ANNUAL CORPORATE GOVERNANCE REPORT

CONTENTS

This Annual Corporate Governance Report is part of the Company's Management Report for the year ended 31 December 2018. It has been prepared in accordance with Circular 2/2018, of 12 June, of the Spanish Comisión Nacional del Mercado de Valores (CNMV), that established the templates for the Annual Corporate Governance Report for listed companies.

In accordance with Circular 2/2018, of 12 June, of the Spanish CNMV, the Company has also prepared a statistical annex which has been published together with the annual corporate governance report, and which form part of the Management Report.

This Annual Corporate Governance Report contains the following sections:

In relation to the template for the Annual Corporate Governance Report established in annex I of appendix II of the CNMV Circular 2/2018, the Company advises that it has not included in this report information on sections A.4, A.6, A.13, C.1.8, C.1.20, C.1.22 and C.1.37 as these matters are not applicable to the Company in its current circumstances.

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

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.

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.

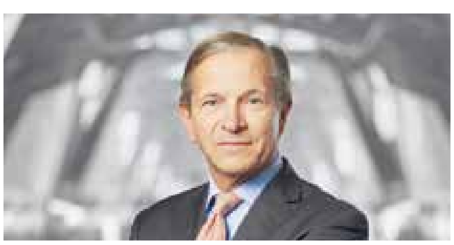
3 Patrick Cescau

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.



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.

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

A

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.

A S

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.

N

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.

R N

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.

S R

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.

A R

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, Senvion GmbH. Chairman of the Audit Committee, Senvion 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

* 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

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.

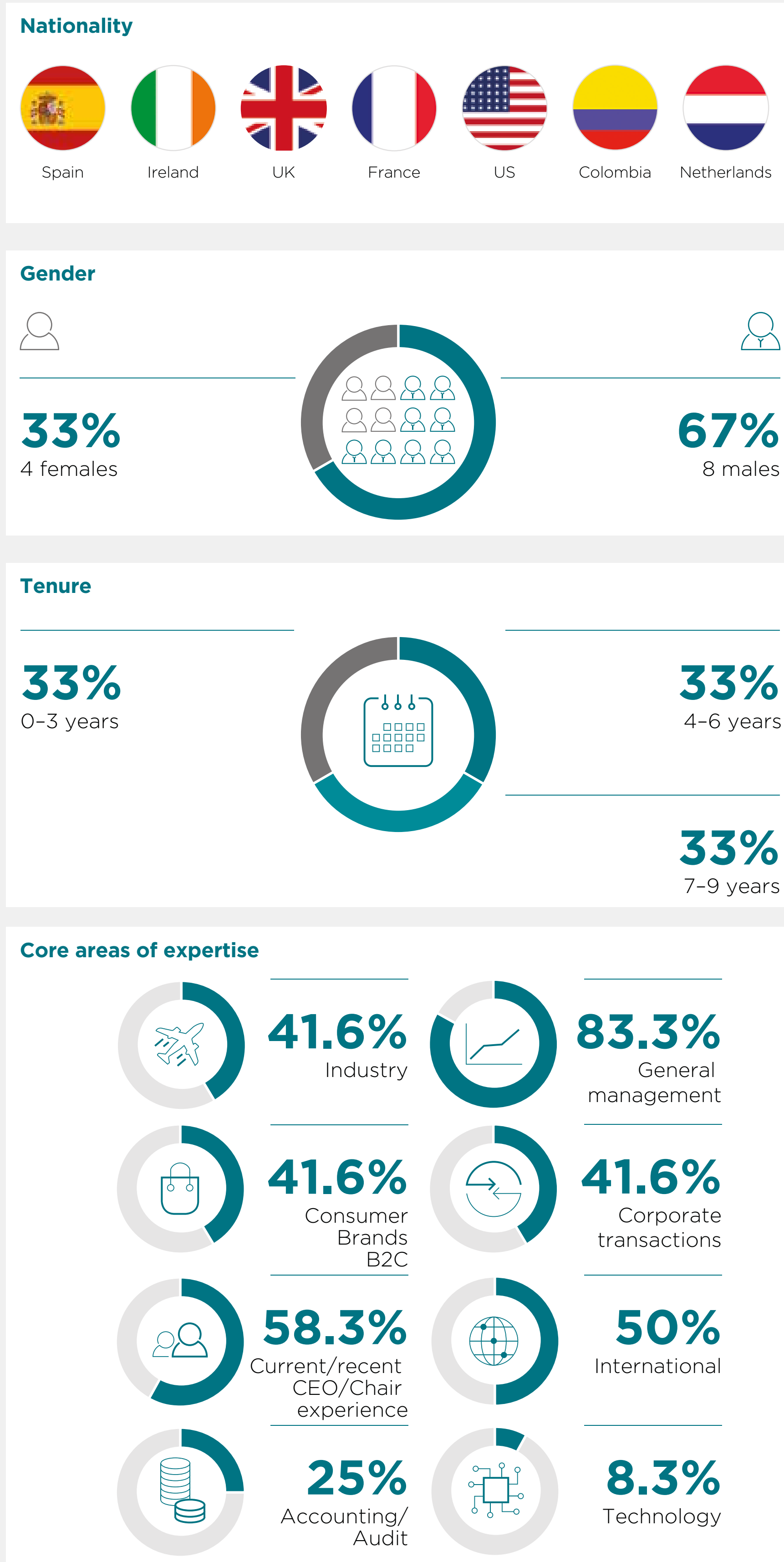
IAG directors are appointed for a period of one year, as set out in the Company's Bylaws. At the end of their mandate, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws. In this way, the Company complies with the UK Code recommendation that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



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

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.

Delivering value by embedding the risk management culture

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

This policy sets the framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks facing the Group, including emerging risks. This process is led by the Management Committee and its best practices are shared across the Group.

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

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

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

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

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. The IAG Management Committee reviews risk during the year including the Group risk map semi-annually in advance of reviews by the Audit and Compliance Committee in accordance with the 2016 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

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

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

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

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

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

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

The list is not intended to be exhaustive.

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and consumers. IAG has a high appetite for continued deregulation and consolidation. The Group seeks to mitigate the risk from government intervention or changes to the regulation of monopoly suppliers.

In general the Group's strategic risk was stable during the year with continued competitor capacity growth being monitored and assessed within the Group. The Group continues to support deregulation, manage the supplier base and explore opportunities for consolidation.

Business and operational risks

The safety and security of customers and employees is a fundamental value. The Group balances the resources devoted to building resilience into operations and the impact of disruption on customers.

The Group airlines were impacted by the significant level of Air Traffic Control strikes in Europe, requiring additional resilience to be built into the networks.

The theft of data from British Airways customers in September 2018 as a result of a criminal attack on its website demonstrates the increased risk threat around cyber. The Group continues to lead the response to technical and organisational security defences and incident response plans for each operating company.

Financial risks

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

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

In 2018, events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange.

Compliance and regulatory

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

Link to strategy

1 Strengthening a portfolio of world-class brands and operations

2 Growing global leadership positions

3 Enhancing IAG's common integrated platform

Key: Risk trend

Increase Stable Decrease

Strategic

Risk	Risk context	Management and mitigation
Airports, infrastructure and critical third parties Increase; 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	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	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	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	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.

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

Financial

Risk	Risk context	Management and mitigation
Debt funding	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	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	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	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	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.

Internal Control Over Financial Reporting (ICFR)

Governance over ICFR

As stated in article 3.4 letter a) of the Board Regulations, the IAG Board has exclusive authority to approve the Company's financial information, namely the consolidated annual accounts and the management report, acting for this purpose on the advice and support of the Audit and Compliance Committee.

In addition, and in accordance with article 35.4 of the Board Regulations, the Board needs to ensure that the Company's financial statements do not give rise to any restrictions or qualifications by the external auditors. If the financial statements are nevertheless subject to restrictions or qualifications in the opinion of the auditors, the Board must clearly explain to shareholders the scope of such restrictions or qualifications and provide the relevant explanations.

The Audit and Compliance Committee reviews the Company's periodic financial information, monitors compliance with legal requirements, the appropriate definition of the scope of consolidation, the correct application of generally accepted accounting principles, and reviews significant financial reporting judgements in the Company's annual accounts.

As far internal control over financial reporting is concerned, the IAG Board Regulations determine that the Board is responsible for control policy and periodic monitoring of internal information and control systems.

This control policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

The Board of Directors is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board has delegated the responsibility for the development of effective controls to the Chief Executive and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the Group and delegates responsibility to the relevant Group Operating Company Chief Financial Officers.

Refer to Corporate Governance section of the Annual Report and the Report of the Audit and Compliance Committee for further details about the responsibilities of the Board of Directors and the Audit and Compliance Committee in relation to ICFR.

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises the IAG Group Financial Controller and the Aer Lingus, Avios, British Airways, Iberia, Vueling, IAG GBS and IAG Cargo Chief Financial Officers. The Committee supports senior management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

a. Maintain and approve the IAG ICFR policy including delegation of ICFR process ownership to subsidiary Chief Financial Officers and, where appropriate, to process owners;
b. Review complex or judgemental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;
c. Own the Group Accounting Policies and approve any changes thereto; and
d. Coordinate and monitor ICFR framework implementation and maintenance.

Organisational structure

The Board is responsible for designating the Company's Chief Executive, approval of the appointment or removal of individuals to or from the boards of directors of the principal subsidiaries of the Group and the appointment of their Chairmen and Chief Executives. The Board is also responsible for decisions concerning the appointment and removal of the Company's senior executives. Significant changes to the organisation structure are reviewed and approved by the IAG Management Committee.

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the Chief Executive and delegated to the Chief Executive Officers of Aer Lingus, Avios, British Airways, IAG GBS, Iberia, IAG Cargo and Vueling. The authorised structure of the Company, Aer Lingus, British Airways, Iberia and Vueling is updated and reviewed on an ad hoc basis. In British Airways, IAG GBS, Iberia and Vueling it is published on the respective intranet of each company. In Aer Lingus it is available from the Company Secretary.

Under the IAG ICFR policy the IAG Chief Executive delegates responsibility for ICFR to the IAG Chief Financial Officer and the Chief Executive Officers of Aer Lingus, Avios, British Airways, Iberia and Vueling, who maintain ultimate responsibility for ICFR but delegate day to day responsibilities to their Chief Financial Officers. Chief Financial Officers are expected to delegate responsibility for ICFR for defined processes to named senior managers within their own organisations. The Group Accounting Manual provides guidance on financial reporting.

Code of conduct

The "Way of Business" Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the IAG Management Committee in maintaining the expected level of conduct. The document is approved by the Board and is cascaded down into Aer Lingus, Avios, British Airways, IAG GBS, Iberia and Vueling through local policies available on the intranet of each company.

Minor breaches of the standards of conduct are investigated by line managers, and disciplinary action is in accordance with the employment policies and standards applicable to the individual. Major breaches are investigated by the responsible business area within each operating company.

Training for personnel involved in preparing and reviewing financial information or evaluating ICFR

IAG staff have individual development discussions which identify their technical and/or professional training needs. Basic finance training is delivered through eLearning modules or classroom based, depending on the Operating Company. Specific training on airline finance basics and interpreting the Company accounts is also available.

IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for accounting qualifications, including the Institute of Chartered Accountants, in England and Wales, the Chartered Institute of Management Accountants, and the Association of Chartered Certified Accountants.

Company finance staff received an average of two days training in 2018. Members of the IAG Internal Audit team have received on average two hours of ICFR training in 2018.

Financial statement risk assessment and scoping

The Group's Enterprise Risk Management (ERM) process assesses and identifies key risks and controls. The key risks are categorised into strategic, business and operational, financial, compliance and regulatory, and tax. Refer to Risk Management Section of the Annual Report for further details.

The financial statement risk assessment process identifies the key underlying business processes, and covers the financial reporting objectives.

The financial reporting risk assessment is the responsibility of the IAG Finance Committee and is updated and documented annually. The assessment provides management with a mechanism for the identification of risks and associated controls relevant to the preparation of the financial report. The risk assessment has three main elements which are reviewed annually by the IAG Finance Committee:

a. A high-level assessment of key risks to the financial statements focusing on judgemental areas and those susceptible to error;
b. Identification of the key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries; and
c. Fraud risk at the Company level is most significant in individual projects, acquisitions and disposals. This fraud risk is managed through the individual projects which are staffed with senior professionals from appropriate departments, including finance, and third-party advisors from leading law firms.

The Internal Control team, which reports to IAG Group Head of Financial Integration, reviews financial process and control documentation across the Group, and supports process owners to ensure they have designed effective controls. The Board has ultimate responsibility for risk management and internal control, including determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

Scope of consolidation

A consolidation process is used at the Company and changes are determined based on developments in the corporate structure during the year. The Company, Aer Lingus, Avios, British Airways, Iberia and Vueling maintain consolidation hierarchies in their respective systems. These hierarchies are subject to access and change controls to ensure their continued integrity. The finance function is informed by the legal department of new or acquired entities.

The scope of the consolidation is addressed in two ways. Firstly, the establishment of any Special Purpose Vehicles (SPVs) will be approved by the IAG Audit and Compliance Committee. This committee will confirm the requirement for the SPV and its governance. The determination of which entities will be consolidated is considered at the Company, Aer Lingus, British Airways and Iberia group levels. The consolidation hierarchy is reviewed when changes in ownership structure arise, and new entities are incorporated/acquired. Any changes to the consolidation scope are presented and discussed at the Management Committee and Audit and Compliance Committee meetings.

Control activities

Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets for each type of transaction that may materially affect the financial statements

The IAG Management Committee reviews the financial performance of the Group on a monthly basis. This review examines the previous month's performance, the forecast for the quarter and the forecast for the full year against the finance plan and the prior year. Movements in key performance indicators such as unit revenue and unit cost statistics are analysed together with the impact of foreign exchange and fuel costs. The analysis is carried out on the Group's main operating companies, Aer Lingus, Avios, British Airways, Iberia, and Vueling. Consistency of these management accounts with the published quarterly Group accounts leads to a high degree of confidence in the integrity of the published accounts.

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within each operating company, the finance and accounting departments consolidate, review and approve the financial information. The consolidated financial information is reviewed by the Chief Financial Officer of each operating company, prior to submission to IAG. These reviews will ensure that all material business risks have been properly recorded in the financial statements, confirm the accounting treatment of judgemental areas and ensure the proper application of new accounting standards and guidance notes.

The Company consolidation process involves a critical review of Aer Lingus, Avios, British Airways, Iberia and Vueling group submissions. For specialist areas, such as treasury, consolidated information is reviewed by subject specialists to identify anomalies, inconsistencies with management accounting information, and any inconsistent interpretation of instructions within the Group. The final accounts are reviewed by the Group Financial Controller together with the Chief Financial Officer. A peer review is also carried out by an experienced finance manager that has not been involved in the latter stages of the consolidation process.

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed in advance of the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters.

The scope of ICFR in the Group has been based on the material subsidiaries being Aer Lingus, Avios, British Airways, Iberia and Vueling and processes performed by IAG GBS and IAG Cargo on behalf of the material subsidiaries. The scope of ICFR also includes the Company for Entity Level Controls and the Financial Statement Consolidation Process. The Group ICFR model contains a Finance Risk & Control Matrix that includes entity level controls, IT general controls and 19 main business processes considered relevant to the preparation of the financial statements. The processes are listed below.

a. Financial Statement Closing Process
b. Passenger Sales – Ticket Sales
c. Passenger Sales – Travel
d. Passenger Sales – Billing/Interline Billing
e. Cargo Sales
f. Alliance Partner Arrangements
g. Other Revenue
h. Buying Goods and Services
i. Buying Goods and Services - User charges
j. Payroll
k. Fixed Assets – Aircraft
l. Fixed Assets – Ground Assets
m. Fixed Assets – Engines and Engine Parts
n. Fixed & Current Asset Inventory – Engineering
o. Debtors & Invoicing
p. Fuel
q. Avios
r. Treasury
s. Tax

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the operating companies via the IAG ICFR Policy. Business process owners are also responsible for the documentation of processes and sub processes, and can call on the support of the Internal Control Team where required.

ICFR controls including 541 key controls have been defined across the 19 business processes and IT general controls in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

Internal control policies and procedures for IT systems giving support to key company processes regarding the preparation and publication of financial information

The Company has established the Baseline Information Security Standard which applies to all operating companies across the Group. IAG GBS Group IT Security is responsible for leading, managing and coordinating the dissemination and implementation of information security practice within IAG. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

The Standard requires that all personnel working for the Group shall be organised in such a way as to minimise the risk of unauthorised changes to information, error, theft or fraud.

IAG Global Business Services (GBS) manage and support IT systems for British Airways and Iberia. IT systems used by Vueling, Avios and Aer Lingus are either managed by those operating companies or by IAG Global Business Services (GBS), depending on IT processes in accordance with the IAG Information Security Standard which is grouped under the following areas:

a. Organisation of Information Security
b. Information Security Awareness and Training
c. Risk Management
d. Segregation of Duties
e. Access Control and Privilege Management
f. Physical Security
g. Password Management
h. Logging and Monitoring
i. Network and Infrastructure
j. Security Patching and Virus Protection
k. System Developments and Change Management
l. Systems and Security Operations
m. Compliance

The Group IT General Controls (ITGCs) are aligned with the IAG Information Security Standard. There are 18 key ITGCs supporting the financial reporting processes. All systems used by the Group including those related to financial reporting must comply with the IAG Information Security Standard as it provides clear direction concerning expectations for internal controls that are required to cover the inherent risks over the following four IT system management areas:

a. IT environment
   i. The IT organisational structure and description of responsibilities
   ii. IT systems architecture and infrastructure
b. Secure access
   i. Access to system is managed via clear segregation of duties
   ii. Application owners are responsible to keep their systems free of unauthorised and inappropriate users and access
   iii. Users will only have access to data and functionality required to carry out the tasks assigned to them by the Group
   iv. Logical access controls include procedures for adding, changing and deleting users
   v. Restriction of privileged access rights to application support teams
   vi. Requirement to have personalised credentials for each user accessing the application
   vii. Password settings are configured appropriate to prevent unauthorised access to systems
   viii. Physical access control including restricting access to computer facilities to authorised individuals
c. System Development and Change Management
   i. Control of changes
   ii. Approval and authorisation of changes
   iii. Testing of changes
   iv. Release management
d. Systems Operations
   i. Management of back-up files
   ii. Incident management
   iii. Management of job scheduling
   iv. Management of external partners and third parties
   v. Disaster contingency and recovery plans for IT systems

Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements

For outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. British Airways, Iberia, Avios, Vueling and IAG Cargo have outsourced financial process support to Accenture and Aer Lingus to Capita. Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

When the Group outsources relevant processes for the preparation of financial information to an independent expert, it ensures the professional's technical and legal competence. The Group has identified six processes outsourced to independent experts relevant to financial reporting.

a. British Airways outsources the derivation of pension scheme valuation and accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;
b. Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;
c. The Group outsources the valuation of assets and liabilities as a part of business combinations;
d. IAG outsources the calculation of the fair values of share based payment plans; and
e. Aer Lingus outsources the valuation of pension scheme assets and liabilities.

Mechanisms for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR

The Group Financial Reporting department issues reporting instructions at each quarter end. These instructions establish a timetable for key closing activities such as agreeing intragroup balances, submitting the main accounting results and detailed disclosures. Assumptions to be used for accounting tests such as Weighted Average Cost of Capital and percentage sensitivities on derivative transactions are determined centrally and included in the instructions. The format of information to be submitted and the entities expected to submit the information is determined within the consolidation system which includes validation tests for completeness and internal consistency.

Disclosures relating to ICFR are validated by senior accounting professionals identified by the Chief Financial Officers of IAG, Aer Lingus, Avios, British Airways, Iberia, and Vueling.

ICFR Monitoring

The IAG Audit and Compliance Committee reviews all disclosures relating to ICFR and validates the Group's approach to complying with the CNMV's ICFR recommendations. In this respect the Audit and Compliance Committee has been careful to achieve an appropriate balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach.

The Group's ICFR includes the Company, Aer Lingus, Avios, British Airways, IAG GBS, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Audit and Compliance Committee is supported by the Internal Audit department.

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors.

The results of audits are discussed at the Aer Lingus, Avios, British Airways, Iberia and Vueling Boards of Directors or Management Committees, and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by Internal Audit are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient" or a "material weakness" in an internal control over financial reporting.

ICFR 2018 Scope and Results

Entity Level Controls, ITGCs and 19 business processes have been identified as having a major impact on financial reporting for 2018. There are 10 processes in scope for Aer Lingus, two processes in scope for Avios, 18 processes in scope for British Airways, 16 processes in scope for Iberia, and seven processes in scope for Vueling.

Across the entities and business processes identified, the 541 key controls are made up of 451 business process key controls and 90 key IT general controls.

All in scope processes and key ITGCs have been tested. No material weaknesses were detected. A total of 12 substantial weaknesses and 128 weaknesses were detected. Action plans were put in place with process owners to address each of these internal control weaknesses and will be tracked by Internal Audit.

RELATIONSHIP WITH FINANCIAL ANALYSTS, INVESTMENT BANKS AND CREDIT RATING AGENCIES

The Board of Directors approved in January 2016 a Shareholder Communication Policy regarding communication and contact with shareholders, institutional investors and proxy advisors that regulates the relationship and channels of communication of the Company with shareholders, institutional investors and proxy advisors. This policy complies in full with market abuse regulations and provides an equitable treatment to shareholders in the same position.

In addition, the Company has a Group Standing Instruction on business integrity in order to ensure compliance with competition and anti-bribery legislation. As stated in this Instruction, IAG and its staff are bound by values of integrity and responsibility; the Company is firmly committed to maintaining the highest standards of ethics, honesty, openness and accountability.

This Instruction applies to all staff of IAG and its subsidiary companies and to suppliers and their representatives when working for IAG. A breach of these principles will be managed in accordance with the Company's established disciplinary procedures or contract engagement terms. In accordance with this policy, staff should immediately report any actual or potential breaches of the Instruction to their line managers or, if not appropriate for whatever reason, to the Chief of Staff or General Counsel. All matters will be dealt with in confidence. Timely, appropriate and thorough investigations will be carried out into all cases of actual or suspected breaches whether discovered or reported. There is also mandatory training providing specific guidance on how these policies apply to staff in their respective roles.

This Instruction also prevents the offering or making of payments or the offering or promising of gifts to dishonestly influence a decision or to induce or reward a person for improper performance of their functions or job activity.

The Company has established whistleblowing procedures so that staff can report any malpractice. In addition to this, there is a whistle blower hotline as an alternative for those employees who, for whatever reason, do not feel comfortable using internal procedures. This hotline is an independent, confidential call bureau. All calls are forwarded to the highest level of management within IAG.

Finally, conflict of interest situations are also covered within IAG's employees' regulations, establishing appropriate reporting obligations. If employees become aware of any potential conflicts of interest, these must be disclosed to the Company as soon as possible.

Audit Report on the "Information related to Internal Control over Financial Reporting (ICFR)"of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. for the year ended December 31, 2018

EY
Building a better working world

Ernst & Young, S.L.
C/ Raimundo Fernández Villaverde, 65
28003 Madrid

Tel.: 902 365 456
Fax.: 915 727 300
ey.com

AUDIT REPORT ON THE "INFORMATION RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)"

To the Directors of International Consolidated Airlines Group, S.A.

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated February 8, 2019, we have performed certain procedures on the ICFR-related information of IAG, included in the Appendix of the 2018 Corporate Governance Report "Internal Control over Financial Reporting (ICFR)", which summarizes the internal control procedures of IAG in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information disclosed in the Appendix to the Annual Report "Internal Control over Financial Reporting (ICFR)".

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by IAG in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of IAG internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the IAG financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission (hereinafter CNMV) on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures is limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2018 described in the ICFR related information in the Appendix to the Annual Report "Internal Control over Financial Reporting (ICFR)" of the Corporate Governance Report. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by IAG in relation to the ICFR - which is provided in the Annual Corporate Governance Report (ACGR) - and assess whether such information addresses all the required information which will follow the minimum content detailed in section F, relating to the description of the ICFR, as per the ACGR model established by CNMV Circular nº 5/2013 dated June 12, 2013, subsequently amended by CNMV Circular nº 7/2015 dated December 22, 2015 and CNMV Circular nº 2/2018 dated June 12, 2018 (hereinafter CNMV Circulars).

2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:

    a. Obtain an understanding of the process followed in its preparation

    b. Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework

    c. Obtain information on whether the control procedures described are implemented and in use by IAG

3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit and Compliance Committee.

4. Compare the information described in point 1 above with our knowledge of IAG's ICFR obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.

5. Read the minutes of the meetings held by the Board of Directors, Audit and Compliance Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.

6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were observed that might have an impact on ICFR-related information.

Building a better
working world

This report was prepared exclusively within the framework of the requirements of the article 540 of the consolidated text of the Spanish Corporate Enterprises Act and by the CNMV Circulars related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

Hildur Eir Jónsdóttir

March 4, 2019

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES - STATISTICS

THE ISSUER'S IDENTIFYING DATA

DATE OF END OF REFERENCE FINANCIAL YEAR	31/12/2018

TAX IDENTIFICATION NO.	A-85845535

CORPORATE NAME
International Consolidated Airlines Group, S.A.

REGISTERED OFFICE
El Caserío, Iberia Zona Industrial, nº 2 (La Muñoza), Camino de la Muñoza, s/n, 28042 Madrid

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

- STATISTICS

A. CAPITAL STRUCTURE

A.1 Complete the table below with details of the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
November 7, 2018	996,016,317	1,992,032,634	1,992,032,634

State whether there are different classes of shares with different associated rights:

No

Type	Number of shares	Nominal amount	Nominal amount of voting rights	Rights and obligations granted
-	-	-	-	-

A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Qatar Airways (Q.C.S.C)	21.426	0	0	0	21.426
Capital Research and Management Company	0	10.722	0	0	10.722
Europacific Growth Fund	5.388	0	0	0	5.388
BlackRock Inc.	0	3.128	0	0.274	3.402
Lansdowne Partners International Limited	0	1.712	0	2.243	3.955
Lansdowne Developed Markets Master Fund Ltd	0	0	2.000	0	2.000

Breakdown of indirect holding:

Name or corporate name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights

Capital Research and Management Company	Collective investment institutions managed by Capital Research and Management Company	10.722	0	10.722
BlackRock Inc	Funds and accounts managed by investors controlled by BlackRock Inc	3.128	0.274	3.402
Lansdowne Partners International Limited.	Funds and accounts managed by Lansdowne Partners (UK) LLP.	1.712	2.243	3.955

A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	% voting rights attributed to shares		% voting rights through financial instruments		% of total voting rights	% of voting rights that can be transmitted through financial instruments
	Direct	Indirect	Direct	Indirect		
Antonio Vázquez	0.03	0	–	0	0.03	0
Willie Walsh	0.1	0	0.07	0	0.17	0
Marc Bolland	0.00	0	-	0	0.00	0
Patrick Cescau	0.00	0	–	0	0.00	0
Enrique Dupuy de Lôme	0.03	0	0.03	0	0.06	0
Deborah Kerr	0.00	0	-	0	0.00	0
María Fernanda Mejía	0.00	0	–	0	0.00	0
Kieran Poynter	0.00	0	–	0	0.00	0
Emilio Saracho	0.00	0	-	0	0.00	0
Dame Marjorie Scardino	0.00	0	–	0	0.00	0
Nicola Shaw	0.00	0	-	0	0.00	0
Alberto Terol	0.00	0	_	0	0.00	0

% of total voting rights held by the Board of Directors:	0.16

A.7 State whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Companies Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

No

Parties to the shareholder's agreement	% of affected shares	Brief description of agreement	Date of termination of agreement, if applicable
–	–	–	

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Parties to the concerted action	% of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable
–	–	–	

A.8 State whether any individuals or legal entities currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Law: If so, identify:

No

Name or corporate name
–

A.9 Complete the following table with details of the company's treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
8,721,835	0	0.438

(*) Through:

Name or corporate name of direct stake	Number of shares held directly
–	–
Total	–

A.11 Estimated working capital

	%
Estimated floating capital	57.026

A.14 State whether the company has issued shares which are not traded in a regulated market of the European Union.

No

B. GENERAL SHAREHOLDERS' MEETING

B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous years:

			Attendance data		
			% remote voting		
Date of shareholders' meeting	% attending in person	% by proxy	Electronic means	Other	Total
June 16, 2016	0.11	64.20	0.00	4.28	68.59
Of which floating capital	0.08	43.29	0.00	4.29	47.66
June 15, 2017	0.06	63.72	0.01	2.75	66.54
Of which floating capital	0.07	43.71	0.01	2.75	46.50
June 14, 2018	0.09	68,40	0.00	2.64	71.13
Of which floating capital	0.03	47.66	0.00	2.64	50.34

B.5 State whether any points on the agenda of the General Shareholders' Meetings during the year have not been approved by shareholders.

No

B.6 State if the Bylaws contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

No

Number of shares required to attend the shareholders' meetings	–
Number of shares required for remote voting	–

C. GOVERNING STRUCTURE OF COMPANY

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	14
Minimum number of directors	9
Number of directors set by the general meeting	12

C.1.2 Complete the following table with directors:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Last re-election date	Method of selection to the Board
Antonio Vázquez	–	Independent	Chairman	May 25, 2010	June 14, 2018	Vote at the Shareholders' Meeting
Willie Walsh	–	Executive	Chief Executive Officer	May 25, 2010	June 14, 2018	Vote at the Shareholders' Meeting
Marc Bolland	-	Independent	Director	June 16, 2016	June 14, 2018	Vote at the Shareholders' Meeting
Patrick Cescau	–	Independent	Director	September 27, 2010	June 14, 2018	Vote at the Shareholders' Meeting
Enrique Dupuy de Lôme	–	Executive	Director	September 26, 2013	June 14, 2018	Vote at the Shareholders'

						Meeting
Deborah Kerr	-	Independent	Director	June 14, 2018	June 14, 2018	Vote at the Shareholder's Meeting
María Fernanda Mejía	–	Independent	Director	February 27, 2014	June 14, 2018	Vote at the Shareholders' Meeting
Kieran Poynter	–	Independent	Director	September 27, 2010	June 14, 2018	Vote at the Shareholders' Meeting
Emilio Saracho	-	Independent	Director	June 16, 2016	June 14, 2018	Vote at the Shareholders' Meeting
Dame Marjorie Scardino	–	Independent	Director	December 19, 2013	June 14, 2018	Vote at the Shareholders' Meeting
Nicola Shaw	-	Independent	Director	January 1, 2018	June 14, 2018	Vote at the Shareholders' Meeting
Alberto Terol	–	Independent	Director	June 20, 2013	June 14, 2018	Vote at the Shareholders' Meeting

Total number of directors:	**12**

Indicate any board members who left the board by resignation, dismissal or by other cause, during this information period:

Name or corporate name of director	Category of the director at the time of leaving	Date of last appointment	Leaving date	Committees of which he was a member	Indicate whether the Director left before the end of term
James Lawrence	Independent	June 15 2017	June 14 2018	Audit and Compliance Committee (until June 2017)	No

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company organization chart	Profile
Willie Walsh	Chief Executive Officer	**Key areas of experience:** airline industry. **Current external appointments:** Chairman, Airlines for Europe (A4E). **Previous relevant experience:** Chairman of the National Treasury Management Agency of Ireland, 2013 – 2018. Chairman, IATA Board of Governors 2016-2018. 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.
Enrique Dupuy de Lôme	Chief Financial Officer	**Key areas of experience:** finance, airline industry. **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 at Enadimsa (INI Group), 1982-1985. Chairman IATA finance committee, 2003-2005.

Total number of executive directors	2
% of the total of the board	16.67

PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment	Profile
–	–	–
Total number of proprietary directors	–	–
% of the total of the board	–	–

INDEPENDENT DIRECTORS

Individual or corporate name of director	Profile
Antonio Vázquez	**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 Operations Officer and other various positions, Cigar Division of Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993. Began his career in consultancy at Arthur Andersen & Co.
Marc Bolland	**Key areas of experience**: general management, commercial management/marketing, retail, hospitality industry. **Current external appointments**: Head of European Portfolio Operations, The Blackstone Group, 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.
Patrick Cescau	**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 and 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.
Deborah Kerr	**Key areas of experience:** technology, digital, marketing, operations, software and services, general management. **Current external appointments**: Director, NetApp, Inc. Director, Chico's FAS, Inc. Director, 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.
María Fernanda Mejía	**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's 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.
Kieran Poynter	**Key areas of experience**: professional services, finance services, corporate governance and corporate transactions. **Current external appointments**: Chairman, BMO Asset Management (Holdings) Limited. 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 1998-2000.
Emilio Saracho	**Key areas of experience**: corporate finance, investment banking, corporate transactions. **Current external appointments**:Director, Altamar Capital Partners. Director, Inditex. **Previous relevant experience**: Chairman of Banco Popular Español 2017. Vice Chairman and Member of the Investment Banking Management Committee, JPMorgan 2015-2016. Deputy CEO 2012-2015, CEO Investment Banking for EMEA 2012-2014 and member of the Executive Committee 2009-2013, JP Morgan CEO, JP Morgan Private Banking EMEA 2006-2012. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain and Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Spanish Market Manager, Goldman Sachs International 1990-1995.
Dame Marjorie Scardino	**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. 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.

Individual or corporate name of director	Profile
Nicola Shaw	**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
Alberto Terol	**Key areas of experience:** finance, professional services, information technology, hospitality industry. **Current external appointments:** Vice Chairman, Leading Independent Director and Chairman of the Nominations and Remuneration and Corporate Governance Committee, Indra Sistemas. Chairman of the Supervisory Board, Senvion, GmbH. Chairman of the Audit Committee, Sevion 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

Total number of external independent directors	10
% of the board	83.33

List any external independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No

If applicable, include a justified statement from the board detailing the reasons why the said director may carry on their duties as an external independent director.

Name or corporate name of director	Description of the relationship	Justified statement
–	–	–

OTHER NON-EXECUTIVE DIRECTORS

List the reasons why these cannot be considered proprietary or external independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Company, executive or shareholder with whom the relationship is maintained

Total number of other non-executive directors	0
% of the total of the board	0

List any changes in the category of each director which have occurred during the year in the category of each director.

Name or corporate name of director	Date of change	Previous category	Current category

C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
External independent	4	2	3	3	33.33	25.00	30.00	33.33
Other non-executive	0	0	0	0	0	0	0	0
Total	4	2	3	3	33.33	18.18	25.00	25.00

C.1.11 List any company board members or representatives of board members who are legal entities of the company who sit on the board of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Position
Marc Bolland	The Coca-Cola Company	Non-Executive Director
Marc Bolland	Exor S.p.A	Non-Executive Director
Patrick Cescau	InterContinental Hotels Group PLC	Non–Executive Chairman
Kieran Poynter	British American Tobacco PLC	Non–Executive Director
Emilio Saracho	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Dame Marjorie Scardino	Twitter, Inc.	Non–Executive Director
Alberto Terol	Indra Sistemas, S.A.	Non–Executive Director

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

Yes

Explanation of rules

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a director shall not hold more than six other directorships of which no more than four, in the case of non-executive directors, and no more than one, in the case of executive directors, can be in public listed companies. In any event, prior consent from the Nominations Committee is required before an executive director can accept any external directorship appointment.

Asset-holding or pure investment companies are excluded for the purposes of the preceding paragraph. Furthermore, companies belonging to the same group shall be considered as a single company.

C.1.13 List the total remuneration of the board:

Board compensation in the financial year in favour of the Board of Directors (thousands of euros)	7,280
Amount of vested pension interests for current members (thousands of euros)	320
Amount of vested pension interests for former members (thousands of euros)	3,752

C.1.14 Identify senior management who are not executive directors and indicate their total remuneration accrued during the year:

Name or corporate name	Position(s)

Alex Cruz	Executive Chairman of British Airways
Luis Gallego	Executive Chairman of Iberia
Robert Boyle	Director of Strategy
Javier Sanchez-Prieto	Vueling Chief Executive Officer
Ignacio de Torres	Director of Global Services
Christopher Haynes	General Counsel
Julia Simpson	Chief of Staff
Andrew Crawley	Avios Chief Executive Officer
Stephen Kavanagh	Aer Lingus Chief Executive Officer
Lynne Embleton	IAG Cargo Chief Executive Officer

Total remuneration received by senior management (thousands of euros)	14,633

C.1.15 State whether the Board rules were amended during the year:

No

Description of amendments

–

C.1.21 Explain whether there are any specific requirements, apart from those relating to the directors, to be appointed as chairman of the Board of Directors:

No

Description of requirements
–

C.1.23 State whether the bylaws or the board rules establish any term limits or other additional stricter requirements for independent directors other that those required by law:

No

Additional requirements and/or maximum number of years in office
–

C.1.25 State the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	10
Number of board meetings held without the Chairman's attendance	0

Indicate the number of meetings held under the chairmanship of the lead director with the rest of directors, without the presence of an executive director.

Number of meetings	–

Indicate the number of meetings of the various board committees held during the year.	
Number of meetings of the Executive Committee	-
Number of meetings of the Audit and Compliance Committee	8

Number of meetings of the Appointments and Remuneration Committee	–
Number of meetings of the Nominations Committee	6
Number of meetings of the Remuneration Committee	5
Number of meetings of the Safety Committee	2

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, attendance will also include proxies appointed with specific instructions.

Number of meetings held with at least 80% of directors attendance	9
% of attendances of the total votes cast during the year	38.33
Number of meetings in situ or representations made with specific instructions of all directors	5
% of votes issued at in situ meetings or with representation made with specific instructions out of all votes cast during the financial year	98.33

C.1.27 State whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their approval by the board.

Name	Position
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

C.1.29 Is the secretary of the board also a director?

No

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
Álvaro López-Jorrín	–

C.1.31 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

No

Outgoing auditor	Incoming auditor
–	–

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

Explanation of the disagreements
–

C.1.32 State whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes

	Company	Group	Total
Amount invoiced for non-audit services (in thousands euros)	27	1,024	1,051
Amount invoiced for non-audit services/ Amounts for audit work (in %)	4%	18%	17%

C.1.33 State whether the auditors' report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

Explanation of reasons
–

C.1.34 State the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	9	9

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	100	100

C.1.35 Indicate and give details of any procedures through which directors may receive the necessary information for the correct preparation of the Board of Directors meetings with enough time:

Yes

Procedures

In accordance with article 26 of the Board Regulations, in order to be assisted in the performance of his or her duties, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may submit it to the prior approval of the Board of Directors. Such approval may be denied in well-founded instances, including the following circumstances:

a) Where it is not necessary for the proper performance of the duties entrusted to the directors;

b) Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;

c) Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or

d) Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

C.1.39 Identify, individually when referred to directors and in general in the rest of cases, and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, guarantee or "golden parachute" clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

Number of beneficiaries
12

Type of beneficiary	Description of the resolution
Executive Directors and IAG Management Committee	There are no express provisions in executive directors and senior executives service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The period of notice required from the executive directors and senior executives is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of six months' basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second six months period only becomes payable if, in the Company's reasonable opinion, the executive directors and senior executives have taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive directors and senior executives (including salary and benefits) referable to work done in that month.
Chairman	Antonio Vázquez has a specific agreement if his service contract is terminated for whatever reason. Additional information on this agreement has been provided in the Annual Report on the Remuneration of the Directors.

Indicate beyond the situations referred by law, whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group. If so, specify the procedures, situations referred and the nature of the responsible bodies of its approval or report.

	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	

	Yes	No
Is the Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all board committees, their membership and the proportion of executive, proprietary, independent and other external directors that comprise them:

AUDIT COMMITTEE

Name	Position	Type
Kieran Poynter	Chairman	Independent
Patrick Cescau	Member	Independent
Maria Fernanda Mejia	Member	Independent
Alberto Terol	Member	Independent
Deborah Kerr	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

Identify the members of the Audit Committee that have been appointed taking into account their knowledge and experience in accounting and audit matters, or both, and inform the date in which the president of this Committee was appointed.

Name of director with experience	Kieran Poynter
Date of appointment of the Chairman	06/16/2016

NOMINATIONS COMMITTEE

Name	Position	Type

Antonio Vázquez	Chairman	Independent
Patrick Cescau	Member	Independent
Emilio Saracho	Member	Independent
Dame Marjorie Scardino	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

REMUNERATION COMMITTEE

Name	Position	Type
Dame Marjorie Scardino	Chairman	Independent
Marc Bolland	Member	Independent
María Fernanda Mejía	Member	Independent
Alberto Terol	Member	Independent
Nicola Shaw	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

SAFETY COMMITTEE

Name	Position	Type
Willie Walsh	Chairman	Executive
Antonio Vázquez	Member	Independent
Marc Bolland	Member	Independent
Kieran Poynter	Member	Independent
Nicola Shaw	Member	Independent

% of executive directors	20
% of proprietary directors	–
% of external independent directors	80
% of other non-executive directors	–

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the last four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	2	40	1	25	1	20	0	0
Nominations Committee	1	25	1	25	2	40	1	25
Remuneration Committee	3	60	2	50	3	60	3	75
Safety Committee	1	20	0	0	0	0	0	0

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.2 Describe any relevant transactions that are significant, either by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Interest received	876
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Cash deposits	98,092
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Contractual	Interline Sales	43,521
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Contractual	Interline Purchases	120,752

D.3 Describe any transactions that are significant, by virtue of their amount or importance, entered into between the company or its group of companies and the company's managers or directors.

Name or corporate name of director or senior manger	Name or corporate name of related party	Connection	Relationship	Amount (in thousands of euros)
–	–		–	–

D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
–	–	–

D.5 State any significate transactions conducted between the company or any group companies, with other related parties that have not been reported in the previous sections.

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
Dunwoody	Sales to associates (income)	4,864
IBECA	Sales to associates (income)	62
Iberia Cards	Sales to associates (income)	721
Multiservicios Aeroportuarios (IB)	Sales to associates (income)	323
Serpista (IB)	Sales to associates (income)	642
Air Miles (IB)	Sales to associates (income)	4
Aerohandling LTD (VY)	Purchases from associates (expenses)	48
Dunwoody (BA)	Purchases from associates (expenses)	6,173
IBECA(IB)	Purchases from associates (expenses)	143
Multiservicious Aeroportuarios (IB)	Purchases from associates (expenses)	27,256
Serpista (IB)	Purchases from associates (expenses)	13,395
Multiservicios aeroportuarios, S.A. (VY)	Purchases from associates (expenses)	7,295
Aerohandling LTD (VY)	Purchases from associates (expenses)	493
Perez-Llorca abogados, S.L.P y cía (VY)	Purchases from associates (expenses)	138
TOTAL		61,669

D.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain and its relationship with the company.

Identity and relationship with other listed group companies
–

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

   Explain

   IAG considers that it does not comply with this recommendation because of the restrictions included in the Bylaws of the Company in relation to the ownership of shares. This is a partial non-compliance because these restrictions derive directly from the ownership and control restrictions set out in the applicable law or in the bilateral air transport treaties signed by Spain and the United Kingdom and are not simply determined discretionarily by the Company.

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

   a) The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;

   b) The mechanisms in place to resolve possible conflicts of interest.

   Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

   a) Changes taking place since the previous annual general meeting.

   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

   Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

   Complies

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20 per cent of capital at the time of such delegation.

   When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

   Complies

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.

   b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

   c) Audit committee report on third-party transactions.

   d) Report on corporate social responsibility policy.

   Complies

7. The company should broadcast its general meetings live on the corporate website.

   Complies

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

   Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

    a) Immediately circulate the supplementary items and new proposals.

    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable;

b) Ensures that appointment or reelection proposals are based on a prior analysis of the board's needs; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Complies

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

    The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

    Complies

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

    The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

    Complies

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

    When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

    The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

    Complies

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

    Complies

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

    The board of directors' regulations should lay down the maximum number of company boards on which directors can serve.

    Complies

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

    Complies

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

    Complies

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

    Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

    Complies

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

    Complies

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

    For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

    Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

    Complies

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

    Complies

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

    Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

    Complies

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

    a) The quality and efficiency of the board's operation.
    b) The performance and membership of its committees.
    c) The diversity of board membership and competences.
    d) The performance of the chairman of the board of directors and the company's chief executive.
    e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

    The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

    Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

    Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

    The process followed and areas evaluated should be detailed in the annual corporate governance report.

    Complies

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

    Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

    Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

    Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

    Complies

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

    Complies

42. The audit committee should have the following functions over and above those legally assigned:

    1. With respect to internal control and reporting systems:

        a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

        b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

        c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

    2. With regard to the external auditor:

        a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

        b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

        c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

        d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

        e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

    Complies

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Not applicable

45. Risk control and management policy should identify at least:

    a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.

    b) The determination of the risk level the company sees as acceptable.

    c) The measures in place to mitigate the impact of identified risk events should they occur.

    d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and offbalance-sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

    a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

    b) Participate actively in the preparation of risk strategies and in key decisions about their management.

    c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

    When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

    a) Propose to the board the standard conditions for senior officer contracts.

    b) Monitor compliance with the remuneration policy set by the company.

    c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

    d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

    e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations.

    They should include at least the following terms:

    a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

    b) They should be chaired by independent directors.

    c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

    d) They may engage external advice, when they feel it necessary for the discharge of their functions.

    e) Meeting proceedings should be minuted and a copy made available to all board members.

Partially complies

The Board of Directors of IAG, under its powers of self-organisation, considers it appropriate to have a Safety Committee in order to exercise a high level overview of each airline's safety performance and of any important issues that may affect the industry, although responsibility for safety matters belongs to each of the Group's airlines. This Committee is governed by the same principles as all Board Committees and has a clear majority of non-executive directors.

However, the Committee's composition is not compliant with the Code's recommendation as an executive director, the Chief Executive, is a member of this Committee, being also its chairman. The Board believes this to be appropriate in the current circumstances for the following reasons:

a) IAG is a holding, non-operational company, exercising a supervisory role within the Group.

b) Consistent with the civil aviation regulatory framework, responsibility for safety matters remains with each operating airline.

c) The technical nature of safety issues and the fact that each operating airline has its own particular characteristics makes it advisable that the Group's top executive leads this Committee and coordinates the reporting of the different Group airlines.

Furthermore, the remaining Committee members are independent directors of IAG, including the Chairman of the Board and the Chairman of the Audit and Compliance Committee.

Finally, it has to be taken into consideration that safety is a highly regulated area that is subject to strict reporting requirements to the local regulatory authorities of each airline and to regular external audit reviews.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies

H. OTHER INFORMATION OF INTEREST

List whether any directors voted against or abstained from voting on the approval of this Report.

No

Name or corporate name of director that did not vote in favour of approving this report	Reasons (voted against, abstention, non-attendance)	Explain the reasons

I hereby declare that the data included in this statistical annex match and are consistent with the descriptions and data included in the annual corporate governance report published by the company.