing to invest heavily in our brand, our customers and in key digital projects.

> **"Our transformational *Plan de Futuro*, now in its phase 2, is clearly focused on achieving excellence right across our operations, although there is still work to do I am fully confident in the performance of our team."**

2018 – striving for excellence

2018 was a good year for Iberia. We were particularly pleased to continue making such good progress with phase 2 of the *Plan de Futuro* despite facing increasingly intense competition in the marketplace. Our financial performance was in line with the growth targets we set out for IAG investors in November 2017 at our Capital Markets Day. We recorded an operating profit of €437 million, up €61 million from last year, and a return on invested capital of 13.2 per cent, up by 1 point, thanks to continued tight control of our costs and good performance of passenger revenues, especially in our longhaul and at Iberia Express, which compensated for the fuel price increase and negative foreign exchange.

Capacity and revenue growth

We increased overall capacity by 7 per cent with expansion across our network. In longhaul we launched services to San Francisco, embedded our new Premium Economy class and took delivery of two new generation Airbus A350-900s. We also passed a major milestone in our efforts to build a strategic alliance with LATAM, with the Chilean Free Competition Defence Court approving our proposed joint business in October 2018, though following appeal this remains subject to final ruling by the Chilean Supreme Court.

In shorthaul there was good growth too as we used Iberia Express to strengthen our network, adding four new destinations. We brought two fuel efficient Airbus A320neos into the fleet and continued to retrofit our existing Airbus A320s with in-seat power and slimmer seats for greater customer comfort.

Revenue performance was strong, passenger unit revenues and load factors were up across the business. Point of sale grew particularly well in Spain and North America, partially offsetting a weaker performance in South American markets, notably Argentina and Brazil.

Several recent innovations are supporting this revenue growth. The full roll out of Premium economy in the longhaul fleet has been extremely successful, meeting customer expectations and achieving amongst the highest NPS levels of our products. Equally we have been investing in our Premium product on the ground, for instance refurbishing our Premium Lounges in Madrid and continuing to offer new digital solutions in all our points of contact.

We added a new fare structure allowing customers to select the level of "bundling" of services closest to their needs, in particular the launch of the new Optima longhaul fare has been highly successful amongst our target segments ("Trade up" and "premium" segments).

We have worked closely with British Airways and IAG to improve distribution, with more than 600 agencies now signed up to our new model using new distribution channels. These display more pricing points compared with the industry's traditional channels, offering our customers greater choice and flexibility.

Continued cost control

We continue to bear down on cost as part of phase 2 of *Plan de Futuro*. A prime focus is to achieve a market leading cost per available seat km (CASK) excluding fuel. To do so we are concentrating on building a more efficient fleet and achieving economies of scale in our supply chain, working with GBS, IAG's centralised business services headquartered in Krakow, Poland.

People are one of the fundamental pillars of our success and vital to the continued transformation of Iberia. Colleagues across the business deserve great credit for what we have achieved in these years of transformation.

In August 2018 we reached a labour agreement with our pilots and aim to reach similar balanced settlements with other collectives within the business in the months ahead. Our intention through these agreements is clear. We want to pursue our growth plan for Iberia within a work environment that is both stable and fair.

We also launched *Plan Person@* during the year, to reinforce our commitment to IAG's diversity principles, and to provide a platform for people across the business to have a real say on our future and a real chance to be heard.

Investing in customers

Customers are, of course, absolutely key too and 2018 saw us intensify our investment in product, brand and digital services to support our offer.

We fully refurbished our two VIP lounges at Madrid Barajas airport, improved in-flight entertainment and connectivity services and upgraded our customer relationship management systems. Changes we have made are resonating with customers and we were pleased to see it reflected in our Net Promoter Score results. However the increased European Air Traffic Control industry delays experienced have had a negative impact on our overall NPS. In spite of the difficult circumstances, we continue delivering high punctuality and were thrilled to win a fourth Skytrax star, confirming that Iberia's product and customer service are regarded as being right up with the best comparable airlines in the world. Despite this fantastic external endorsement, we increased investment in our brand to strengthen our leadership position in the premium segment in Spain and to reinforce our standing in Latin America and in our core European markets.

Digital technology will play an increasing role right across our business in the years ahead. To reflect its importance in terms of our operations and our customers, we created a new team dedicated to innovation, digitalisation and the management of *Plan de Futuro*. The team has been tasked with thinking in completely new ways about how we use digital in three contexts – within the workplace, in relation to our customers and in how we manage our crews, maintenance and handling.

Wider transformation

2018 was also a positive year for the transformation of our non-airline businesses. In Handling we continued focusing on increased efficiency and greater cost discipline through the launch of its own transformation programme, Go Up.

Maintenance is making good progress on a road map laid out under IAG's Maintenance Strategy Project to improve the profitability and overall sustainability of the business. The early signs are good and new contracts signed with other airlines point to the opportunities that lie ahead as it strengthens its position.

2019 – rising to the challenge

The year ahead looks set to be a challenging one. Increasing competition, fuel price volatility and political uncertainty in some of our most important markets will undoubtedly test us.

But we look at these challenges as a chance to continue the process of change that has been so important to Iberia over the last five years and an opportunity to consolidate the gains we have made.

We have created a very efficient cost base, and subject to the renewal of our labour agreements and market conditions, we should be well placed to continue on the path of profitable growth.

New services, new fleet

A priority will be to build our longhaul business with a particular focus on core markets in Latin America. Daily services to Montevideo and Rio de Janeiro are planned and we will increase flights to Bogota to build our presence in Colombia. To consolidate our position in Central America we will increase frequencies to Mexico and increase capacity on routes to Guatemala and Salvador. Elsewhere in the world we will build on our still relatively new, but quickly maturing position in the Asian market, adding more summer flights to Tokyo.

We will add new short and medium haul services to strengthen our position in Europe. This effort will see us increase services to the Canary and Balearic Islands as well as to major European cities such as Brussels, Berlin and Hamburg, helped by the addition of two new aircraft.

Our fleet renewal plans will gather pace in 2019, bringing efficiency benefits as well as the chance to increase revenue. Four more Airbus A350-900s and six Airbus A320neos – respectively 30 per cent and 17 per cent more efficient than the aircraft they replace – will be delivered during the year.

Following the success of our cabin modifications on Airbus A320 aircraft, we will retrofit our Airbus A321s with the new slim seating. This will add an extra 20 cabin seats, allowing us to boost revenue while still offering customers more comfort and greater legroom.

A number of important customer projects will come to fruition during the year, helping us to tailor our value proposition to target customers and transform the service we deliver in the air and on the ground. In the next 12 months we should be in a position to understand our customer needs more clearly and measure our success in meeting them more accurately. Some examples of these include working towards the transition of our catering supplier in Madrid, launching Wi-Fi on our shorthaul fleet and improving the boarding experience in short and medium haul flights, by focusing on the main pinch point which is the removal of hand bags at the gate. We will also be offering members of our loyalty programmes better incentives and even greater value.

The digital transformation of our business will also accelerate in 2019. This will help us improve the travel experience with greater connectivity, improved boarding, in-flight experiences, and customised options for individual customers. Iberia will provide new digital services and hyper personalised experiences via mobile, social and virtual assistant channels (such as voice in Amazon Alexa/Google Assistant, or Iberia Chatbot), also enhancing interactions through traditional channels for those customers who need it. We will generate new advanced analytics capabilities in our data excellence centre. As part of our transformation priorities, Iberia will continue turning legacy systems into service platforms under the principles of data protection regulations and cybersecurity. Open innovation and start-ups will keep on helping us to increase digitalisation.

Outlook

It's been an eventful but successful five years for Iberia.

We are by no means complacent about the progress we have made to date and are always aware that there is more we can do to keep transforming the business.

We are determined to step up our efforts to achieve excellence across the business and are confident we can do just that.

We are ready for the challenges that lie ahead and, as I have said, determined to turn them into opportunities for Iberia.

Delivering solid financial results in a challenging environment

Javier Sanchez-Prieto
Chief Executive Officer of Vueling

> “Vueling again delivered solid financial results, despite facing a very disruptive European Air Traffic Control (ATC) environment”

Vueling statistics

Lease adjusted operating margin (%)	RoIC
11.8%	**13.3%**
vly -1.0pts	vly -0.1pts
Punctuality	**Fleet**
68.4%	**121**
vly -11.5pts	vly +16 aircraft

Overview

In 2018 Vueling delivered solid financial results, despite the worst European air traffic control (ATC) operating environment in recent history. We continued to transform and modernise our customer offering while making further progress on our Vueling NEXT transformation.

2018: A challenging but productive year

In 2018, we invested and strengthened our company in several areas.

1. **We delivered on our market strategy.** This strengthened our positions in key markets by 3 points of market share in Barcelona and Spain-Canaries and 4 points in Spain-Balearics. We also maintained capacity discipline and flexibility to quickly adjust to future headwinds.
2. **We expanded through “smart” growth.** 2018 saw us return to growth. We increased asset utilisation (+4% block hours per aircraft per day vs. 2017), densified our network (+4% weekly departures per route) and managed seasonality.
3. **We made our processes more consistent and reliable.** We implemented new boarding groups and minimised queues, especially in Barcelona. We expanded our self-check-in kiosks and bag drop locations in key airports.
4. **We invested in our operation to address ATC challenges.** Our operational performance was solid and in line with our peers although ATC disruptions are sadly becoming more frequent. We are actively taking steps to mitigate their impact on our customers and our business by reducing the complexity of our routes, isolating routes from problematic ATC regions, and refining where we base our aircraft, crews and maintenance capabilities.
5. **We continued transforming our customer experience.** In 2018 we made important progress towards our goal of providing the best customer experience amongst European low-cost carriers. We enhanced our retail offering, refreshed our cabins, started installing in-seat power and on-board Wi-Fi and introduced a disruption self-management system.
6. **We changed our product offerings to better meet customers’ needs.** We launched two new fare types, TimeFlex for passengers who need to save time and want flexibility and Family fares. We also introduced unbundled Space Flex products that give customers more legroom, amongst other benefits.
7. **We invested in the digital innovation that underpins our transformation.** Our digital, innovation and data science teams – now more than 400 people strong, including development partners – really delivered in 2018. Vueling was the first airline to allow customers to save boarding passes in Google Pay. Our customers can now check their Vueling flight status with Amazon Alexa and receive their tickets through WhatsApp. Biometric boarding will soon be a reality. We made significant leaps in how we leverage data and use advanced analytics to solve business problems such as ATC forecasting, demand forecasting, dynamic pricing of ancillaries, airport queue management, and process automation.

Continuing the Vueling NEXT transformation

In 2019 we will continue our NEXT transformation programme including growth and stabilisation with an evolved operating model, aiming to provide the number one low-cost carrier customer experience, better integrating our network, operations and maintenance. As a leading low-cost carrier, we continue strengthening our cost discipline and we keep driving more innovations in our operation and our customer experience.

Conclusion

In 2019 we celebrate our 15th anniversary as a company, which gives us occasion to reflect on how far we have come. We are proud to now serve more than 32 million customers each year, reaching 130 destinations, over 3,500 direct employees and 121 aircraft.

At Vueling, we see the challenging operating environment as an opportunity. Our DNA is digital and innovative. We have a clear vision and managerial discipline to guide our growth. We are committed to our customers, employees and delivering returns and we have the right momentum to continue improving our operational reliability, customer experience and financial returns.

An investment case for growth

Stephen Kavanagh
Chief Executive Officer of Aer Lingus

> **“2018 has been a year of record operating performance and return on invested capital, demonstrating the investment case for further profitable growth.”**

Aer Lingus statistics

Lease adjusted operating margin (%)	RoIC
16.8%	**26.8%**
vly +0.6pts	vly +3.8pts
Punctuality	**Fleet[1]**
74.0%	**56**
vly -7.4pts	vly +4 aircraft

Overview

In 2018 we continued our mission to be the leading value carrier across the North Atlantic, enabled by a profitable and sustainable shorthaul network. This is supported by a guest focussed ethos and brand, and a digitally enabled value proposition. We believe that Aer Lingus is delivering on this ambition, with a compelling position in the markets we serve, creating opportunity for further profitable growth.

Aer Lingus achieved a record operating result in 2018 and the Group’s highest return on invested capital, whilst maintaining high levels of guest satisfaction. We believe this strong operational and financial performance is sustainable, and the opportunity remains for Aer Lingus to grow Dublin as a major hub connecting Europe and North America. This will be enabled by investments in airport infrastructure at Dublin and will also provide significant social and economic benefits for a range of stakeholders in Ireland.

The virtuous model

The ambition of Aer Lingus has been leveraged to create a compelling competitive position. Our value model is demand-led, and centred on cost, product and service; an operating model that is simple by design. We believe it has been a virtuous model since IAG acquired Aer Lingus, with over 35 per cent growth since 2015. Reduced unit costs have enabled investment in growth and price competitiveness, with retained margin increases delivering a record return on invested capital.

We are a guest-focused business and at the heart of our virtuous model is Net Promoter Score, which was maintained at industry leading levels through 2018. Our ‘Voice of Guest’ surveys are integral to the design and delivery of product and service, with demand-led investment decisions made in line with our value principles. Key to Net Promoter Score is our operational and on-time performance, for which we are best-in-class at Dublin and we have received external validation with a Skytrax 4-star ranking and APEX 5-star ranking.

A competitive product and brand

Aer Lingus has a competitive product and a well-positioned brand. Together with a network which has depth, breadth and connectivity, and the quality of our partners, the geographical advantage of Dublin places Aer Lingus at a significant advantage to other carriers serving the transatlantic market.

During January 2019, we launched a new modernised brand, to reflect the airline we have become and the value proposition we offer, while faithful to the brand heritage and the proud legacy of 82 years of successful operations serving Ireland. Throughout 2019 we will continue to invest in product including providing complimentary alcohol during dining on our transatlantic services and a new free social media Wi-Fi package for all guests travelling in our economy cabin.

There will be further fleet growth and significant investment in brand spend and product changes. We will introduce AerSpace, a differentiated product on our shorthaul network, self-service technology in areas such as baggage tracking, and will launch direct services to Minneapolis and Montreal. New technology long-range Airbus A321LR aircraft will enter the fleet during the summer season, unlocking new gateway opportunities to North America, improving on-board product and delivering reduced costs.

Conclusion

Aer Lingus remains committed to its successful value model strategy which continues to create sustainable value for the Group. We will continue to develop and progress our opportunities for growth, remaining committed to delivering high levels of guest satisfaction and operating performance. As I step down as Chief Executive Officer I look forward to continuing on the Board of Aer Lingus as non-executive director and working with Sean Doyle as he transitions into his new role as Chief Executive Officer. I would like to thank all my colleagues for their support during my time in Aer Lingus and wish Sean and all of my colleagues continued success.

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[1] Includes 4 Boeing 757 and 2 Avro RJ85 on wet lease.

LEVEL

Expansion of IAG's new low-cost brand

LEVEL longhaul network

LEVEL shorthaul network

Passengers

888 thousand

Destinations

25

Aircraft

9

More than an airline

LEVEL is not a traditional, vertically integrated airline business. Instead, the LEVEL model separates the production and operational aspects from the commercial and customer facing elements of the business. As a result, LEVEL is agile and able to rapidly take advantage of new opportunities as it did in 2018 in Paris and Vienna.

The LEVEL brand is fresh and modern and is integrated into all elements of the customer experience.

Overview

2018 was LEVEL's first full year of operation from its base in Barcelona and also saw significant expansion for the brand with the launch of longhaul services from Paris and the development of a shorthaul low-cost operation from Vienna.

LEVEL was designed to more effectively target price sensitive leisure customers. It leverages the scale and capability of IAG to deliver a high-quality product at the lowest possible cost with a service model that puts the customer in control of their flight experience.

Following the appointment of its CEO in September 2018, LEVEL has been transforming from its project-based structure to a fully constituted business. 2019 will see continued growth of the LEVEL operations and further development of the customer offer, ancillary product portfolio and commercial model to support further expansion.

A year of growth

LEVEL added two additional Airbus A330-200 aircraft to its operation in 2018 with the launch of longhaul services from Paris Orly flying to Point-a-Pitre, Fort de France, Newark and Montreal. It also introduced four Airbus A321-200 aircraft, extending the LEVEL brand to shorthaul operations from Vienna, flying to destinations across Europe including London, Paris, Barcelona, Ibiza and Dubrovnik.

Continued positive performance

Strong customer demand and continued improvement in the cost base allowed LEVEL's Barcelona operations to maintain positive underlying profit performance in its first full year of operations, while the transformation of the former OpenSkies operation in France has already seen significant non-fuel unit costs savings.

Looking forward

In 2019, LEVEL will invest in consolidating and enhancing its commercial model and customer experience, enhancing its ancillary product portfolio, making improvements to the flylevel.com website with a mobile first focus and development of the LEVEL app.

LEVEL will also take delivery of two additional Airbus A330-200 longhaul aircraft and three new Airbus A320-200 shorthaul aircraft. New longhaul routes will launch from Barcelona to Santiago de Chile in March 2019 and to New York JFK in July 2019. LEVEL's shorthaul operations will also grow in 2019 with its new shorthaul base in Amsterdam opening in the summer.

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.

See page 27 for more information on Avios

See page 28 for more information on IAG Cargo

See page 29 for more information on Digital

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.

Avios: the Centre of Excellence for Loyalty in IAG

Andrew Crawley
Chief Executive Officer of Avios

> **“2018 saw the fourth consecutive year of growth at Avios since its formation. We expect this trend to continue throughout 2019 as we invest in new products, technology and loyalty and data capabilities.”**

Avios statistics

Active members	Avios issued in 2018
8.7 million	**115.1** billion
vly +6.1%	vly +10.7%

Avios redeemed in 2018
86.4 billion
vly +4.2%

Overview

Members remain at the heart of what we do at Avios. By increasing the opportunities for members to collect and spend our currency, we can drive better engagement, both within IAG with our partners, and ensure loyalty acts as a greater differentiator in members’ purchasing decisions. Avios is constantly analysing and adapting its products to strengthen propositions and we are investing in technology to make collection and spending of Avios simpler. We are also exploring ways of connecting loyalty and payment to deliver more convenience for members.

Members can already collect Avios when they fly, when they spend on their credit cards and when they shop with our retail and travel partners or in our online eStores. They can use their Avios to fly on IAG, **one**world and Avios partner airlines, to obtain discounts on airline fares using the “Pay with Avios” product and to obtain travel and leisure experiences. Avios were used on 8 million flight bookings in 2018.

Key successes in 2018

In simplifying its offering, Avios moved UK based members from the Avios Travel Rewards Programme into the British Airways Executive Club, transferring over 27 billion Avios points across two million accounts. The move brings more collection and redemption opportunities and better online account management through BA.com.

Avios delivered strong issuance growth during the year both from airlines and finance cards, with the latter due to increased credit card penetration and higher member spend. In the UK, we focused on enhancing our partnerships including our relationship with American Express, where 2018 was a milestone year for Avios issuance. There has also been strong performance across other sectors such as retail and travel including key partners Tesco and Marriott.

In the USA, Avios has launched new credit cards with Chase for both Iberia Plus and Aer Club members. In Asia, DBS Bank, which is the largest bank in South East Asia, is offering members of the DBS$ scheme the opportunity to convert their points into Avios, with a strong conversion rate.

Avios continues to simplify the way members can collect on their everyday spending. The online eStore, featured on the IAG airline websites, has increased in popularity. Members in the UK, France, Italy, Spain and Ireland can now collect Avios with over 1,000 retailers on the eStore. Card linked collection, which allows members to register any credit cards to automatically collect in store, has made collection easier and unlocked new collection opportunities.

The Pay with Avios product, which allows members to use their Avios to discount airline fares, has grown and now accounts for 30 per cent of total Avios redeemed. During 2018 we expanded this product across a number of our **one**world partner airlines to give members more choice, as well as offering them the ability to spend more Avios to gain larger discounts on the ticket price.

Avios continues to invest and expand its digital capabilities. A new British Airways Executive Club rewards app was launched, which gives members the opportunity to engage with the currency through everyday use, highlighting relevant collection and redemption partners. Within the Group, Avios sees potential to leverage IAG’s investment in Monese, the 100 per cent online bank which allows customers to open a full UK current account instantly on their mobile, to give breadth to its financial services portfolio.

Future

In 2019, Avios will continue to focus on expanding its data capabilities through the integration of Group data sources. This helps better segmentation and communication for Avios members, with more personalised and targeted content relevant to them. In 2019, Avios will also complete its transition to a single loyalty platform for the currency.

We will also further develop a number of Group-wide strategies to improve member satisfaction and engagement with the Group’s loyalty programmes. This will be supported by leveraging Avios’ member insight and analytics, to release more new member features on a regular basis.

Delivering strong results

Lynne Embleton
Chief Executive Officer of IAG Cargo

> “In a busy year, characterised by changing market conditions, IAG Cargo delivered strong results through business investment and growth in premium products.”

Overview

A combination of overall positive market conditions across all regions and a focus on premium products led to a record financial performance for IAG Cargo.

Throughout 2018 we moved key consumer and industrial goods across our global network and product suite; transporting essential pharmaceuticals via Constant Climate, urgent machinery parts with Critical and supporting large project movements with our Perform product. We have moved aircraft parts from the UK to China, whisky from Japan to the US, fresh fruit from Latin America to Europe, and flower garlands from India to Canada. Truly understanding what we carry has become embedded in our business and further enhances our customer proposition.

After a strong start to the year, market growth began to slow during 2018. Overall, market conditions were favourable, particularly in Asia Pacific, Europe and the UK and Ireland. Premium products performed well. Constant Climate revenue grew by 9 per cent while our Critical consignment count grew by 35 per cent. Together with a rapid response to changing fuel prices, these factors culminated in robust commercial performance across IAG Cargo’s hubs in London, Madrid and Dublin.

Investment and innovation

Throughout 2018 we progressed plans to adopt technology and digital solutions, further unlocking the potential of the business.

In 2018 we undertook the UK's first airside trial of a self-driving vehicle at London Heathrow, to explore the future of autonomy in airport logistics. We also began early stage trials of incorporating drone technology for the first time in an airside cargo warehouse environment.

Investment in an agile web development team underpinned our commitment to deliver a seamless online experience. Customer feedback, frequent website improvements and new booking upgrade functionality all contributed to rapid growth in online revenue in 2018.

IAG’s Hangar 51 global innovation programme included a cargo specific category for the first time this year. We are now working with innovative start-ups in areas of wearable voice communications and real-time analytics and data visualisation to explore how these technologies can improve operational performance.

Infrastructure investments continue, building a new Constant Climate Centre in Madrid and progressing construction of our new premium freight building in London.

We have also begun attracting talent from a range of sectors including banking, telecommunications and manufacturing. The combination of fresh perspectives and skills, coupled with existing airfreight expertise, builds a strong team to embrace the opportunities ahead.

Products and partnerships

In 2018 IAG Cargo's global network increased capacity on key routes to Latin America and added new routes such as London – Nashville. Enhancements to the PartnerPlus alliance programme continued to extend our global reach. 2019 will see the addition of Pittsburgh to the network and direct flights to Osaka and Islamabad, offering new opportunities for customers.

During 2018 we launched the Critical Service Centre, a customer service team dedicated to serving our highest priority product, Critical. The team comprises of emergency solution experts providing a single point of contact for emergency shipments, whilst unlocking revenue potential. We also expanded Critical to accept pharmaceutical shipments, offering a solution to the emergency medical shipment market.

Our time-critical premium products played an important role in responding to events around the world; we transported vaccines from India to Venezuela in response to a diphtheria outbreak, and we moved vast quantities of fresh produce – including 30,000 heads of lettuce from the US – in response to shortages across Europe during the abnormal summer heatwave.

As the logistics partner for the British Museum, we transported ancient artefacts with our Secure product for the ‘I am Ashurbanipal: king of the world, king of Assyria’ exhibition.

Our continued work with key industries and institutions around the world underpins the significant role we play in global trade.

Conclusion

2018 was a successful year for IAG Cargo which saw advances in our products, route network and digital capability. A strong product portfolio and agile revenue management allowed us to benefit from a dynamic market.

We expect the market to be challenging in 2019, continuing the recent trend of global airfreight capacity outpacing market growth. Our strategy remains unchanged, we will continue to focus on customer service and to invest in products, technology and operations to become the carrier of choice for customers worldwide.

Committed to innovation

Digital portfolio

During 2018, we continued to expand digital innovations across our operating companies with enhanced focus on five key areas: Shop Order Settle, automation, data, marketplaces and digital mindset. In addition, we extended our commitment to innovation to protect our business and increase shareholder value by holding our third and largest Hangar 51 accelerator programme to date.

Shop Order Settle

Shop Order Settle (Shop Order Pay) aims to drive the creation of a new retail platform for the Group to enable rapid commercial changes delivering revenue and customer satisfaction benefits as well as reducing cost. Throughout 2018, our proofs of concept have established that a platform unconstrained by legacy standards and technology can be a reality. We have demonstrated how to apply a modern commerce platform within an airline while connecting to one of our legacy Passenger Service Systems.

With the support and drive of Iberia Express, we worked with a start-up to launch a chatbot integrated into a leading social media platform. The technology enables the sale of Iberia Express flights with the transactions held on a private blockchain, providing a further alternative to the traditional Passenger Service System. Work has also started trialling machine learning techniques for pricing.

Automation

The Automation agenda aims to improve operational safety, enhance regularity and drive efficiency. Our focus has been on four areas:

- Ramp. Our aircraft pushback device (Mototok) automated ramp safety check enabling an arriving aircraft to turn on to stand as soon as it arrives.

  With Heathrow Airport, we are working on the automation of Passenger Air Bridges. This capability, in combination with the automated safety check, will drive improvements in arrival punctuality and customer satisfaction.
- Baggage. We have been working to deliver automated robotics, removing the need to manually handle bags from the conveyor belt into the aircraft bin; reducing personal injury rates and increasing productivity.
- Autonomous Vehicle. During 2018 the first airside autonomous vehicle trial took place and we have developed the first Autonomous Baggage Dolly prototype. Through 2019, we will be running three further driverless vehicle trials across the airport which will help us better understand the capabilities and define potential business opportunities.
- Above the wing. We are also working on customer identity. During 2018, we have implemented biometric identity solutions for all Los Angeles and Orlando flights and at two gates in New York. Additionally, we have agreed with the US Government how, using these systems, we can reduce the number of incorrectly documented passengers and therefore lower the level of immigration fines.

Data

Data and our ability to leverage that data is key for IAG. Data allows us to drive innovation, process change, customer centricity and benchmarking.

We aim to make the process of collecting, connecting and using our data to drive business value as effective, efficient, easy, safe and secure as possible. In 2019, we will accelerate the development of the Nexus group data platform to enable the deployment of group data services, artificial intelligence and other advanced analytics.

Progress has been made this year through our collaboration with the Turing Institute on Passenger Revenue Management Demand Forecasting. In addition, IAG Cargo has been using machine learning to optimise pricing and initial trials are being held with cargo agents.

Marketplaces

IAG continues to expand LEVEL and Zenda from new business model projects to scaled up operations within the Group. Following support from IAG Digital, both ventures now have established teams and are well positioned for fast growth.

IAG Digital is evaluating several new opportunities in Maintenance Repair Overhaul, In-Flight Commercial and Blockchain (amongst others) that are under proof of concept with further development expected during 2019.

Digital Mindset

Our Digital Mindset transformation ensures that the Group is attracting and working with the best digital talent globally (both internally and externally) to tackle top business challenges. The Group's Hangar 51 accelerator programme is now in continuous cycle and our team has evaluated and screened over 1,200 innovation partners and new technologies from over 40 countries. The cross-group initiative sees our internal business and technological experts rapidly pilot new products and services to support our employees and customers together with the top start-ups and scale ups in just ten weeks. The range of technologies showcased this year includes next generation VR headsets to pilot new immersive entertainment for the customer, bone-conduction communication gear to improve communication and collaboration in high noise work environments, machine vision analytics to automate and map turnaround efficiency and data visualisation tools to optimise real time telematics data and reduce cargo delays.

Investments

IAG has extended its commitment to innovative growth through enhanced investment activity via Hangar 51 Ventures. The Group now has an active multi-million pound venture fund evaluating strategic deals across the travel ecosystem.

We are delighted to announce new investments in Blockchain and Fintech designed to enhance IAG's services in loyalty and travel and we expect more exciting opportunities to come!

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

See pages 12-17 for our Strategy

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.

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

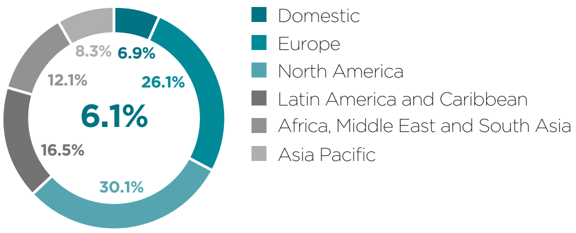
IAG capacity

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.

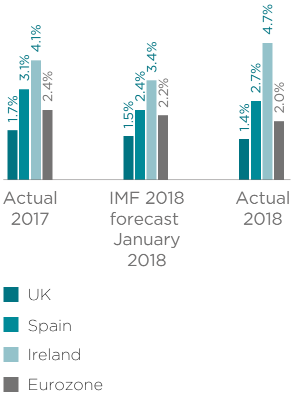
In IAG's **Domestic** markets capacity was higher by 9.1 per cent with increases at Vueling and Iberia. As part of its NEXT strategy, Vueling increased frequencies on existing routes and launched three new routes. Capacity in Iberia's domestic market was increased with growth in the Balearics and Canaries. 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

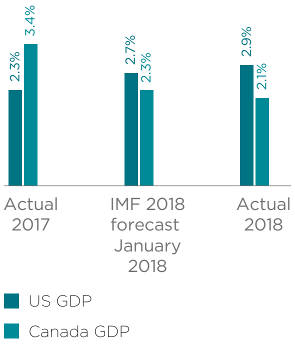


North America
In 2018, US GDP grew 2.9 per cent which was ahead of last year and forecast. Growth accelerated over the year benefiting from tax rate reductions and lower unemployment supporting consumption. The airline industry's passenger capacity grew 4.7 per cent while IAG grew 8.0 per cent serving 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



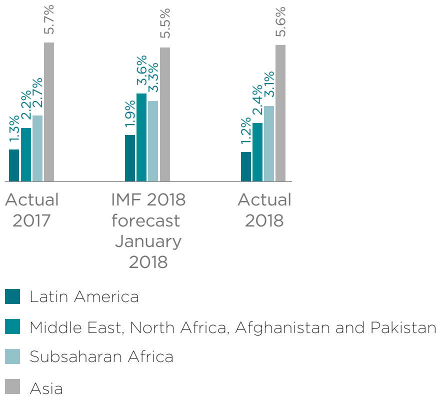
Latin America and Caribbean

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%

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

Fuel, oil and emissions costs

Fuel, oil and emissions costs rose by 14.6 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%**

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

Supplier costs

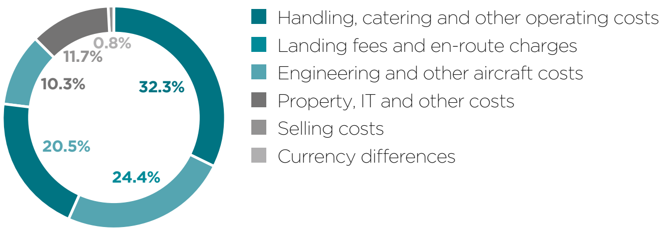
Total supplier costs for the year increased 5.0 per cent with 1.5 points of positive currency impacts. At ccy and on a unit basis, supplier costs rose 0.4 per cent. In 2018, the Group's non-ASK related businesses, such as MRO, BA Holidays and Avios grew. This increased our supplier costs, in particular 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.

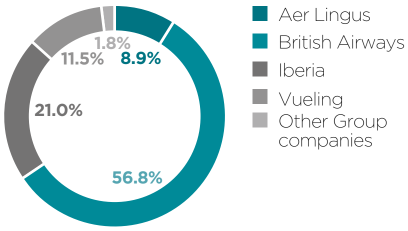
	2018		
€ million	Translation impact	Transaction impact	**Total exchange impact**
Total exchange impact on revenue	(183)	(389)	**(572)**
Total exchange impact on operating expenditures	163	280	**443**
Total exchange impact on operating profit	**(20)**	**(109)**	**(129)**

Operating profit before exceptional items

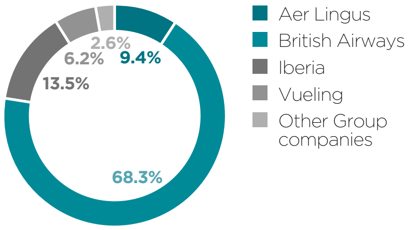
In summary, the Group's operating profit before exceptional items for the year was €3,230 million, a €280 million improvement from last year. The Group's adjusted operating margin also improved 0.2 points to 14.4 per cent. These results reflect a strong revenue performance from a better macro-economic 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.

See page 23 for more on Aer Lingus' performance and future plans.

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.

See pages 18-19 for more on British Airways' performance

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%

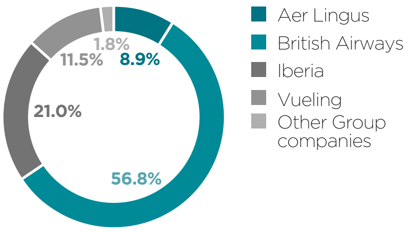
Vueling's operating profit was €200 million an increase of €12 million despite facing significant operational disruption from ATC regulations and strikes. Its adjusted operating margin of 11.8 per cent, was 1.0 points down versus last year.

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.

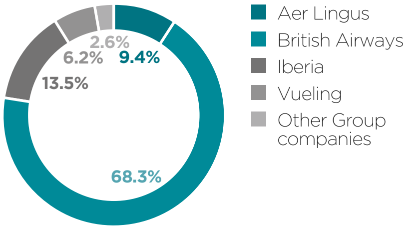
Vueling's non-fuel unit costs increased significantly primarily from ATC disruption. Vueling's NEXT programme continued to target operational improvements and cost saving initiatives to address the challenging ATC environment, however operating margin suffered.

See page 22 for more information on Vueling's performance and future plans.

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.

See pages 20-21 for more on Iberia's performance

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.

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

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).

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

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €2,481 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.

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

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.

See pages 14-17 for our key performance indicators.

See pages 183-185 for our alternative performance measures.

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.

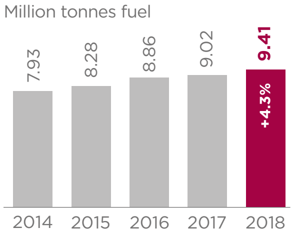
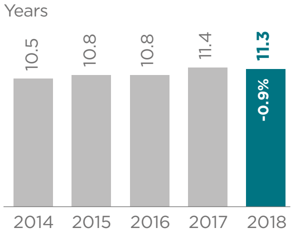
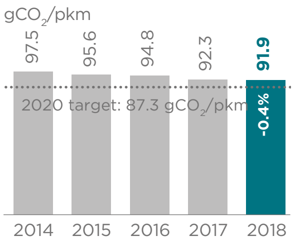
Our emissions data is calculated using UK and Spanish Government Greenhouse Gas conversion factors for company reporting.

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 7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION	**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.

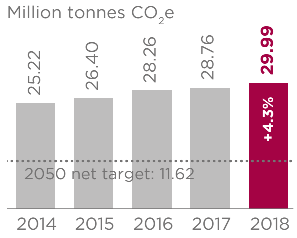
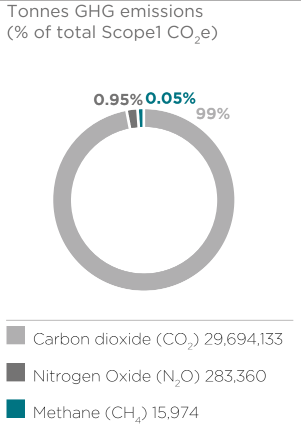
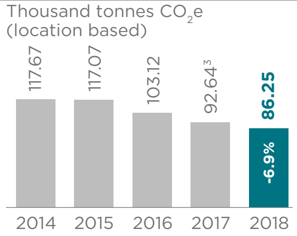
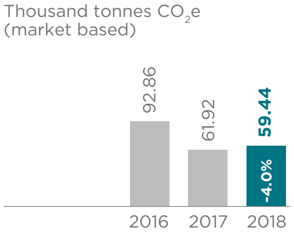
2 New measure in 2018

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.

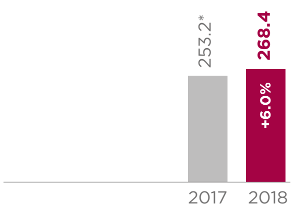
4 Emissions data for years 2017 and earlier have been third party verified to reasonable assurance for compliance with the EU ETS (covering flights within the European Economic Area). Furthermore, all of British Airways' Scope 1, 2 and 3 emissions data for years 2017 and earlier have also been third party verified (to reasonable assurance) and complies with ISO14064-3 international reporting standard.

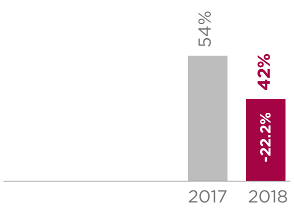
5 Scope 3 data reported 2018 was prepared for CDP report based on 2017 activity.

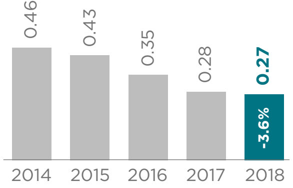
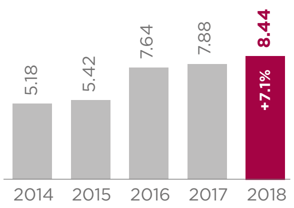
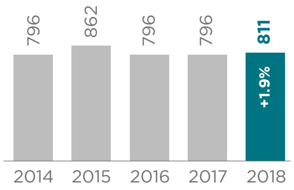
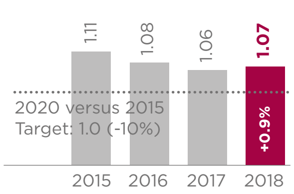
6 Based on headcount as at December 31, 2018.

Aspect and link to SDG	Performance indicator	Description	2018 highlights	2018
Climate	**Scope 1[1] Direct GHG emissions** (Million tonnes CO$_2$e)	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$_2$e 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$_2$e (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$_2$e) 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$_2$e)	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$_2$e, 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$_2$e (First year reporting this) **2018** **65.66**
	Scope 2 Indirect GHG emissions[3] (Thousand tonnes CO$_2$e)	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$_2$e/pkm)
	Scope 3 Other indirect GHG emissions[5] (Million tonnes CO$_2$e)	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$_2$e
Economic return versus climate impact 8 DECENT WORK AND ECONOMIC GROWTH 13 CLIMATE ACTION	**Revenue per tonne CO$_2$e** (€/tonne CO$_2$e 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$_2$e €/t CO$_2$e (0%)
Noise 3 GOOD HEALTH AND WELL-BEING 11 SUSTAINABLE CITIES AND COMMUNITIES	**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

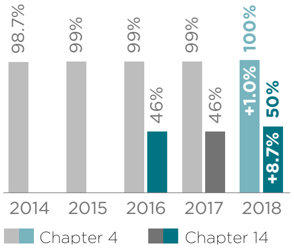
Aircraft fleet noise certification (ICAO Chapter 4 and 14)

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

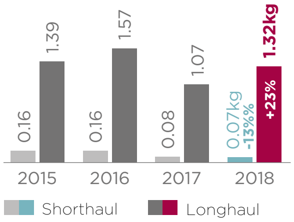
Average aircraft cabin waste (kg/passenger)

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 (%)

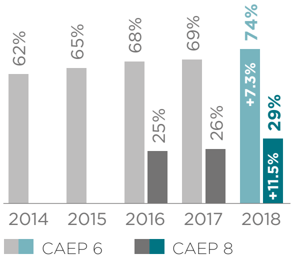
ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent: the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard.

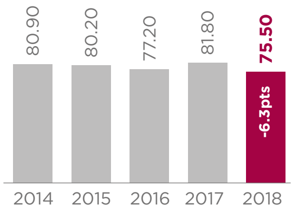
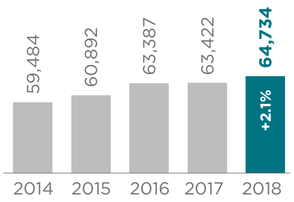
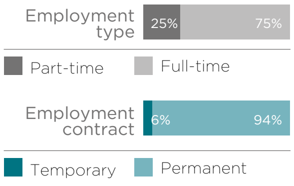
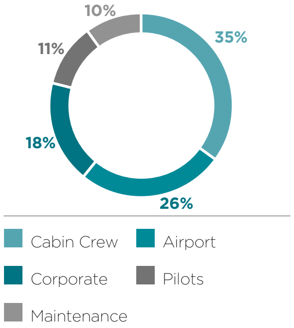
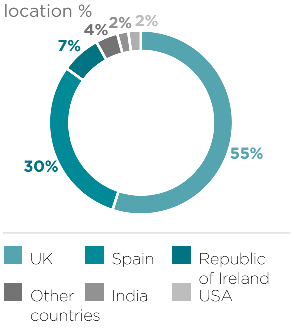
The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014.

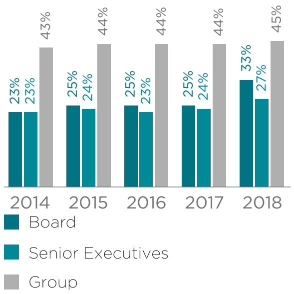
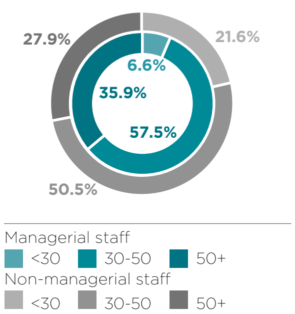
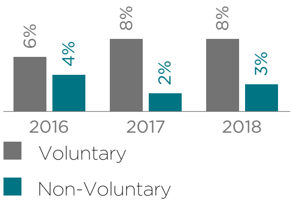
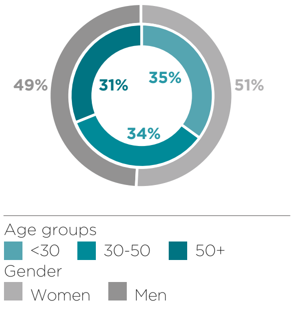
ICAO is also developing a standard for particulate matter from aircraft engines, expected to come into force in 2020.

- 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  * 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

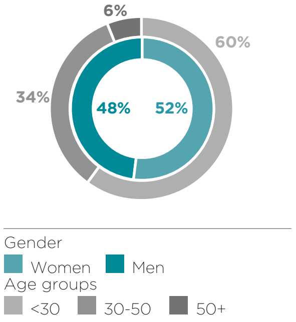
Workforce

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)

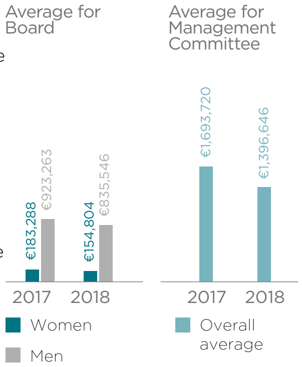
Average remuneration for members of the board and management committee broken down by gender.

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)

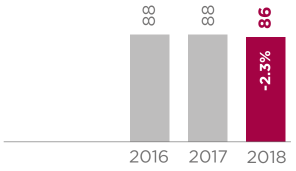
Employee Relations are an important factor in improving and maintaining workforce engagement.

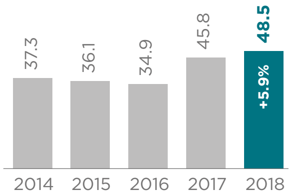
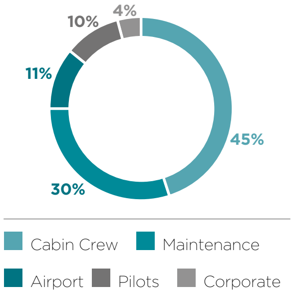
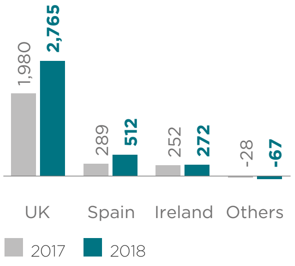
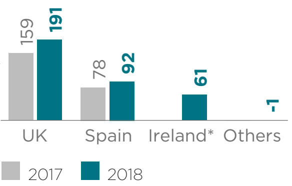
All Group employees have the right to representation through a collective bargaining agreement.

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

13 CLIMATE 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.

3 GOOD HEALTH AND WELL-BEING

13 CLIMATE ACTION

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.

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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.

3 GOOD HEALTH AND WELL-BEING

11 SUSTAINABLE CITIES AND COMMUNITIES

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.

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

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.

Maintaining the very highest standards of Corporate Governance

Antonio Vázquez
Chairman

> "Continuing to adapt to new and demanding standards of corporate governance will sustain our long-term performance and remains a commitment of the Board."

On behalf of the Board, I am very pleased to introduce the report on Corporate Governance for 2018, a year of continued strong performance for the Group in an unsettled political and economic environment.

A number of key internal and external challenges shaped the Board's discussions in 2018. These included Brexit, risk management, the malicious theft of data at British Airways, oil price volatility and political uncertainty in some of our key markets. We also continued to scrutinise the overall Group strategy and the development of our brands and our offer to customers. It was, by any standards, a busy agenda.

Throughout our eight-year history we have always aimed to achieve the very highest standards of governance and, as a Board, that remains our firm commitment.

We want to continue developing an approach that will allow us to support and challenge the IAG management team as they steer the future development of the Group and all its operating airlines. Corporate governance in that sense is vital in sustaining the success of IAG, irrespective of the market conditions that confront us in any one year.

Adapting to new standards

As a company listed in both Madrid and London, we have to meet two very demanding governance codes. That can be challenging, but it's a challenge we have always welcomed.

Against this backdrop, the introduction of the new UK Corporate Governance Code in July 2018 was and remains an obvious focus for the Board. We fully embrace the new code and I personally very much agree with its guiding principle – that companies do not live in isolation, but are deeply connected to the wider world in which they operate.

Society is demanding more and more of its companies, and that's as it should be. We are committed to making sure that IAG meets those demands, even though, as a young parent company overseeing a portfolio of well-established and independent airlines and brands, the task of meeting some of the Code's objectives will be more difficult for us than other organisations with a more straightforward structure. On the plus side, our relative youth means we have flexibility and can continue to be innovative.

Solid foundations

The UK Code demands that we take proper account of the views of all our stakeholders – investors, our communities, regulators, environmental campaigners, our suppliers and our employees. This is something we want to get right, rather than take an approach that is too generic or simplistic. It will require some deep thought and will be a major priority for the Board in 2019.

Fortunately, we start from a strong base in this important work.

For instance, at our January meeting the Board approved a new code of conduct for the Group following in-depth discussions with the management team. It is designed to set out in an easy-to-understand way the ethical standards that have been part of our overall approach for some while. It recognises that IAG is made up of diverse businesses, people and cultures and that this rich diversity is fundamental to what we are as a Group. Equally, it makes clear our commitment to acting with integrity at all times.

The Board will play an active role in embedding these common standards of conduct, setting the right tone for the business from the top and supporting the management team as it launches the code in the coming months. In addition, we will be seeing what more we can do as a Board to oversee, shape and monitor our corporate culture.

It's important to be clear that our stakeholder relationships are at different levels of maturity in different parts of the business. But, again, I believe we can build on solid foundations here. We do already have strong engagement with our main stakeholders, starting with our shareholders as you can read on pages 83 and 84 of this report. The same is true with our customers, with our regulators and with different industry bodies.

We are particularly proud of our investor relations programme and I was delighted once again this year to meet with many of our major shareholders to talk about governance, strategy, our succession plans and the business challenges we face. Our Senior Independent Director and the Chairman of the Remuneration Committee also met key investors to discuss specific issues. Such meetings are very valuable to us and, I know, are greatly welcomed by investors.

The regulatory agenda for IAG as a whole and each of our operating businesses is intense, requiring constant attention and dialogue. Communication channels with customers and suppliers are well developed and, through our sustainability programme, we have a clear understanding of what matters most to stakeholders thanks to a materiality exercise we conducted in 2017.

We will keep all these engagement programmes under close review in the current year, making sure that the right information is reported to the Board and that stakeholders are receiving clear and useful feedback.

The Board will also look closely at how we communicate with our employees. We want to strengthen our approach here but in a way that takes account of the diversity of nationalities and cultures within the Group that we are so happy and proud to embrace.

Board effectiveness

We continue to evaluate the effectiveness of the Board. Each year we carry out an internal review, opening ourselves up to external review in the third year to make sure our own assessments are robust.

The internal review gives me the opportunity to talk to each of my fellow directors, individually, to hear how we can improve our approach, to check that we are focusing on the right issues and, above all, to make sure that the work we do as directors is adding real value to the Group, for the benefit of our shareholders.

You can read more about the latest evaluation on pages 91 and 93.

Remuneration

Following detailed engagement with principal investors to test our ideas, we presented an updated remuneration policy to shareholders at the 2018 Shareholders' Meeting. I'm glad to say the new policy received solid backing from our shareholders.

This work was led, with great skill, by Dame Marjorie Scardino. She decided to step down as chair of the Remuneration Committee in February, after three years in that post. On behalf of the Board, I would like to thank her for all her excellent work. Marc Bolland, already an experienced member of the Committee, has succeeded Dame Marjorie in the role.

Continuing to refresh the Board

As announced in May 2018, Jim Lawrence stepped down from the Board at our Shareholders' Meeting in June having made a significant contribution to the Board and its Audit and Compliance Committee. I would like to thank him for his dedicated work.

On June 14, 2018 we were delighted to welcome Deborah Kerr as a new non-executive director and as a member of the Audit and Compliance Committee. We are very pleased to have her skills and business experience, not least her deep knowledge of technology, at our disposal.

The process of selecting new Board members is rigorous, as the report from our Nominations Committee on page 92 demonstrates. We can only provide useful and value-enhancing oversight of the Company if we attract directors with the depth and breadth of experience to really understand the complexities of running a business like IAG.

In my opinion we have a superb group of people on our Board from a broad range of professional backgrounds offering a rich and diverse array of skills and perspectives. The work they do to ensure the continued success of IAG is extremely important. I thank them all for the tremendous contribution they make.

Antonio Vázquez
Chairman

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1 Antonio Vázquez

Chairman

Key areas of experience:
Consumer, sales/marketing, finance, governance

Current external appointments:
Member, Advisory Board of the Franklin Institute. Member, Cooperation Board of Loyola University. Trustee, Nantik Lum Foundation.

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

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2 Willie Walsh

Chief Executive Officer

Key areas of experience:
Airline industry

Other Group appointments:
Chairman, Aer Lingus Board of Directors.

Current external appointments:
Chairman, Airlines for Europe (A4E)

Previous relevant experience:
Chairman, National Treasury Management Agency of Ireland, 2013-2018. Chairman, IATA Board of Governors 2016-2017. Chief Executive Officer, British Airways 2005-2011. Chief Executive Officer, Aer Lingus 2001-2005. Chief Operating Officer, Aer Lingus 2000-2001. Chief Executive Officer, Futura (Aer Lingus' Spanish Charter airline) 1998-2000. Joined Aer Lingus as cadet pilot in 1979.

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3 Patrick Cescau

Senior Independent Director

Key areas of experience:
Consumer, finance, sales/marketing, governance

Current external appointments:
Chairman, InterContinental Hotel Group. Trustee, LeverHulme Trust. Member, Temasek European Advisory Panel. Patron, St Jude India Children's Charity.

Previous relevant experience:
Senior Independent and Director, Tesco 2009-2015. Director, INSEAD 2009-2013. Senior Independent Director, Pearson 2002-2012. Group Chief Executive, Unilever 2005-2008. Chairman, Unilever UK. Deputy Chairman, Unilever The Netherlands, Food Director. Prior to being appointed to the Board of Unilever in 1999 as Group Finance Director, he was Chairman of a number of the company's major operating companies and divisions including the USA.

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4 Marc Bolland

Non-Executive Director

Key areas of experience:
General management, commercial management/marketing, retail, hospitality industry

Current external appointments:
Head of European Porftolio Operations, The Blackstone Group. Director, Coca-Cola Company. Non-Executive Director, Exor S.p.A. Vice President, UNICEF UK.

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

5 Enrique Dupuy de Lôme

Chief Financial Officer

Key areas of experience:
Finance, airline industry

Other Group appointments:
Director, AERL Holding Limited

Current external appointments:
Chairman, Iberia Cards. Non-Executive Director, Grupo Lar.

Previous relevant experience:
CFO, Iberia 1990-2011. Head of finance and deputy director of financial resources, Instituto Nacional de Industria (INI) and Teneo financial group 1985-1989. Head of subsidiaries Enadimsa (INI Group) 1982-1985. Chairman, IATA finance committee 2003-2005.

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6 María Fernanda Mejía

Non-Executive Director

Key areas of experience:
General management, marketing and sales, supply chain, strategic planning, corporate transactions

Current external appointments:
Senior Vice President, The Kellogg Company. President, Kellogg Latin America. Corporate Officer and member of The Kellogg Company Executive Leadership Team. Board Member of the Council of the Americas.

Previous relevant experience:
Vice-President and General Manager Global Personal Care and Corporate Fragrance Development, Colgate-Palmolive 2010-2011. Vice-President Marketing and Innovation Europe/South Pacific Division, Colgate-Palmolive 2005-2010. President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and Director, Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.

● Committee Chair
A Audit and Compliance Committee
S Safety Committee
N Nominations Committee
R Remuneration Committee

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7 Deborah Kerr

Non-Executive Director

Key areas of experience:
Technology, digital, marketing, operations, software and services, general management

Current external appointments:
Director, NetApp Inc. Director, Chico's FAS. Inc. Director, ExlService Holdings, Inc. Managing Director, Warburg Pincus.

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

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8 Kieran Poynter

Non-Executive Director

Key areas of experience:
Professional services, finance services, corporate governance, corporate transactions

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

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

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9 Emilio Saracho

Non-Executive Director

Key areas of experience:
Corporate finance, investment banking, corporate transactions

Current external appointments:
Director, Altamar Capital Partners. Director, Inditex.

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

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10 Dame Marjorie Scardino

Non-Executive Director

Key areas of experience:
Commercial management, government affairs, communications, digital and media, legal services

Current external appointments:
Senior Independent Director, Twitter, Senior Independent Director, Pure Tech Health Inc. Member, charitable boards including The MacArthur Foundation (Chairman), London School of Hygiene and Tropical Medicine (Chairman), and The Carter Center. Member, Board of the Royal College of Art. Member of the Visiting Committee for the MIT Media Lab. Member, Board of Bridge International Academies (HQ – Kenya).

Previous relevant experience:
Chief Executive Officer, Pearson 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.

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11 Nicola Shaw

Non-Executive Director

Key areas of experience:
Transport sector, public policy and regulatory affairs, consumer, general management

Current external appointments:
Executive Director, National Grid plc. Member of the Audit and Risk Committee, English Heritage. Director for Major Projects Association.

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

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12 Alberto Terol

Non-Executive Director

Key areas of experience:
Finance, professional services, information technology, hospitality industry

Current external appointments:
Vice Chairman, Leading Independent Director and Chairman of the Appointments, Remuneration and Corporate Governance Committee, Indra Sistemas. Chairman of the Supervisory Board, Servion GmbH. Chairman of the Audit Committee, Servion S.A. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Independent Director, Schindler España. Patron of Fundación Telefonica. Executive Chairman of various family owned companies.

Previous relevant experience:
Director, OHL 2010-2016. Director, Aktua 2013-2016. Director, N+1 2014-2015. International Senior Advisor, BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009. Managing Partner: EMEA Deloitte 2007-2009, Managing Partner Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner: Latin America Deloitte 2003-2007, Integration Andersen Deloitte 2002–2003, Europe Arthur Andersen 2001-2002, Global Tax & Legal Arthur Andersen 1997-2001, Garrigues-Andersen 1997-2000.

IAG as a Group

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

Board*

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

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

Chairman

Antonio Vázquez

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

CEO

Willie Walsh

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

Senior Independent Director

Patrick Cescau

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

Audit and Compliance Committee

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

Nominations Committee

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

Remuneration Committee

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

Safety Committee

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

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

The Group operating companies

Each operating company is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plan.

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

IAG Management Committee

Headed by the Group CEO:

- day-to-day management of the Group
- capturing cost and revenue synergies
- development of Group long-term strategy

Enrique Dupuy de Lôme
Group Chief Financial Officer

Stephen Kavanagh[1]
Chief Executive Officer
Aer Lingus

Robert Boyle
Director of Strategy
LEVEL

Alex Cruz
Chairman and CEO
BRITISH AIRWAYS

Luis Gallego
Chairman and CEO
IBERIA

Javier Sanchez Prieto
Chairman and CEO
vueling

Julia Simpson
Chief of Staff

Chris Haynes
General Counsel

Steve Gunning
Director of Global Services
British Airways Chief Financial Officer
IAG GBS

Lynne Embleton
Chief Executive Officer
IAG Cargo

Andrew Crawley
Chief Executive Officer
avios

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[1] On January 1, 2019 Sean Doyle was appointed as Chief Executive Officer of Aer Lingus. Stephen Kavanagh will continue as non-executive director on the Board of Aer Lingus.

Application of governance codes

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

At the same time, as IAG has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council ("FRC") as amended from time to time. A copy of the version of the UK Corporate Governance Code applicable to this reporting period (updated and published in April 2016) is available at the website of the FRC (www.frc.org.uk). This Corporate Governance Report includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code.

In accordance with the new Spanish Comisión del Mercado de Valores (CNMV) regulation, IAG presents this year a consolidated Corporate Governance Report responding to Spanish and UK reporting requirements.

This consolidated Corporate Governance Report is available on the Company's website (www.iairgroup.com), and it is also available on the CNMV website (www.cnmv.es), this consolidated Corporate Governance Report is accompanied by a duly completed form which is required by the CNMV covering some relevant data.

In 2018, IAG complied with all the recommendations of the Spanish Corporate Governance Code, with the sole exception of the rules on the composition and operation of non mandatory Board committees, which is partially non complied with as far as IAG's Safety Committee is chaired by an executive director, the Group Chief Executive, and not by an independent director as recommended by the Code. The Board believes this is appropriate, taking into consideration that IAG is not an airline but the Group parent company, and its Safety Committee exercises a high-level supervisory role within the Group. Consistent with legal requirements, responsibility for safety matters remains with each Group airline, and the technical nature of the safety issues and the fact that each Group airline has its own particular characteristics makes it advisible that the Group's top executive leads this committee and coordinates the reporting of the different airlines.

As far as the 2016 UK Corporate Governance Code is concerned, the Company considers that during the year it has complied with all its provisions but for the following matter: the service contract for Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. The terms of Antonio Vázquez's service contract as Executive Chairman of Iberia were considered at the time of the merger between British Airways and Iberia, and it was determined that an entitlement to lump-sum retirement benefits in excess of one year's salary should be carried over into his IAG service contract. It was thought necessary to continue the Iberia benefits in order to retain this key director and, as such, complying with the UK Corporate Governance Code's principle of only offering a remuneration package sufficient to retain this director. Details can be found in the Directors' Remuneration report.

The Board believes that, notwithstanding the above exceptions, the company has a robust governance structure.

Governance framework: structure and responsibilities

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

Each operating company is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plans. Each company has its own board of directors and its own executive committee, led by the top executive of each company.

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

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

Board composition

As set out in the Company's Bylaws the Board shall comprise a minimum of nine and a maximum of 14 members. As of December 31, 2018 the Board composition was:

Name of Board Member	Position/Category	First appointed
Antonio Vázquez	Chairman	May 25, 2010
Willie Walsh	Chief Executive Officer	May 25, 2010
Patrick Cescau	Senior Independent Director	September 27, 2010
Marc Bolland	Director (independent)	June 16, 2016
Enrique Dupuy de Lôme	Chief Financial Officer	September 26, 2013
Deborah Kerr	Director (independent)	June 14, 2018
María Fernanda Mejía	Director (independent)	February 27, 2014
Nicola Shaw	Director (independent)	January 1, 2018[1]
Kieran Poynter	Director (independent)	September 27, 2010
Emilio Saracho	Director (independent)	June 16, 2016
Dame Marjorie Scardino	Director (independent)	December 19, 2013
Alberto Terol	Director (independent)	June 20, 2013

[1] The appointment of Nicola Shaw as a non executive director was approved by the Shareholders' Meeting on 15 June 2017.

The IAG Board currently comprises ten non-executive directors and two executive directors, IAG's Chief Executive Officer and Chief Financial Officer. The biographies of each member of the Board are set out on pages 74 and 75.

At the Annual Shareholders' Meeting on 14 June 2018, Deborah Kerr was appointed as a non-executive director, following the retirement of James Lawrence. Further details of Deborah Kerr's appointment are set out in the Nominations Committee report on pages 91 to 93.

The Company is attentive to the need for progressive refreshing of the Board and committee membership. The IAG Board continues to have a strong mix of highly qualified individuals, from a wide range of backgrounds, countries and industries, with appropriate experience of complex organisations with global reach. For further details see the Nominations Committee report on pages 91 to 93.

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

Appointment, re-election and resignation of directors

The selection and appointment process is described in detail in the Nominations Committee report on pages 92 and 93.

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

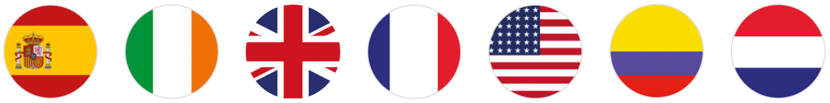
Re-election proposals are subject to a formal process, based on the Nominations Committee proposal in the case of non executive directors, or its recommendation report for executive directors. This proposal or report is prepared having due regard to the performance, commitment, capacity, ability and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

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

Notwithstanding the above, a director must resign in the cases established in article 16.2 of the Board Regulations, a copy of which is available on the Company's website (www.iairgroup.com), and the Spanish Comisión Nacional del Mercado de Valores website (wwww.cnmv.es).

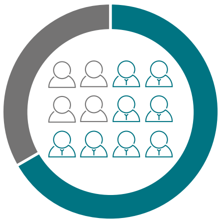
Board diversity

Nationality



Spain Ireland UK France US Colombia Netherlands

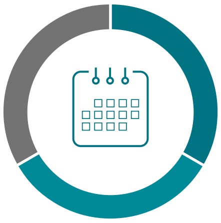
Gender



33%
4 females

67%
8 males

Tenure



33%
0–3 years

33%
4–6 years

33%
7–9 years

Core areas of expertise

41.6%
Industry

83.3%
General management

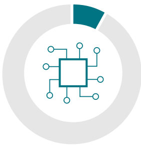
41.6%
Consumer Brands B2C

41.6%
Corporate transactions

58.3%
Current/recent CEO/Chair experience

50%
International

25%
Accounting/ Audit



8.3%
Technology

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

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

The Board of Directors may only propose the removal of a non executive director before the end of the mandate when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause is deemed to exist when the director takes up new positions or enters into new obligations that prevent him from dedicating the necessary time to the performance of his or her duties as a director, otherwise breaches his or her duties as a director or unexpectedly becomes subject to any of the circumstances provided for in article 16.2 of the Board Regulations. The removal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that determine a material change of control.

Board and committee meetings

The Board met 10 times during the reporting period. The Board also held its annual two-day strategy meeting in September 2018. During the reporting period, the Chairman and the non–executive directors met on two occasions without the executives present.

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

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

Director	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
Total in the period	10	8	6	5	2
Antonio Vázquez	10	–	6	–	2
Willie Walsh[1]	9	–	–	–	2
Marc Bolland[1]	8	–	–	4	2
Patrick Cescau	10	8	6	–	–
Enrique Dupuy de Lôme	10	–	–	–	–
Deborah Kerr[2]	3/4	3/4	–	–	–
James Lawrence[3]	6/6	–	–	–	–
María Fernanda Mejía[1]	8	8	–	5	–
Nicola Shaw[4]	9	–	–	2/2	1
Kieran Poynter	10	8	–	–	2
Emilio Saracho	10	–	6	–	–
Dame Marjorie Scardino	9	–	5	4	–
Alberto Terol	10	8	–	5	–

[1] Marc Bolland, María Fernanda Mejía and Willie Walsh could not attend the extraordinary Board meeting held on 24 April 2018 called at short notice by the Board Secretary at the request from the Chairman.
[2] Deborah Kerr was appointed as a non executive director, and member of the Audit and Compliance Committee, on June 14, 2018.
[3] James Lawrence retired from the Board on June 14, 2018.
[4] Nicola Shaw was appointed as a member of the Remuneration Committee and of the Safety Committee on June 14, 2018.

The Board maintains a rolling 12-month agenda schedule for Board meetings that sets out regular operational matters as well as specific upcoming issues to be considered. This schedule is updated and distributed to directors before each Board meeting, giving them the opportunity to suggest or recommend any specific topics to be considered. This schedule is also reviewed and approved, as a separate agenda item, at the May and December Board meetings.

Each Board meeting starts with a report from each of the committee's chairs on the key discussions and decisions considered by the respective committees, providing an opportunity to directors to comment or ask questions on the matters dealt by each committee. This is followed by a general update from the Group Chief Executive and subsequently, from the Chief Financial Officer.

The key areas of Board activity during 2018 are outlined below:

Board activities

Area	Focus	Link to Strategic Objectives
Strategy and planning	• Joint Board/ Management Committee two-day strategy session, including: competitive landscape, customer focus, strategic positioning and performance of each Group business • Introductory session to the 2023 Business Plan • 2019-2023 Group Business Plan and 2019 Financial Plan • Group brand portfolio review • Updates on corporate strategy and transactions	1 2 3
Performance and monitoring	• Reports from each of the operating companies • Quarterly and full year financial reporting • Monthly financial report (reviewed at the relevant meeting or distributed to all Board members) • Customer metrics • Review of different joint business agreements • British Airways pensions update	1 2
Significant transactions, investments and expenditures	• Dividends distribution and 2018 share buy-back programme • Launch of new products and fleet reconfigurations • Significant aircraft acquisitions, lease-backs and aircraft-related financing arrangements • Significant maintenance, supply and inventory and engine agreements • Financing arrangement for the acquisition or lease of aircrafts • British Airways litigation review • Significant IT investments both at Group or operating company level • IAG Investment rating update • Group Loyalty Programme (Avios) • British Airways and Iberia catering agreements	1 2 3
Risk management and Internal controls	• Review risk map and risk appetite statements • Group cyber security office • British Airways data breach • Approve going concern and viability statements • Effectiveness review of the internal control and risk management systems • Updates and review of the uncertainties arising from the Brexit process • Review and update of the Group Treasury Key Strategic principles • External auditor yearly report to the Board	2 3
Corporate Governance	• MC remuneration scheme and individual performance (Salary review 2018 short and long-term plans, 2017 outcome of variable remuneration plans) • Board and management succession planning • Changes to Group company boards • AGM call notice and proposed resolutions • Review of the Board committee's composition • Board and committees effectiveness evaluation, and agreed improvement priorities • Review feedback from institutional shareholders, roadshows as well a analyst reports • New UK Corporate Governance Code	1 2 3

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**

As discussed within the Board evaluation exercise, the Board priorities for 2019 include, in no particular order: customer experience across brands, enterprise risk management (with particular focus on cyber security risk), corporate culture and stakeholders' interests, future business developments and opportunities within the Group strategy and long term priorities, including specifically IT/Digital strategy.

Board information and training

All Board and committee meeting documents are available to all directors, including minutes of all Board and committees' meetings. All directors have access to the advice of the Board Secretary and the Group General Counsel. Directors may take independent legal, accounting, technical, financial, commercial or other expert advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in the 2018 financial year.

In 2018 the Board received specific briefings on key developments, such as the ongoing negotiations regarding the UK's exit from the EU and the new UK Corporate Governance Code. In July, a specific training session was also held on blockchain technology.

In addition, an on-site session was organised at Iberia to help non-executive directors deepen their knowledge of Iberia's operations and in particular of its maintenance business, including a visit to Iberia's engine workshop. In December, a number of non-executive directors participated in a specific briefing session with British Airways team focused on its commercial programmes and customer experience, including the main aspects of the passenger journey at Heathrow airport.

Directors are offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Directors are consulted about their training and development needs and given the opportunity to discuss training and development matters as part of their annual individual performance evaluation. The Board programme includes regular presentations from management and informal meetings to build their understanding of the business and sector.

Board induction

According to the induction guidelines approved by the Nominations Committee, on joining the Board, every newly appointed director is offered a comprehensive induction, tailored to the directors' needs. The programme includes one-to-one meetings with management of IAG and of the main operating companies, offering directors a complete overview of the Group's businesses.

The purpose of the programme is to provide new directors with sufficient information to enable him or her to fulfil directors' duties and to become as effective as possible, as quickly as possible, in the new role. According to this, the programme is designed to provide a wide overview of the industry and sector, including the business model and particulars of the Group. In addition to individual relevant topics as applicable, the basic content of the programme is:

IAG businesses	Legal, regulation and compliance	Other/external
Business basics and introduction to the IAG Group		IAG Communication strategy
IAG strategy	Spanish and UK Corporate governance IAG corporate governance structure	Sustainability and Climate Change
IAG brands portfolio review	Aviation regulation. IAG regulatory and government affairs	The Group GBS model
Operating companies introductory meetings: • business model • competitive landscape • strategy • current position	IAG compliance programme	Shareholders and investors update
IAG finance particulars, financial targets, fleet acquisition model, hedging policy	Legal briefing	
Risk map and risk management model	Group litigation update	
Corporate transactions: M&A, competitive landscape, antitrust law and industry regulation		

In a second phase of the induction programme, directors have the opportunity to visit the Group's key sites and to meet with each operating company leadership team, as a deep dive in each of the Group businesses. Finally, and as far as the committees are concerned, newly appointed members are also provided with introductory sessions specific for each committee and designed in accordance with the directors' interests and needs.

Board and committee evaluation

The annual Board review is taken as an opportunity to reflect on the effectiveness of the Board's work and that of its committees. Following the external evaluation carried out in 2016, this year the review was internally facilitated by the Board Secretary under the supervision of the Chairman, completing the two-year cycle before another externally facilitated evaluation is completed in 2019. The internal process was undertaken by way of a questionnaire, complemented with individual discussions with the Chairman. Building on the initiatives already embedded in the Board's agenda, this year the evaluation exercise focused on the identification of areas for improvement while ensuring that there are no areas of concern regarding the performance of the Board. The topics considered in the evaluation included Board composition, focus and activities, organisation and use of Board's time, agenda planning and quality of the information, relationship with management, as well as training needs.

The Board Secretary shared the findings with the Chairman ahead of a full discussion at the January 2019 Nominations Committee and Board meetings. Following the Board discussion, an action plan was then agreed for the year ahead. The conclusions of this year's review have been positive and confirmed that the Board and its committees operate effectively, while a number of initiatives and areas for improvement were identified.

Outcomes and main improvement initiatives for 2019

2019 Board priorities and activities	The Board agreed on the priorities for the year as well as on additional specific topics of interest to be added to those already identified in its 12-month rolling plan of activities.
Board and management succession planning	This remains a continued focus both at Board and management level. Composition priorities have been discussed and agreed in accordance with the Board refreshment cycle. Particular emphasis will be placed on the Group succession planning and talent development programmes to ensure that there is a structured plan consistent with the Group's values and strategy to identify and develop internal talent.
Stakeholder engagement	Review the mapping of the Group's main stakeholders as well as current engagement mechanisms, with particular focus on engagement with the workforce. Formalise and enhance reporting to the Board in this area.
Culture	Review and agree on relevant culture indicators that would be used to monitor and assess corporate culture throughout the Group.
Board meetings and discussions	A number of changes and initiatives were agreed to improve the effectiveness of Board meetings.

As part of the Board effectiveness review, each committee undertook its own review supported by the Board Secretary and coordinated with the relevant chair. Each committee considered the feedback from the evaluation and agreed improvement priorities as appropriate. Additionally, the Chairman met with each director individually to discuss their contribution to the Board, the functioning of the Board as a whole, as well as an assessment of performance against the objectives agreed for 2018. Finally, the Senior Independent Director discussed the performance of the Chairman with all the directors.

Relations with shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. The Chairman is responsible for ensuring that effective communication with shareholders takes place and that directors and executives understand and address investors' concerns. The Board is briefed on a regular basis by the Group Head of Investor Relations and analysts' reports are circulated to all directors.

The Board has a Shareholder Communication Policy regarding communication and contacts with shareholders, institutional investors and proxy advisors, following the 2015 Spanish Good Governance Code recommendation. This policy is available on the Company's website www.iairgroup.com.

IAG has a comprehensive investor relations programme which aims to help existing and potential investors understand the Group and its businesses.

Regular shareholder meetings were held with executive directors, and the investor relations team during 2018. The Chairman, the Chair of the Remuneration Committee, the Senior Independent Director accompanied by the Group Head of Investor Relations, met with many of IAG's largest shareholders to discuss, amongst other matters, strategy, governance and remuneration.

The Group's medium to long-term plans and targets were discussed in detail in a full day of presentations given by the senior management teams of the Group at the annual Capital Markets day that took place in London on November 2, 2018. Non-executive directors are invited to this meeting, giving major shareholders and investors the opportunity to discuss corporate governance matters with members of the Board. The event was broadcast live via webcast. The presentations are available in full on the Company's website (www.iairgroup.com), along with the accompanying transcript.

Both institutional and private shareholders may contact the Company through a dedicated website, via email and directly by telephone.

Key investor relations activities during the year included:

Month	Event
January	Davy Equity Conference, New York and Boston
	Spain Investor Day, Madrid
February	Full Year Results Event, London
	Remuneration Interaction, London
March	Barclays Travel and Leisure conference, London
	JPM Transport, Aviation Conference, New York
	Full Year Results Roadshow, London and Edinburgh
	DB Access European Corporate Days, Scandinavia
	European Roadshow, Dublin
	Enhanced Equipment Trust Certificate (EETC) Roadshow, US
	European Roadshow, Milan
April	Governance Roadshow, London and Edinburgh
	European Roadshow, Bilbao
	Full Year Results Roadshow, Madrid
	European Roadshow, Frankfurt
May	JPM Amsterdam Investor Forum, Amsterdam
	European Roadshow, Paris
June	Annual General Meeting, Madrid
	European Roadshows, Madrid
	CEO Investor Dinner, London
	Davy Transport Conference, London
	US Roadshow, New York, Denver and West Coast
	European Roadshow, Vienna
July	Farnborough Air Show, London
August	Half Year Results Event, London
	Mainfirst Transport Conference, Frankfurt
September	Half Year Results Roadshow, London and Edinburgh
	Citi Growth Conference, London
	Deutsche Bank Airlines Day, New York
	Half Year Results Roadshow, New York and Boston
	Half Year Results Roadshow, Madrid
	UBS Transport Conference, London
November	Capital Markets Day, London
	Goodbody European Equity Conference, Dublin
	BME Spain All Caps Conference, Madrid
	US Roadshow, Mid-West &West Coast
	Far East Roadshow, Asia & Australia

Other statutory information

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

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

Directors have an obligation under the Board Regulations to adopt the measures necessary to avoid conflict of interest situations. These include any situation where the interest of the director, either directly or through third parties, may conflict with the corporate interest or with his duties to the company. Directors must disclose to the Board any situation of direct or indirect conflict that they may have with the interests of the Company. In the event of conflict, the affected director must abstain from participating in the transaction referred to by the conflict. For the purposes of calculating the quorum and voting majorities, the affected director would be excluded from the number of members in attendance.

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

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

In the case of transactions that fall within the ordinary course of business and are customary or recurring in nature, and following a report by the Audit and Compliance Committee, the Board may grant a general authorisation as long as they are executed under certain terms and conditions.

This authorisation needs to be endorsed by the Shareholders' Meeting in those cases established in the Spanish companies' legislation and, in particular, in any transaction with a director valued at more than 10 per cent of corporate assets.

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

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

Directors' and Officers' liability insurance

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

Share issues, buy-backs and treasury shares

The Annual General Meeting held on June 14, 2018 authorised the Board, with the express power of substitution, for a term ending at the 2019 Annual General Meeting (or, if earlier, 15 months from June 14, 2018), to:

(i) increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by:

  (a) up to one-third of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation); and

  (b) up to a further one-sixth of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation).

(ii) issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,500,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than:

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

  (b) a further one-sixth of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation).

(iii) exclude pre-emptive rights in connection with the capital increases and the issuance of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances subject to an aggregate maximum nominal amount of the shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued share capital as at June 14, 2018.

(iv) carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions:

  (a) the maximum aggregate number of shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued share capital on June 14, 2018, the date of passing the resolution;

  (b) the minimum price which may be paid for an ordinary share is zero;

  (c) the maximum price which may be paid for an ordinary share is the highest of:

    (i) an amount equal to five per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and

    (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the transaction is carried out at the relevant time; in each case, exclusive of expenses.

(v) reduce the share capital by means of cancelling up to 185,000,000 shares (nine per cent of the share capital).

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

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

Under the above mentioned authority, the Company purchased 65,956,660 shares which were cancelled on November 7, 2018 reducing the share capital in the amount of 32,978,330 euros.

Capital structure and shareholder rights

As of December 31, 2018, the share capital of the Company amounted to 996,016,317 euros (2017: 1,028,994,647 euros), divided into 1,992,032,634 shares (2017: 2,057,989,294 shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2018 the Company owned 8,721,835 shares as treasury shares.

During 2018, the Company filed four treasury shares reporting statements with the CNMV, as required by Spanish regulations, communicating:

(i) the net acquisition of a total of 22,397,653 shares (1.088%) as of June 28, 2018;
(ii) the net acquisition of a total of 20,751,635 shares (1.008%) as of August 10,2018;
(iii) the net acquisition of a total of 21,499,109 shares (1.045%) as of October 1, 2018; and
(iv) the net acquisition of a total of 6,309,669 shares (0.317%) as of November 7, 2018.

Company's share capital

	Share capital (euros)	Number of shares/voting rights
November 7, 2018	996,016,317	1,992,032,634

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

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2018 the equivalent of 21,741,675 shares was held in ADR form (2017: 8.0 million IAG shares).

The significant shareholders of the Company at December 31, 2018, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:

	Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	Percentage of capital
■	Qatar Airways (Q.C.S.C)	426,811,047	–		426,811,047	21.426%
■	Capital Research and Management Company	–	213,580,659	Collective investment institutions managed by Capital Research and Management Company	213,580,659	10.722%
■	Europacific Growth Fund	107,329,400		–	107,329,400	5.388%
■	BlackRock Inc	–	62,311,368	Funds and accounts managed by investors controlled by BlackRock Inc.	62,311,368	3.128%
■	Lansdowne Partners International Limited	–	34,102,087	Funds and accounts managed by Lansdowne Partners (UK) LLP	34,102,087	1.712%

Shareholder's Meeting

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

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

Disclosure obligations

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

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

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

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

Limitations on ownership of shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital.

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

On 11th February 2019, IAG notified the stock market that, due to the level of share ownership by non-EU shareholders, the Board established the maximum number of shares that may be held by non-EU shareholders at 47.5% of the Company's issued share capital. As a consequence and in accordance with IAG's Bylaws, IAG prohibited further acquisitions of IAG shares by non-EU persons until further notice.

Impact of change of control

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

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

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

Report of the Audit and Compliance Committee

Kieran Poynter
Audit and Compliance Committee Chairman

Committee members

	Meetings attended
Kieran Poynter (Chair) 27 September 2010	8/8
Patrick Cescau 27 September 2010	8/8
Deborah Kerr 14 June 2018	3/4
María Fernanda Mejía 16 June 2016	8/8
Alberto Terol 02 August 2013	8/8

Dear Shareholder

The Audit and Compliance Committee continues to play a key role in advocating strong internal control, risk management and compliance practices across the Group and ensure these practices keep pace with the changes in the business. We have also continued to "deep dive" into key issues such as the British Airways data breach and the impact of significant accounting changes including IFRS 16.

I am pleased to welcome Deborah Kerr, who joined the Committee in June 2018. Through her wide technology, digital and commercial knowledge she is contributing to our high level of challenge and support to the management team.

As I look forward to 2019, I believe we are in a good position to comply with the 2018 UK Corporate Governance Code and we will be working closely with the management team and the rest of the Board to meet the new requirements.

Kieran Poynter
Audit and Compliance Committee Chairman

The Committee's responsibilities

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

- reviewing the financial statements and announcements of the Group;
- reviewing significant accounting estimates and judgements made in the representation of financial statements of the Group;
- reviewing the effectiveness of the internal control system, provision of assurance on the risk management process and reviewing the principal risks facing the Group;
- reviewing and agreeing the internal audit programme, resourcing, effectiveness and resolution of issues raised;
- monitoring the internal controls manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them;
- discussing with the external auditors any significant weaknesses in the internal control environment detected in the course of the audit; and
- recommending the appointment of external auditors where appropriate and reviewing their effectiveness, fees, terms of reference and independence.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. An external evaluation process was carried out in 2016.

The Audit and Compliance Committee

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

The Committee's activities during the year

The Committee met eight times during 2018 and continues to refine its approach to management attendance at Committee meetings including a review of the agenda in advance of each meeting to ensure the attendees of each item are appropriate, the inclusion of private sessions of the Committee members and with both the external and internal auditors as appropriate.

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

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

Other items reviewed

Business, operational and financial risks

Treasury risk management

The Committee continued to review the Group's fuel, foreign exchange hedging positions and financial counterparty exposure on a quarterly basis, including that the approved hedging profile was being adhered to and continued to be appropriate to manage these risks in line with the Group risk appetite.

UK referendum vote to leave the European Union

The Committee considered management's evaluation and risk assessment of the arrangements around the UK's exit from the European Union as part of the review of the principal risks and uncertainties of the Group. This included the regular review of fuel price sensitivity and foreign exchange rate fluctuations as well as reviewing issues and vulnerabilities in the case of a no deal outcome. In the case of treasury operations, the Committee reviewed management's contingency plans to ensure business continuity. While there will continue to be uncertainty until agreements are reached, the Committee agrees with management's current assessment that, even in the event of no-deal, Brexit will have no significant long-term impact on the Group.

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

British Airways data breach

In September, British Airways reported the theft of data from its customers as a result of a criminal attack on its website. Management have reviewed cyber security to further increase resilience and the Committee received regular updates during the year following the event.

Compliance and regulatory

Anti-bribery, sanctions and competition law compliance

The Committee reviewed the Group's anti-bribery, sanctions and competition compliance programmes including updates for organisational changes, latest risk maps, the key focus areas of 2018 and programme priorities for 2019, which include enhancements to the Group compliance training framework and a new Group third-party management platform. The Committee also received an update on the draft IAG Code of Conduct including planned Group-wide implementation activities in 2019.

General Data Protection Regulation (GDPR)

The Committee received regular updates on the Group's implementation of the new EU Data Privacy Regulation. The updates focused on key decisions made prior to implementation, the progress against the implementation plan and ongoing compliance. GDPR became enforcable in May 2018.

Sustainability

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

Whistleblowing

The Committee reviewed procedures whereby staff across the Group can raise confidential concerns regarding accounting, internal control, auditing and other matters. There are whistle-blowing channels provided by third-party providers, Safecall and Ethicspoint, where all staff across the Group can report concerns to senior management in their company. The Committee also reviewed the volume of reports by category and nature; timeliness of follow-up; responsibility for follow-up, and noted that there were no significant financial or compliance issues raised. The annual review is coordinated by the Head of Group Audit.

Financial reporting

Internal Control over Financial Reporting (ICFR)

As part of the Group's internal control framework it complies with the Spanish corporate governance requirement (ICFR), which is an analysis of risks in financial reporting, the documentation of accounting processes, and audit of internal controls. In 2018 the Committee reviewed the results of the audits and no material weaknesses were identified. The Committee also tracked the progress of Internal Audit recommendations.

Enterprise risk management

The Committee was updated on the principal risks of the Group. The Committee reviewed the process by which risk strategy and appetite had been assessed to confirm that the statements were still relevant and appropriate. They also reviewed the performance of the Group against each of its risk appetite statements and the Committee agreed with management's assessment that the Group has operated within its risk appetite framework.

Viability statement

In February 2019, the Committee reviewed the Group's viability assessment which covered a five-year time horizon in line with the Group's Business Plan period. The analysis focused on a combination of risks that could together generate severe but plausible downturn scenarios. The Committee considered how solvency and headroom were determined and confirmed the period over which viability is considered. The Committee has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2023.

Litigation

The Committee received regular litigation status reports from the General Counsel including one about the status of the remaining civil claims against British Airways following the 2010 European Commission decision on alleged cartel activity with respect to air cargo charges.

A number of the civil claims have been concluded during 2018. The Committee agreed with management's view that, given the status of proceedings, it is not possible at this stage to predict the final outcome and no financial provision should be made for the remaining open civil claims. More detailed information relating to the cargo litigation is available in note 31 to the Group financial statements.

Accounting matters

Company accounting policies are maintained by the Group Finance Department, which updates and issues the Group Accounting Policy manual. Throughout the year, the Committee considers the implications of new accounting standards, reviews complex accounting transactions, and considers the key estimates and judgements used in the preparation of the Group financial statements. In 2018, these included the exceptional items associated with pensions and provisions for restructuring costs at British Airways. In addition the Committee considered the implementation of the new accounting standard IFRS 15 'Revenue from contracts with customers', preparation for the implementation of IFRS 16 'Leases' in 2019, and judgements and estimates surrounding income tax provisions, pension transactions, and changes to the estimated useful lives and residual values of certain aircraft.

The exceptional items arose from the closure of the New Airways Pension Scheme to future contributions, the recognition of additional pension obligations following the Guaranteed Minimum Pension equalisation ruling, and the continuing structural transformation proposals at British Airways. The Committee has reviewed and agreed with management's rationale for recognising these costs and disclosing them as exceptional items by virtue of their size and incidence.

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

External audit

The Committee continues to work closely with EY, with the engagement partners attending seven meetings during the year. The Committee reviewed the engagement letter, fees and the audit plan which included EY's assessment of risk areas within the financial statements. Audit results were reviewed during the meetings; for the half year, for the findings from interim audits, early warning report for year end matters, and for the final report for year end matters. No significant control weaknesses were identified or reported to the Committee by the external auditors in 2018. In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors as a whole.

The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed their qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The assessment included a detailed questionnaire completed by key directors, managers and a sample of accounting staff throughout the Group. The questionnaire results demonstrated that EY's overall performance was good. Having reviewed EY's performance during 2018, the Committee concluded that EY were independent and that it was in the Group's and shareholders' interests not to tender the audit in 2019 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of IAG in 2010. The Company intends to comply with the Spanish Act 22/2015, on the Auditing requirement to tender the external audit at least every ten years and the transition arrangements that would require the audit to be tendered for the year 2021 at the latest. The Board of Directors refrain from engaging any audit firm entitled to be paid by the Company for all services rendered fees in excess of 10 percent of such firm's total revenue for the previous year. The current EY partner is Hildur Eir Jónsdóttir who has held her role since 2016.

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

Spend in 2018 was below the target maximum at €893,000 with an additional €325,000 relating to two other advisory engagements. 52 per cent of the €893,000 spend related to recurring work on the audit of accounts required by our Joint Business arrangements. Details of the fees paid to the external auditors during the year can be found in note 6 to the Group financial statements.

Report of the Nominations Committee

Antonio Vázquez
Nominations Committee Chairman

Committee members

	Meetings attended
Antonio Vázquez (Chair) December 19, 2013	6/6
Patrick Cescau June 16, 2016	6/6
Emilio Saracho June 16, 2016	6/6
Dame Marjorie Scardino June 16, 2016	5/6

Dear Shareholder

In my role as Committee Chairman, I am pleased to present the Nominations Committee's Report, which summarises our work over the past year.

Being one of its prime responsibilities, the Committee has considered the skills and experience required to support the Board's work in the context of the strategy, challenges and opportunities that the Group faces. This analysis concluded last year with the decision to look for a new director to reinforce the Board's expertise and knowledge of technology matters, bringing the appointment of Deborah Kerr as a non-executive director and member of the Audit and Compliance Committee.

As far as the Board succession planning is concerned, the Committee has particularly focused its attention on the sequencing of future Board changes. The nine-year tenure principle set by the UK Corporate Governance Code has always been present in our Board succession scheduling and in the initial eight years of our Board being established, we have balanced the need for regular board refreshment with that of preserving the experience and knowledge gained on our Board.

We have also reviewed and discussed management succession planning and talent development arrangements, including board appointments in our main operating companies, which has proved to be a very useful development tool. This year we had to say goodbye to Stephen Kavanagh, who handed over his leadership of Aer Lingus to Sean Doyle, British Airways director of network, fleet and alliances, proving once again the privilege of having a strong and committed internal pipeline.

Management succession planning and development, together with diversity initiatives, have been identified as the principal areas for the Committee's focus in 2019.

Antonio Vázquez
Nominations Committee Chairman

The Nominations Committee

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

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

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

The Committee's activities in 2018

The Committee met six times during 2018. Directors' attendance at these meetings is shown above and further detailed on page 80. IAG Chief Executive was invited to attend the Committee's meetings as and when necessary.

The Committee's responsibilities

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

- evaluating the competencies, knowledge and experience necessary on the Board and reviewing the criteria for the Board composition and the selection of candidates
- submitting the appointment of directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairmen
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner
- establishing guidelines for the appointment, recruitment, career, promotion and dismissal of senior executives
- reporting to the Board on the appointment and removal of senior executives
- ensuring that non-executive directors receive appropriate induction programmes
- establishing a target for female representation on the Board which should adhere to the Company's Directors Selection and Diversity Policy
- submitting to the Board a report on the annual evaluation of the Board's performance

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

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

In 2018, as part of the Board regular refreshment process, the Nominations Committee initiated a non executive director search. The Committee reviewed the Board skills matrix, which identifies the core competencies, skills, diversity and experience present at the Board, and discussed priorities regarding the profile needed to strengthen the Board's composition.

It was then agreed that the search's main focus would be an individual with strong experience of information technology, including digital transformation in companies focused on customers and brands. Spencer Stuart was engaged to support the recruitment process. They have no other connection with the Company other than providing recruitment services. Spencer Stuart is an accredited firm under the Enhanced UK Code of Conduct for Executive Search Firms.

This process led to the appointment of Deborah Kerr as a non-executive director on 14 June 2018, filling the vacancy left by James Lawrence, who did not stand for re-election at the 2018 Shareholders' Meeting.

The Nominations Committee reviewed the composition of the committees and proposed to the Board the appointment of Nicola Shaw as a member of the Remuneration and of the Safety Committee, and that of Deborah Kerr as a member of the Audit and Compliance Committee.

Diversity and Board appointment process

The Board places serious importance on ensuring that its membership reflects diversity in its broadest sense, because it believes that this reinforces the Board's functioning and ultimately enhances Board discussions and leads to better decision making. A combination of opinions, skills, experiences, backgrounds and orientations on the Board is important in providing the range of perspectives, insights and challenge needed to facilitate the Board's role.

When considering directors appointments, the Committee follows a formal, rigorous and transparent procedure, designed to preserve this diversity value while ensuring that any appointment is made on merit, and taking into account the specific skills and experience needed at any point in time to ensure continuing Board balance and relevant knowledge. This procedure follows the principles established in the Company's Director Selection and Diversity Policy, approved by the Board in 2016.

As recommended by the Spanish Good Governance Code, the Nominations Committee reviews compliance with this policy on a yearly basis.

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

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

The process led by the Committee to identify, select and make the Board recommendation in relation to the appointment of Deborah Kerr is set out below.

Gender diversity principles are followed throughout the process, while preserving the general diversity and merit based appointment principles established in the policy.

Furthermore, when reviewing board appointments, the Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

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

The appointment of Deborah Kerr

1. Search initiated in accordance with Board succession plans and specifications discussed and agreed
2. Executive Search Firm engaged to assist with the search
3. Longlist of potential candidates considered
4. Shortlist agreed and shared with the Board
5. Interviews completed and feedback discussed (other directors invited to meet short-listed candidates)
6. Nominations Committee considered final candidate and made recommendation to the Board
7. Appointment announced by the Board, and published report for submission to the Shareholders' Meeting
8. Appointment approved by the Shareholders' Meeting

This policy also sets out IAG's commitment to strengthen the gender balance on IAG's leadership and senior management teams. IAG's Management Committee is responsible for improving diversity within management and generally across the Group. The Nominations Committee is committed to improving diversity, and gender diversity in particular, within the Group, and encourages and supports Group initiatives in this respect. Relevant details on diversity can be found page 63 of the Sustainability section.

Directors independence, performance and availability

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

Having served on the Board for more than six years, the Committee undertook a particularly rigorous review in respect of Patrick Cescau and Kieran Poynter, including their independence. The Board remains satisfied that they both remain independent and will continue to make a valuable contribution.

All proposals for the appointment or re-election of directors presented to the 2018 Shareholders' Meeting were accompanied by an explanatory report issued by the Board of Directors with the support of the Nominations Committee assessing the competence, experience and merits of each candidate. Following this review, the Committee was of the opinion that each non executive director submitting him or herself for re-election continued to demonstrate commitment to the role as a member of the Board and its committees, discharged his or her duties effectively and that each was making a valuable contribution to the leadership of the Company for the benefit of all shareholders.

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a non-executive director cannot hold more than six other directorships, including only four in a listed company.

Executive directors can only hold one directorship in another public listed companies. In any event, prior consent from the Nominations Committee is required before an executive director can accept any external directorship appointment.

Induction of directors

A comprehensive induction programme was initiated for Deborah Kerr in July 2018 and has been arranged following IAG's induction guidelines as approved by the Nominations Committee. This is described in more detail on pages 92 and 93.

Succession planning

The Committee regularly reviews the formal succession plan for the Board, including analysis of director's length of tenure, skills and experience. IAG follows both the Spanish and the UK corporate governance standards, adapting to the most stringent requirements. The Board's refreshment cycle is determined in accordance with UK principles, whereby non-executive directors' tenure should not exceed nine years.

Succession planning for the top 50 leadership positions in the Group was presented and discussed at the September Nominations Committee meeting. This succession planning schedule is reviewed and updated by the IAG Management Committee on a quarterly basis.

The Committee annual evaluation

The annual performance evaluation was conducted internally by the Board Secretary under the supervision of the Committee Chairman. The results of this exercise were discussed at the Nominations Committee meeting held in January 2019. The evaluation concluded that the Committee operated effectively during 2018.

The Committee has agreed to prioritise its focus on the review of the Group's framework for management succession and talent development, as well as on the initiatives to improve gender diversity within the Group.

Report of the Safety Committee

Willie Walsh
Safety Committee Chairman

Committee members

Date appointed	Meetings attended
Willie Walsh (Chair) October 19, 2010	2/2
Antonio Vázquez October, 19 2010	2/2
Marc Bolland June 16, 2016	2/2
Kieran Poynter October 19, 2010	2/2
Nicola Shaw June 14, 2018	1/2

Dear Shareholder

In 2018, the Safety Committee continued its routine work monitoring the safety performance of IAG's airline companies, as well as the systems and resources dedicated to safety activities across the Group. We were pleased to welcome Nicola Shaw as a new member to the Committee in June.

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

This year the Committee saw the retirement, of Captain Tim Steeds, after 44 years with British Airways. Tim played a key role in the development of British Airways Safety and Security Management System and of its culture, but he also made a key contribution to the setting up and coordination of safety matters at IAG. I would like to thank him for his work and dedication to British Airways and to IAG.

Willie Walsh
Safety Committee Chairman

The Safety Committee

The Committee composition, competencies and operating rules are regulated by article 32 of the Board Regulations. The Committee is made up of no fewer than three and no more than five directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function.

In addition to Committee members, senior managers with responsibility for safety matters are invited to attend and report at Committee meetings as and when required. During 2018, the British Airways Director of Safety and Security, representatives of the Iberia and Vueling safety teams and the Aer Lingus Corporate Safety and Risk Manager attended meetings.

The Committee's activities during the year

During 2018, the Committee held two meetings. Directors' attendance at these meetings is shown above and further detailed on page 80.

Key topics discussed for each airline under their regular safety review include information on safety risk management, safety culture, operational risks, occupational injury risks, as well as reported data on aircraft damage.

In addition to this, the Committee considered the Group annual report on dangerous goods, as well as specific reports on British Airways risk models for critical controls and the Group coordination on training on emergency response planning.

The Committee's responsibilities

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

The Committee's duties include:

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

Report of the Remuneration Committee

Dame Marjorie Scardino
Chairman of the Remuneration Committee

Committee members

Date appointed	Meetings attended
Marc Bolland (Chair) June 16, 2016	4/5
Dame Marjorie Scardino (Chair until January 24, 2019) December 19, 2013	4/5
Maria Fernanda Mejia October 30, 2014	5/5
Alberto Terol December 19, 2013	5/5
Nicola Shaw January 1, 2018	2/2

From Dame Marjorie Scardino

Dear Shareholder,

This will be my final report to you, as Marc Bolland has succeeded me as Chairman of the Committee from January 24, 2019. Marc will sign this report on behalf of the Board.

Overall strategy and link to remuneration

IAG's aim is to become the world's leading international airline group. Its strategy is to create value and sustainable returns through leadership in core markets and the realisation of cost and revenue synergies across our airlines and aviation related businesses.

That strategy is executed and sustained by consistent and strong financial performance and return on investment in each part of the Group. We have transformed programmes through the use of the IAG Platform at each of our airlines, while leveraging opportunities across the Group.

The central focus of the Committee in the early part of 2018 was completing the review of the Company's Remuneration Policy in readiness for submission to the annual Shareholders' Meeting. In reviewing the policy, the Committee's main objective has been to ensure remuneration retains a strong link to the strategy, because we see that as the best way to drive performance. We were delighted that shareholders gave a solid vote in favour at the meeting in June 2018.

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

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

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

The *annual incentive plan* has its main focus on strong financial performance, and therefore the primary measure in the plan is the Group's operating profit before exceptional items. A customer measure, Net Promoter Score, was introduced for the first time at the Group level in 2017, and this drives a stronger focus on improving customer advocacy as a source of competitive advantage. Lastly, performance against role-specific objectives allows us to focus on key strategic and business targets which may not be suitably captured under the financial or customer elements.

The policy in general is designed to deliver total remuneration that is competitive and with a strong emphasis on "pay for performance". The Committee will continue to ensure that executive remuneration is aligned with our business strategy and that the overall reward framework for 2019 and beyond is in the best interests of our shareholders.

Summary of performance and incentive outcomes

The PSP that was awarded in 2016 had a three-year performance period (2016 to 2018), and had the same performance measures as current awards. Performance targets for all three measures were set at the beginning of 2016 at a level that the Committee considered to be appropriately stretching based on internal and external expectations for performance.

The Company has produced strong financial performance over the last three years, leading to 2018 adjusted EPS reaching 117.7 euro cents. As a result, the 2016 PSP has an outcome of 39 per cent of its maximum for the EPS element. RoIC in 2018 reached 16.6 per cent, resulting in an outcome of 100 per cent of its maximum level for the RoIC element. TSR for the Company has grown by 15 per cent over the three years, but has underperformed against the index that the Company measures itself against, resulting in a zero payout for the TSR element. Overall, this has resulted in the 2016 PSP award having an outcome of 46 per cent of the maximum. The PSP award has an additional two-year holding period. This applies until the end of 2020.

The financial target for the 2018 annual incentive plan set at the beginning of the year was for an IAG operating profit of €3.15bn. Strong financial performance during the year has led to IAG operating profit slightly exceeding this target and paying out at 66 per cent of the maximum level for the 60 per cent weighting linked to financial performance. The result for Net Promoter Score was below the threshold level at which payments begin – although some airlines in the Group saw strong customer performance, the overall Company score is pulled down by Vueling, who had a very challenging year, caused partly by external factors such as air traffic control issues.

Decisions during 2018

Following the approval of the new Remuneration Policy at the 2018 annual Shareholders' Meeting, the Committee has considered how the policy will be applied for 2019 and beyond. In particular, the Committee has reviewed the new UK Corporate Governance Code which was published during 2018, and is committed to embracing the principles of the revised Code. The Committee has undertaken an initial review of our remuneration framework, and in many areas, the Company is already compliant with the terms of the revised Code: for example the Committee has always reviewed and approved the remuneration policy for the first layer of management below Board level. The Committee is committed to complying with all the provisions of the Code in 2019. The Committee has also reviewed the UK Government changes to reporting regulations.

Working with shareholders

We have met with many of the largest shareholders over the past year, and we appreciate their constructive comments about remuneration in general. In our meetings with them, we reviewed what was considered best practice. We were very pleased with their support for our final Remuneration Policy changes. Our overall intention throughout has been to ensure that we have a strong alignment to our strategy because we think that is the way to create long-term, sustainable shareholder value.

Dame Marjorie Scardino

Chairman of the Remuneration Committee

Marc Bolland
Chairman of the Remuneration Committee

From Marc Bolland

This is my first report to you as Chairman of the Remuneration Committee, having succeeded Dame Marjorie Scardino on January 24, 2019. I would like to take the opportunity to thank Dame Marjorie for her excellent work in the role over the past three years and I am very much looking forward to serving you in this new role.

IAG has always recognised the need to build strong relationships with our investors through a process of open and transparent dialogue. It is pleasing that this has been reflected in strong shareholder support for our remuneration policies and practices in recent years. I very much intend to continue with this approach and look forward to working with you closely as Chair, as the Committee and I seek to ensure that remuneration at IAG continues to be aligned with, and drives delivery of, our business and strategic priorities.

Looking ahead, 2019 promises to be another busy year. We will continue to focus on ensuring that there is alignment between performance and pay outcomes, ensuring that the management team receive fair outcomes under our incentive plans only where this can be supported by company and individual performance. In addition, the Committee will keep working through the implications for IAG of the new UK Corporate Governance Code (the "Code"). We fully support the principles behind the new Code, and took steps in 2018 to address some of the new provisions. We look forward to reviewing how the remaining areas can be implemented in the most effective manner for IAG and all our stakeholders.

On behalf of the Committee, I appreciate your time in reading our 2018 DRR and I hope that you find it accessible and informative.

Approved by the Board and signed on its behalf by

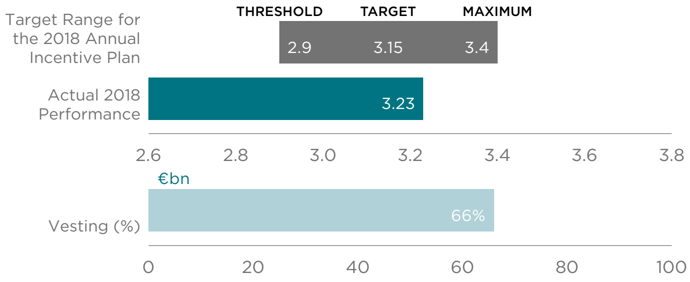
Marc Bolland
Chairman of the Remuneration Committee

At a Glance

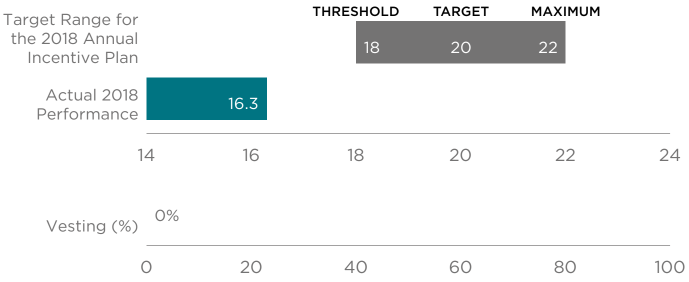
Implementation of Remuneration Policy in 2018

The following two charts show Company performance for the two corporate measures in the 2018 annual incentive plan. Financial performance and customer performance has resulted in 66 per cent and 0 per cent vesting respectively:

IAG Operating Profit (before exceptional items)

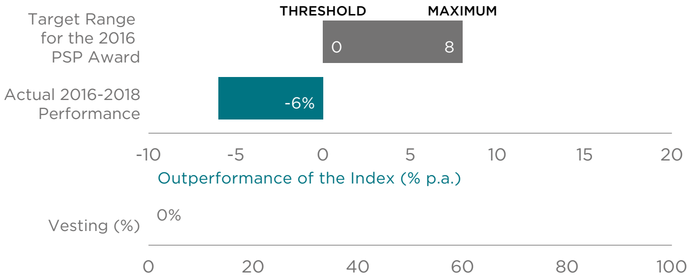


Net Promoter Score

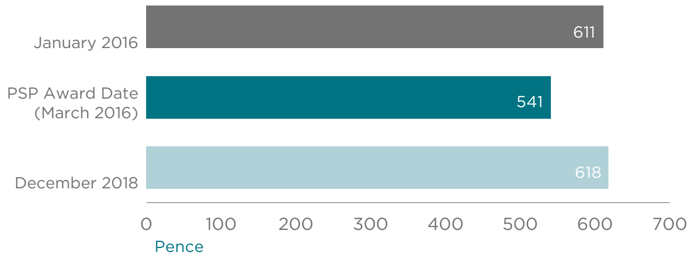


The following four charts show Company performance for the three performance measures in the 2016 PSP award, and share price performance:

Total Shareholder Return

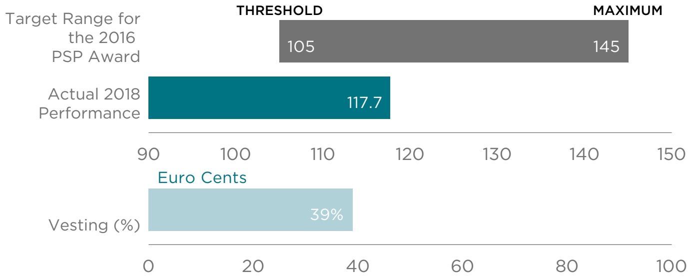


Share Price

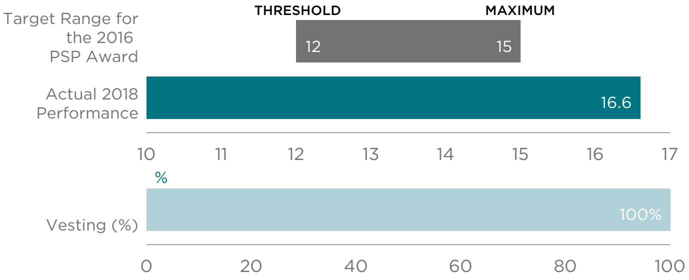


Strong EPS and return performance in 2018 has resulted in good vesting levels for the following two measures in the 2016 PSP award:

Adjusted Earnings per Share



Return on Invested Capital



Introduction

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

The Company's current policy on directors' remuneration was approved by shareholders at the annual Shareholders' Meeting on June 14, 2018. It is intended that this policy will apply for three years, and therefore there are no changes to the policy this year.

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

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

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

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains two sections:

- The first section covers the segments of the Directors' Remuneration Policy that require an updating of the data each year.
- The second section, the Annual Report on Remuneration, covers the information on directors' remuneration paid in the reported year.

Accompanying the Report, the CNMV mandatory form will be available on the Company's website and the CNMV website.

Directors' Remuneration Policy

Key elements of pay

Executive directors

The Company's remuneration policy aims to provide total remuneration packages which are linked to the business strategy, are competitive, and take into account each individual's performance of their role in the Company's work.

The Committee is updated on pay and conditions of the employees within the Group and takes this into account when considering executive directors' remuneration.

The policy as approved by shareholders at the annual Shareholders' Meeting on June 14, 2018 was shown in full in the 2017 Directors' Remuneration Report and is not repeated here. The only sections of the policy shown on the following pages are the sections where we have chosen to update the data for this year, i.e. the remuneration scenarios charts and the date of last re-election of the non-executive directors.

Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely executive directors' and senior managers' interests with shareholder interests. The charts below show, for 2019 and for each executive director, the minimum remuneration receivable, the remuneration receivable if the director performs in line with the Company's expectations, the maximum remuneration receivable, and the maximum remuneration receivable with 50 per cent share price growth. Apart from the final bar (showing 50 per cent share price growth) on each chart, share price variation during the performance period is not taken into consideration in these scenarios.

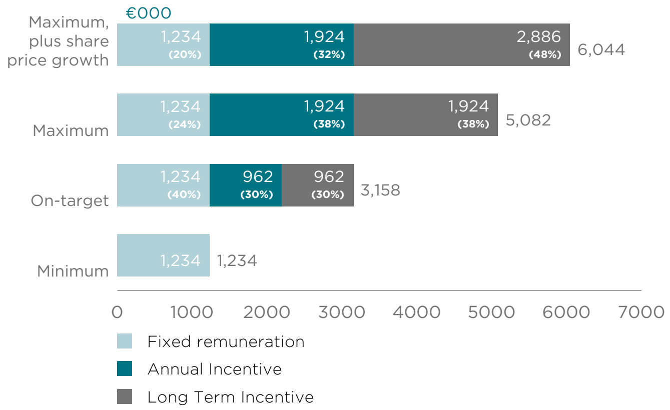
Chief Executive Officer of IAG

Fixed remuneration is basic salary (2019 level of €962,000), plus taxable benefits (2018 actual of €31,000) plus pension related benefits (2018 actual of €241,000).

The annual incentive amount is zero at the minimum remuneration level, €962,000 at the on-target level (100 per cent of salary), and €1,924,000 at maximum (200 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €962,000 at the on-target level (half of the face value award of 200 per cent of salary), €1,924,000 at maximum (200 per cent of salary), and €2,886,000 at the maximum with 50 per cent share price growth.

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.1317.



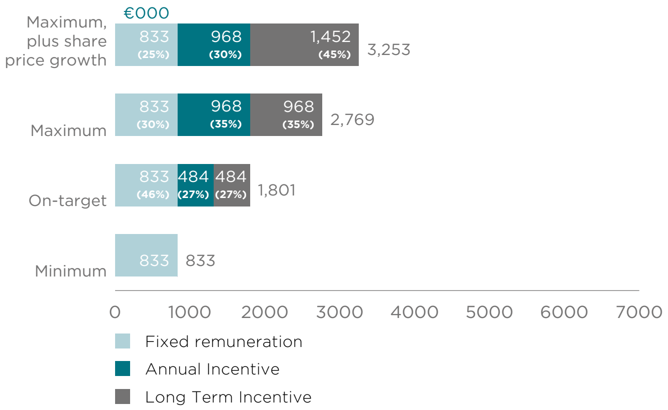
Chief Financial Officer of IAG

Fixed remuneration is basic salary (2019 level of €645,000), plus taxable benefits (2018 actual of €31,000) plus pension related benefits (2018 actual of €157,000).

The annual incentive amount is zero at the minimum remuneration level, €484,000 at the on-target level (75 per cent of salary), and €968,000 at maximum (150 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €484,000 at the on-target level (half of the face value award of 150 per cent of salary), €968,000 at maximum (150 per cent of salary), and €1,452,000 at the maximum with 50 per cent share price growth.

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.1317.



Service contracts and exit payments policy

Non-executive directors

Non-executive directors (including the Chairman) do not have service contracts. Their appointment is subject to the Board regulations and the Company's Bylaws. They do not have the right to any compensation in the event of termination as directors. Board members shall hold office for a period of one year. The dates of the Chairman's and current non-executive directors' appointments are as follows:

Non-executive director	Date of the first appointment	Date of last re-election
Antonio Vázquez	May 25, 2010	June 14, 2018
Patrick Cescau	September 27, 2010	June 14, 2018
Kieran Poynter	September 27, 2010	June 14, 2018
Alberto Terol	June 20, 2013	June 14, 2018
Dame Marjorie Scardino	December 19, 2013	June 14, 2018
María Fernanda Mejía	February 27, 2014	June 14, 2018
Marc Bolland	June 16, 2016	June 14, 2018
Emilio Saracho	June 16, 2016	June 14, 2018
Nicola Shaw	January 1, 2018[1]	June 14, 2018
Deborah Kerr	June 14, 2018	–

[1] Appointment approved by the annual Shareholders' Meeting on June 15, 2017 but effective January 1, 2018.

Annual Remuneration Report

The Remuneration Committee

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

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

According to article 31 of the Board Regulations the Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be Independent directors. Dame Marjorie Scardino chaired the Committee until January 24, 2019, being succeeded by Marc Bolland. For the reporting period all members were considered Independent non-executive directors of the Company and none of the members has any personal financial interest, other than as a shareholder, in the matters to be decided.

The Committee's activities during the year

In 2018, the Committee met five times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	Review of IAG Management Committee members' basic salaries Approval of the 2018 annual incentive plan Approval of the 2018 Performance Share Plan
February	2017 annual incentive plan payments to IAG Management Committee members Vesting outcome of the Performance Share Plan 2015 award Final review of 2017 Directors' Remuneration Report
May	Preparation for the AGM
October	Executive remuneration market update Remuneration strategy for 2019 Review of the new UK Corporate Governance Code
December	Approval of remuneration for a new Management Committee member

Advisers to the Committee

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte report directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2018 were €43,285, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, global employment programmes, data governance, internal audit and tax to the Group in 2018. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

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

Single total figure of remuneration for each director

Subject to full audit

Non-executive directors

Director (€'000)	2018 fees	Taxable benefits	Total for year to December 31, 2018	2017 fees	Taxable benefits	Total for year to December 31, 2017
Antonio Vázquez	645	4	649	645	35	680
Patrick Cescau	150	37	187	150	47	197
Marc Bolland	120	6	126	120	6	126
Deborah Kerr[1]	65	4	69	–	–	–
Baroness Kingsmill[2]	–	–	–	55	12	67
James Lawrence[3]	55	4	59	120	13	133
María Fernanda Mejía	120	10	130	120	17	137
Kieran Poynter	140	27	167	140	21	161
Emilio Saracho	120	18	138	120	26	146
Dame Marjorie Scardino	140	68	208	140	89	229
Nicola Shaw[4]	120	7	127	–	–	–
Alberto Terol	120	22	142	120	36	156
Total (€'000)	**1,795**	**207**	**2,002**	**1,730**	**302**	**2,032**

1 Deborah Kerr joined the Board on June 14, 2018
2 Baroness Kingsmill retired from the Board on June 15, 2017
3 James Lawrence retired from the Board on June 14, 2018
4 Nicola Shaw joined the Board effective January 1, 2018, appointment approved by the annual Shareholders' Meeting on June 15, 2017

Additional explanations in respect of the single total figure table

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

Fees

Fees paid in the year for non-executive directors.

Taxable benefits

Taxable benefits including personal travel.

For the year to December 31, 2018, €:£ exchange rate applied is 1.1317 (2017: 1.1461).

Executive directors

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

2018

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2018
Executive directors						
Willie Walsh (GBP)[1]	850	27	213	1,051	889	3,030
Willie Walsh (euro)	962	31	241	1,189	1,006	3,429
Enrique Dupuy de Lôme (GBP)[1]	557	27	139	498	412	1,633
Enrique Dupuy de Lôme (euro)	630	31	157	564	466	1,848
Total (€'000)	**1,592**	**62**	**398**	**1,753**	**1,472**	**5,277**

[1] Willie Walsh and Enrique Dupuy de Lôme remuneration is paid in sterling and expressed in euro for information purposes only.

Additional explanations in respect of the single total figure table for 2018
Each director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

Base salary
Salary paid in year for executive directors.

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

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

Annual incentive plan
Annual incentive award for the period ended December 31, 2018 (accrued at December 31, 2018, but cash payments (50 per cent of the award) not paid until March 2019). The outcomes of the performance conditions which determined the award are described in the next section. Half of the annual incentive award is deferred into shares for three years (Incentive Award Deferral Plan (IADP)). For the 2018 annual incentive plan, these will vest in March 2022.

Long-term incentive vesting
This relates to the IAG PSP 2016 award based on performance measured to December 31, 2018, although the shares vested will not be delivered until January 1, 2021, i.e. after the two-year holding period. For the purposes of this table, the award has been valued using the average share price in the three months to December 31, 2018 of 612.2 pence. The outcomes of the performance conditions which determined vesting are described below.

For the year to December 31, 2018, €:£ exchange rate applied is 1.1317 (2017: 1.1461).

2017

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2017
Executive directors						
Willie Walsh (GBP)[1]	850	25	213	1,580	1,286	3,954
Willie Walsh (euro)	974	29	244	1,810	1,474	4,531
Enrique Dupuy de Lôme (GBP)[1]	547	20	137	732	467	1,903
Enrique Dupuy de Lôme (euro)	627	23	157	839	535	2,181
Total (€'000)	1,601	52	401	2,649	2,009	6,712

[1] Willie Walsh and Enrique Dupuy de Lôme remuneration is paid in sterling and expressed in euro for information purposes only.

Life insurance

The Company provides life insurance for all executive directors. For the year to December 31, 2018 the Company paid contributions of €22,987 (2017: €16,839).

Variable pay outcomes

Subject to audit

2018 Annual Incentive Plan

At the beginning of 2018, the Board, upon a recommendation by the Committee, set IAG operating profit (before exceptional items) as the financial target in the annual incentive plan for that year, with a 60 per cent weighting. Operating profit was considered to be the most appropriate financial measure in aligning shareholder interests with the Company. For the customer measure, there was a weighting of 15 per cent. Outcomes were calculated based on Net Promoter Score (NPS). NPS is used to gauge the loyalty of the Group's customer relationships. It is calculated based on survey responses, by subtracting the percentage of customers who are 'Detractors' from the percentage of customers who are 'Promoters'. The final 25 per cent weighting is based on personal performance against objectives. The Remuneration Committee, on the proposal of the Chairman, considered the Chief Executive Officer's performance against his objectives; and on the proposal of the Chief Executive Officer, considered the Chief Financial Officer's performance against his objectives. Both performance evaluations were submitted to the Board for final approval on February 27, 2019.

The maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance), and for the Chief Financial Officer of IAG 150 per cent of salary (75 per cent of salary for on-target performance).

The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Financial Officer of IAG
IAG operating profit (before exceptional items) (60 per cent)	Payout	€761,860 £673,200	€374,432 £330,858
	per cent of maximum awarded	66 per cent Please see below for details of the performance target ranges	66 per cent Please see below for details of the performance target ranges
Group Net Promoter Score (15 per cent)	Outcomes versus targets	€0 £0 Please see below for details of the performance target ranges	€0 £0 Please see below for details of the performance target ranges
	per cent of maximum awarded	0 per cent	0 per cent
Personal performance against objectives **(25 per cent)**	Outcomes versus targets	€428,066 £378,250 Please see below for details of the extent of the achievement of objectives.	€189,107 £167,100 Please see below for details of the extent of the achievement of objectives.
	per cent of maximum awarded	89 per cent	80 per cent
Details of any discretion exercised			
Overall outcome		€1,189,926	€563,539
		£1,051,450	£497,958

Half of the overall outcome of the annual incentive detailed above is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan). IAG operating profit (before exceptional items) for 2018 (60 per cent of the annual incentive) was between the on-target level and the stretch target level and has resulted in 66 per cent of the maximum paying out for this element of the incentive (2017: 100 per cent). The target range for 2018 was as follows: the threshold level at which payments would begin was €2,900 million, the on-target level at which 50 per cent of the maximum would pay out was €3,150 million, and the stretch target level at which the maximum would pay out was €3,400 million. There was a straight line sliding scale between the threshold level and the on-target level, and between the on-target level and the stretch target level. Net Promoter Score for 2018 (15 per cent of the annual incentive) achieved 16.3, which is below the threshold level at which payments begin for this element (2017: 60 per cent of the maximum). The target range for 2018 was as follows: the threshold level at which payments would begin was 18.0, the on-target level at which 50 per cent of the maximum would pay out was 20.0, and the stretch target level at which the maximum would pay out was 22.0. There was a straight line sliding scale between the threshold level and the on-target level, and between the on-target level and the stretch target level.

Personal Performance

In assessing personal performance, the Committee considers a range of factors to ensure there is a holistic and detailed assessment of the executive directors' contribution to the overall strategic priorities of the Group. This is summarised below for executive directors:

Chief Executive Officer of IAG

Unrivalled customer proposition

- Leading the Group's commitment to strengthening its customer focus, ensuring that each of the airlines invested significantly in improving their customer experience
- This included British Airways delivering catering improvements, opening new lounges, investing in technology, and extending the use of biometric boarding gates; and Iberia delivering an improved customer experience in its premium economy product
- Overseeing the launch of shorthaul operations under the LEVEL brand, and the further launch of longhaul LEVEL services

Value accretive and sustainable growth

- The CEO of IAG is respected across the global airline industry, and during 2018 became Chairman of Airlines For Europe, the largest airline association in Europe
- Reinforcing the Group's leadership positions in its home markets with the addition of 48 new routes
- Continuing to optimise the Group's longhaul network and customer proposition together with its joint business partners
- Overseeing the activity to be a leading airline group with regard to sustainability, including the option to acquire a site to develop the UK's first commercial scale waste to jet fuel project

Efficiency and innovation

- Continuing the focus on efficiency and cost reduction programmes to ensure customer and shareholder value creation
- Ensuring that digital innovation has remained a core part of the Group's focus, continuing the Hangar 51 accelerator programmes to attract global talent, and making strategic investments to automate the business above and below the wing
- Continuing to develop capabilities to support data customisation and data analytics, allowing Avios members a smoother online experience
- Continuation of the roll out of Wi-Fi connection on the Group's fleet

Chief Financial Officer of IAG

Unrivalled customer proposition

- Supported the significant focussed investment at each airline to strengthen customer focus and improve the customer experience
- Continued focus on reducing costs and improving efficiency by leveraging Group scale and synergy opportunities. This has ensured customer and shareholder value creation

Value accretive and sustainable growth

- Supporting the CEO as the Group delivered a strong performance in 2018 with operating profit, earnings per share and Return on Invested Capital all increasing
- Careful management of financial risk, maintaining adequate cash balances and substantial committed financing facilities
- Development of an internal framework to assess the value to shareholders which would potentially be created by organic and inorganic growth opportunities

Efficiency and innovation

- Proactive leadership to continue the focus on disciplined capital allocation, active portfolio management, and flexible and rapid decision making
- Driving the CASK ex-fuel cost reduction – 11.1 per cent reduction at constant currency since IAG's founding in 2011

IAG PSP award 2016

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

One-third of the award was subject to a TSR performance condition measured against an index, one-third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one-third subject to a RoIC performance condition. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

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

IAG PSP award 2015

The IAG PSP award granted on May 28, 2015 was tested at the end of the performance period which began on January 1, 2015 and ended on December 31, 2017. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 120 per cent of salary for the Chief Financial Officer of IAG.

One-third of the award was subject to a TSR performance condition measured against an index, one-third subject to achievement of the Company's adjusted EPS targets (as defined above in the 2016 award), and one-third subject to a RoIC performance condition. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2015)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG underperformed the index by 4 per cent p.a.	0 per cent
Adjusted earnings per share (EPS) (one-third)	2017 EPS of 70 €cents (10 per cent of award vests)	2017 EPS of 100 €cents (100 per cent of award vests)	102.8 €cents	100 per cent
Return on Invested Capital (RoIC) (one-third)	2017 RoIC of 12 per cent (10 per cent of award vests)	2017 RoIC of 15 per cent (100 per cent of award vests)	16.0 per cent	100 per cent
Details of any discretion exercised				
Overall outcome				66.67 per cent

Scheme interests awarded during the financial year

Subject to audit

The IAG PSP is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on May 10, 2018. The table in this section sets out the key details of the award.

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

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

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

PSP 2018 – eligibility, metrics and targets

Type of award	Shares		
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.		
Face value awarded (per cent of salary)	CEO of IAG – 200 per cent	Other executive directors – 150 per cent	
Grant price	£6.91		
Performance period	January 1, 2018 to December 31, 2020		
Performance conditions	Adjusted EPS performance targets	RoIC performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index
Weighting	One-third	One-third	One-third
Threshold	2020 EPS of 130 €cents 10 per cent vests	2020 RoIC of 13 per cent 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target	2020 EPS between 130 €cents and 170 €cents (straight line vesting between threshold and maximum)	2020 RoIC between 13 per cent and 16 per cent (straight line vesting between threshold and maximum)	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight line vesting between threshold and maximum)
Maximum	2020 EPS of 170 €cents 100 per cent vests	2020 RoIC of 16 per cent 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Holding period	Additional period of two years after the performance period		

Adjusted EPS measure is as defined for the 2016 PSP award earlier in the report. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the EPS targets and/or definition in the context of any corporate transactions, provided that, in its view, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports.

Total pension entitlements

Subject to audit

Willie Walsh is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions during the reporting period (2017: zero). He received cash in lieu of contributions of £212,500 (2017: £212,500).

Enrique Dupuy de Lôme is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions during the reporting period (2017: zero). He received cash in lieu of contributions of £139,250 (2017: £136,750).

Payments for loss of office

No executive directors have left office during 2018. There were no payments made to non-executive directors after they left office during 2018.

Payments to past directors

José Pedro Pérez-Llorca received travel benefits worth €6,920 during 2018 after he had left the Company. Baroness Kingsmill received travel benefits worth €15,001 during 2018 after she had left the Company. James Lawrence received travel benefits worth €10,536 during 2018 after he had left the Company.

Statement of voting

The table below shows the consultative vote on the 2017 annual Directors' Remuneration Report at the 2018 annual Shareholders' Meeting, and the binding vote on the Directors' Remuneration Policy at the 2018 annual Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2017 Annual Directors' Remuneration Report	1,463,865,426	1,391,707,784 (95.070 per cent)	8,644,928 (0.591 per cent)	63,512,714 (4.339 per cent)
Directors' Remuneration Policy	1,463,865,426	1,396,029,011 (95.366 per cent)	13,091,180 (0.894 per cent)	54,745,235 (3.740 per cent)

Statement of directors' shareholding and share interests

Subject to audit

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

Under the Group's shareholding guidelines, the CEO of IAG is required to build up and maintain a shareholding of 350 per cent of salary. Other executive directors are required to build up and maintain shareholdings of 200 per cent of salary. In addition, they are required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained. The Committee has reviewed executive directors' progress against the requirements and notes that both executive directors are well above the shareholding requirement. There has been a significant improvement in shareholding for the executive directors over the past five years, as a result of PSP awards vesting, and deferred shares awards from annual incentive plans.

Interests in share awards following departure can enable departing directors to remain aligned with the interests of shareholders for an extended period after leaving the Company. For good leavers, share awards will not vest early on departure except in certain circumstances (for example on death). Deferred annual incentive awards and PSP awards will normally vest (and be released from their holding periods) at the normal time. This means that directors may retain a significant interest in shares for up to 5 years following departure from the Company.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares including those in the *performance share plan* holding period, and unvested deferred annual incentive shares. The table below summarises current executive directors' interests as of December 31, 2018:

Executive director	Shareholding requirement	Shares owned	Shares already vested, or in the holding period, from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Willie Walsh	350 per cent of salary	72,000	1,671,971	296,226	154,697	2,194,894 (1,257 per cent of salary)
Enrique Dupuy de Lôme	200 per cent of salary	100	492,007	109,760	63,432	665,299 (644 per cent of salary)

External non-executive directorship

The Nominations Committee's consent is required before an executive director can accept an external non-executive appointment. During the reporting period in question no executive director held a directorship from which they retained a fee. Until December 31, 2018, Willie Walsh was a non-executive director of the Irish National Treasury Management Agency, for which he has declined a fee. Enrique Dupuy de Lôme is Chairman of Iberia Cards.

Non-executive directors

Non-executive directors are paid a flat fee each year. The Non-Executive Chairman's fee is €645,000. Other non-executive directors have a fee of €120,000. The additional fee for holding a Committee chairmanship is €20,000, and the additional fee for discharging the functions of Senior Independent Director is €30,000.

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

Directors' interests in shares

Subject to audit

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	512,291	0.026
Willie Walsh	1,930,985	0.097
Marc Bolland	0	0.000
Patrick Cescau	0	0.000
Enrique Dupuy de Lôme	562,165	0.028
Deborah Kerr	0	0.000
María Fernanda Mejía	100	0.000
Kieran Poynter	15,000	0.001
Emilio Saracho	0	0.000
Dame Marjorie Scardino	100	0.000
Nicola Shaw	1,517	0.000
Alberto Terol	26,537	0.001
Total	**3,048,695**	**0.153**

There have been no changes to the shareholdings set out above between December 31, 2018 and the date of this report.

Share scheme dilution limits

The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the annual Shareholders' Meeting on June 18, 2015 the Company was given authority to allocate up to 67,500,000 shares (3.31 per cent of the share capital) in 2015, 2016, 2017 and 2018. Of this a maximum of 7,650,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2015, 2016, 2017 and 2018. At December 31, 2018, 3.17 per cent of the share capital had been allocated under the IAG share plans.

The highest and lowest closing prices of the Company's shares during the period and the share price at December 31, 2018 were:

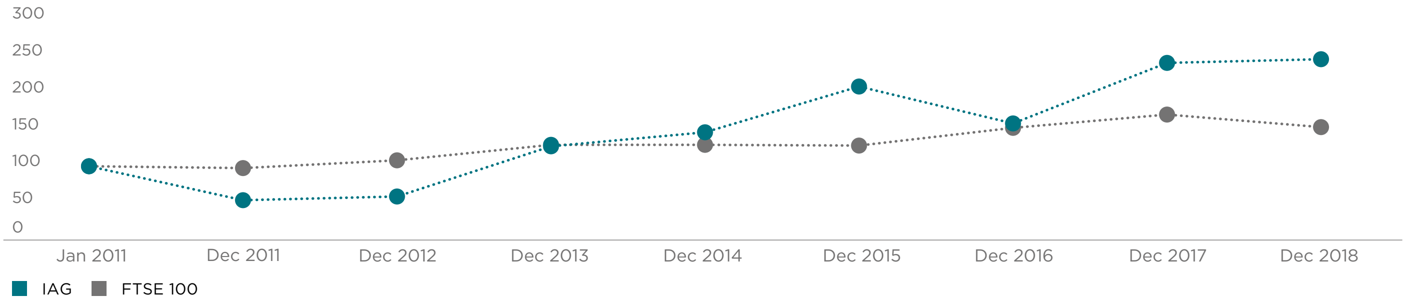
At December 31 2018	618p
Highest in the period	727p
Lowest in the period	557p

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

The chart shows the value by December 31, 2018 of a hypothetical £100 invested in IAG shares on listing compared with the same amount invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year ends.

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

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



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

	CEO of IAG – ‘total single figure’ of remuneration	Annual incentive	Long-term incentive
2011	£1,550,000	Includes annual incentive payment of £302,000 (18 per cent of maximum).	Includes £251,594 value of long-term incentives vesting (35 per cent of maximum).
2012	£1,083,000	No annual incentive payment.	Zero vesting of long-term incentives.
2013	£4,971,000	Includes annual incentive payment of £1,299,375 (78.75 per cent of maximum).	Includes £2,593,569 value of long-term incentives vesting (100 per cent of maximum).
2014	£6,390,000	Includes annual incentive payment of £1,662,222 (97.78 per cent of maximum).	Includes £3,640,135 value of long-term incentives vesting (85 per cent of maximum).
2015	£6,455,000	Includes annual incentive payment of £1,360,000 (80 per cent of maximum).	Includes £4,405,185 value of long-term incentives vesting (100 per cent of maximum).
2016	£2,462,000	Includes annual incentive payment of £566,667 (33.33 per cent of maximum).	Includes £807,741 value of long-term incentives vesting (50 per cent of maximum).
2017	£3,954,000	Includes annual incentive payment of £1,579,583 (92.92 per cent of maximum).	Includes £1,285,819 value of long-term incentives vesting (66.67 per cent of maximum).
2018	£3,030,000	Includes annual incentive payment of £1,051,450 (61.85 per cent of maximum).	Includes £888,605 value of long-term incentives vesting (46.19 per cent of maximum).

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

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

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

The table below shows how the remuneration of the Chief Executive Officer of IAG has changed for 2018 compared to 2017.

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

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

	Chief Executive Officer of IAG	UK employees
Basic salary	No basic salary increase for 2018.	Basic salary awards in 2018 at UK companies in the Group varied from around 2 per cent to 4.1 per cent.
Annual incentive	Decrease from £1,579,583 in March 2018 (covering the 2017 performance period) to £1,051,450 in March 2019 (covering the 2018 performance period). This represents a 33 per cent decrease.	Changes in overall annual incentive payments for 2018 versus 2017 varied considerably around the Group, depending on the incentive design, financial performance, and non-financial performance at each individual company.
Taxable benefits	No change in benefits policy. Actual payments increased to £27,000 in 2018 from £25,000 in 2017.	No change in benefits policy. Overall costs 2018 versus 2017 increased very slightly in line with inflation.

Relative importance of spend on pay

The table below shows, for 2018 and 2017, total remuneration costs, operating profit and dividends for the Company.

	2018	2017
Total employee costs, IAG	**€4,812,000,000**	€4,740,000,000
Total remuneration, directors (including non-executive directors)	**€7,279,000**	€8,744,000
IAG operating profit (before exceptional items)	**€3,230,000,000**	€3,015,000,000
Dividend declared	**€288,000,000**	€550,000,000
Dividend proposed	**€1,027,000,000**	–

Total employee costs are before exceptional items.

CEO pay ratio

Following UK Government changes to reporting regulations, IAG has voluntarily chosen to disclose the median pay ratio a year early. The table below shows the ratio of pay between the CEO of IAG and IAG's UK employees. The CEO of IAG remuneration is the 2018 'single figure' total remuneration, and this is compared to the median 2018 total remuneration of full-time equivalent UK employees in IAG. The Government's methodology "A" has been used to calculate the remuneration. The data for the UK employees is from the payroll records of 35,559 UK employees who were in the Group for the whole of 2018, approximately 98 per cent of the UK employee total. It is recognised that this is not aligned with the new regulations for this first year of voluntary disclosure, but from when the regulations formally start on January 1, 2019 we will be in a position to be able to fully report this from next year's report onwards.

Percentile	CEO of IAG pay ratio
50th (Median)	60:1

Implementation of remuneration policy for 2019

Basic salary

Basic salaries for executive directors are reviewed from January 1 each year. After careful consideration of Company affordability, the worth of each executive, retention risks and the size of pay increases generally across the Group for 2019 (which varied across the Group from 2.0 per cent to 3.0 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive director	Basic salary review
Chief Executive Officer of IAG	£850,000 (€962,000) (no increase from 2018).
Chief Financial Officer of IAG	£570,000 (€645,000) (in UK sterling terms, an increase of 2.3% from 2018).

The Remuneration Committee recommended the Board to offer the Chief Executive a salary increase in line with that applied to other executives, however it was respectfully declined by him.

2019 annual incentive plan

For 2019, the maximum award for the Chief Executive Officer of IAG will be 200 per cent of salary and for the Chief Financial Officer of IAG 150 per cent of salary. The weighting for the IAG operating profit (before exceptional items) measure will be 60 per cent, and for role-specific objectives will be 25 per cent. The remaining 15 per cent weighting will be for the Net Promoter Score (NPS) measure. The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit and NPS for 2019 at the threshold, on-target and maximum levels. At threshold, there will be a zero pay-out, 50 per cent of the maximum will pay out at the on-target level, and 100 per cent of the maximum will pay out at the stretch target level. There will be a straight line sliding scale between threshold and on-target, and on-target and the stretch target. For commercial reasons, the target range for IAG operating profit will not be disclosed until after the end of the performance year. It will be disclosed in next year's Remuneration Report.

2019 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2019, with a performance period of January 1, 2019 to December 31, 2021.

For 2019, the face value of awards for the Chief Executive Officer will be 200 per cent of salary and for the Chief Financial Officer 150 per cent of salary.

The Board has approved the use of three performance conditions, each with a one-third weighting. These are the same three performance conditions and weightings that have been used since 2015. The reasons for the Board considering these measures to be appropriate are the same reasons as those mentioned for the 2018 PSP award earlier in the report.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. The target range is identical to 2018, and is outlined earlier in this report.

The second performance condition is based on adjusted EPS (as defined in the 2016 award). The Board and the Committee have agreed that the adjusted earnings per share (EPS) target range for the 2019 PSP award will be increased compared to the 2018 PSP award. The adjusted EPS measure will be as follows:

Weighting	One-third
Threshold	2021 adjusted EPS of 150 €cents 10 per cent vests
Target range (straight line vesting between threshold and maximum)	2021 adjusted EPS between 150 €cents and 190 €cents
Maximum	2021 adjusted EPS of 190 €cents 100 per cent vests

The third performance condition is RoIC. The target range has been increased at the bottom end. The measure will be as follows:

Weighting	One-third
Threshold	2021 RoIC of 14 per cent 10 per cent vests
Target range (straight line vesting between threshold and maximum)	2021 RoIC between 14 per cent and 16 per cent
Maximum	2021 RoIC of 16 per cent 100 per cent vests

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

Taxable benefits and pension related benefits

Taxable benefits remain unchanged for 2019. Pension related benefits as a percentage of basic salary will decrease for new externally recruited executive directors as stated in the Remuneration Policy.

Non-executive director fees

Non-executive director fees were last reviewed in 2017 and remain unchanged for 2019. The fees have remained unchanged since 2011.

Supplementary information

Directors' share options

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

Director	Date of grant	Number of options at January 1, 2018	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2018
Executive directors									
Willie Walsh	May 28, 2015	309,091	–	–	103,031	–	January 1, 2020	December 31, 2024	206,060
	March 7, 2016	314,233	–	–	–	–	January 1, 2021	December 31, 2025	314,233
	March 6, 2017	311,355	–	–	–	–	January 1, 2022	December 31, 2026	311,355
	May 10, 2018	–	–	–	–	246,020	January 1, 2023	December 31, 2027	246,020
Total		**934,679**	**–**	**–**	**103,031**	**246,020**			**1,077,668**
Enrique Dupuy de Lôme	May 28, 2015	112,364	–	–	37,455	–	January 1, 2020	December 31, 2024	74,909
	March 7, 2016	145,647	–	–	–	–	January 1, 2021	December 31, 2025	145,647
	March 6, 2017	147,198	–	–	–	–	January 1, 2022	December 31, 2026	147,198
	May 10, 2018	–	–	–	–	118,741	January 1, 2023	December 31, 2027	118,741
Total		**405,209**	**–**	**–**	**37,455**	**118,741**			**486,495**

The award granted on May 28, 2015 was tested at the end of the performance period, and as a result 66.67 per cent of the award vested, as detailed earlier in this report in the section on Variable pay outcomes.

The performance conditions for each of the other PSP awards listed above will be tested to determine the level of vesting. For each of these awards, one-third of the award is subject to TSR performance measured against an index, one-third is subject to adjusted EPS performance, and one-third is subject to RoIC performance. The performance conditions will be measured over a single three-year performance period. For each of these awards, following the performance period there is an additional holding period of two years.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the dates of the PSP awards were as follows: 2018: 691 pence; 2017: 546 pence; 2016: 541 pence; and 2015: 550 pence.

Incentive Award Deferral Plan

The following directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG performance for the periods that ended December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2018	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2018
Executive directors								
Willie Walsh	2014	May 28, 2015	151,111	151,111	March 8, 2018	–	–	–
	2015	March 7, 2016	125,693	–	March 7, 2019	–	–	125,693
	2016	March 6, 2017	51,893	–	March 6, 2020	–	–	51,893
	2017	May 10, 2018	–	–	March 8, 2021	–	114,297	114,297
Total			328,697	151,111		–	114,297	291,883
Enrique Dupuy de Lôme	2014	May 28, 2015	50,252	50,252	March 8, 2018	–	–	–
	2015	March 7, 2016	44,665	–	March 7, 2019	–	–	44,665
	2016	March 6, 2017	22,080	–	March 6, 2020	–	–	22,080
	2017	May 10, 2018	–	–	March 8, 2021	–	52,939	52,939
Total			116,997	50,252		–	52,939	119,684

There are no performance conditions to be tested before vesting for the IADP, except that the director must still be employed by the Company at the time of vesting, or have left as a Good Leaver.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2018 IADP award was 691 pence (2017: 546 pence; 2016: 541 pence; and 2015: 550 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2015 IADP award was 550 pence. The share price on the date of the vesting of this award (March 8, 2018) was 629 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

Financial Statements

The Group's consolidated statements which follow have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

		Year to December 31					
€ million	Note	**Before exceptional items 2018**	**Exceptional items**	**Total 2018**	Before exceptional items 2017 (restated)[1]	Exceptional items	Total 2017 (restated)[1]
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

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

		Year to December 31	
€ million	Note	**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.

€ 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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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.

2 Significant accounting policies continued

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

	Year to December 31	
€ million	**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

[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.

9 Tax continued

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

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[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.

14 Intangible assets and impairment review continued

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.

22 Long-term borrowings continued

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.

25 Financial risk management objectives and policies continued

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)

25 Financial risk management objectives and policies continued

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

26 Financial instruments continued

€ 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				**Carrying value**
	Level 1	Level 2	Level 3	Total	**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.

26 Financial instruments continued

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

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

29 Other reserves and non-controlling interests continued

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.

30 Employee benefit obligations continued

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

	2018			
€ million	**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

	2017			
€ million	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.

30 Employee benefit obligations continued

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.

30 Employee benefit obligations continued

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

In total, the Group expects to pay €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	-	-

32 Related party transactions continued

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**

33 Changes to accounting policies continued

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

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 Kerr

Deborah Linda Kerr

M.F. Mejía C.

María Fernanda Mejía Campuzano

Kieran Poynter

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Marjorie Morris Scardino

Lucy Nicola Shaw

Alberto Terol Esteban

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

March 4, 2019

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.

Adjusted aircraft operating leases	Aircraft operating lease costs multiplied by 0.67
Adjusted earnings per share	Earnings are based on results before exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding
Adjusted net debt	Net debt plus capitalised aircraft operating lease costs
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo carried that generate revenue (freight and mail) multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Operating profit before depreciation, amortisation and rental charges
Equity free cash flow	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
Interest cover	The number of times profit before taxation and net interest expense and interest income cover the net interest expense and interest income
Invested capital	Fleet net book value at the balance sheet date, excluding progress payments 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
Lease adjusted operating margin	Operating result less aircraft operating lease cost plus adjusted aircraft operating lease costs divided by revenue
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less other current interest-bearing deposits and cash and cash equivalents

Net depreciation rate	Gross book value divided by net book value
Net Promoter Score (NPS)	The Net Promoter Score (NPS) is a metric based on survey responses to the “likelihood to recommend” question and is calculated by subtracting the percentage of customers who are ‘Detractors’ (score 0-6, unlikely to recommend) from the percentage of customers who are ‘Promoters’ (score 9-10, likely to recommend)
Operating margin	Operating profit/(loss) as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Punctuality	The industry’s standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on invested capital (RoIC)	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
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Passenger unit revenue per ASK (PASK)	Passenger revenue divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue divided by RPK
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Sector	A one-way revenue flight
Sold cargo tonnes	The number of cargo tonnes sold, including freight, courier, mail and interline
Total capital	Total equity plus net debt
Total Group revenue per ASK (RASK)	Total group revenue divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure excluding fuel divided by ASK
Total operating expenditure per ASK (CASK)	Total operating expenditure divided by ASK
Total traffic revenue per ATK	Revenue from total traffic (passenger and cargo) divided by ATK

OPERATING AND FINANCIAL STATISTICS

Total Group operations		**2018**	2017[1]	2016	2015[2]	2014
Traffic and capacity						
Available seat km (ASK)	million	**324,808**	306,185	298,431	272,702	251,931
Revenue passenger km (RPK)	million	**270,657**	252,819	243,474	221,996	202,562
Cargo tonne km (CTK)	million	**5,713**	5,762	5,454	5,293	5,453
Passengers carried	'000	**112,920**	104,829	100,675	88,333	77,334
Sold cargo tonnes	'000	**702**	701	680	661	677
Sectors		**754,700**	717,325	708,615	660,438	599,624
Block hours	hours	**2,207,374**	2,100,089	2,067,980	1,867,905	1,712,506
Operations						
Average manpower equivalent		**64,734**	63,422	63,387	60,862	59,484
Aircraft in service at year end		**573**	546	548	529	459
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	**13.5**	13.5	13.5	13.5	13.5
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	**9.0**	8.9	8.8	9.1	8.8
Punctuality – within 15 minutes	%	**75.5**	81.8	77.2	80.2	80.9
Regularity	%	**98.7**	99.1	99.3	99.4	99.5
Financial						
Passenger unit revenue per ASK (PASK)	€cents	**6.63**	6.63	6.68	7.46	7.08
Passenger revenue per RPK	€cents	**7.96**	8.02	8.18	9.16	8.80
Cargo revenue per CTK	€cents	**20.53**	19.65	18.74	20.67	18.19
Total revenue per ASK (RASK)	€cents	**7.51**	7.47	7.56	8.38	8.01
Average fuel price	($cents/metric tonne)	**687**	519	425	908	990
Fuel cost per ASK	€cents	**1.63**	1.51	1.63	2.23	2.38
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€million	**5,374**	5,022	4,581	4,301	3,137
Total operating expenditure excluding fuel per ASK (CASK ex. fuel)	€cents	**4.89**	5.00	5.08	5.30	5.08
Operating margin	%	**13.2**	12.9	10.9[1]	10.2	6.9
Lease adjusted operating margin	%	**14.4**	14.2	12.0[1]	11.2	7.8
Total operating expenditure per ASK (CASK)	€cents	**6.52**	6.51	6.71	7.53	7.45
Dividend cover	times	**4.0**	4.0	4.0	3.8	n/a
Interest cover	times	**17.0**	16.4	10.8	8.2	6.4
Net debt	€million	**1,235**	655	2,087	2,774	1,673
Equity	€million	**6,720**	6,933	7,741	7,328	3,793
Adjusted net debt to EBITDAR	times	**1.6**	1.5	1.8	1.9	1.9
Exchange rates						
Translation – weighted average	£:€	**1.13**	1.14	1.21	1.39	1.25
Transaction	£:€	**1.13**	1.14	1.21	1.40	1.25
Transaction	€:$	**1.18**	1.14	1.11	1.11	1.34
Transaction	£:$	**1.33**	1.29	1.34	1.55	1.67

[1] Figures restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments.

[2] Aer Lingus Group plc results have been consolidated from the 18th of August 2015.

n/a: not available

Registered office

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American Depositary Receipt program

IAG has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the OTC market in the US (see www.otcmarkets.com). Deutsche Bank is the ADR depositary bank.

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Financial calendar

Financial year end: December 31, 2018
Q1 results: May 10, 2019
Half year results: August 2, 2019
Q3 results: October 31, 2019

Other key dates can be found on our website:
www.iairgroup.com

ShareGift

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can typically be identified by the use of forward-looking terminology, such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the ‘Group’), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditures and divestments relating to the Group and discussions of the Group’s Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is set out in the risk management and risk factors section of the report.

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