Michael (Mike) Wells prepared this case study to support workshop discussion designed to foster the development of a cohesive understanding of the connectivity between IFRS financial statements and climate-related sustainability disclosures and as a basis for developing capacity to make the judgements necessary to prepare/audit/regulate/supervise/analyse such financial information.

Context: IFRS Standards

IFRS Accounting Standards are specified as a basis for preparing corporate financial statements in more than 140 jurisdictions.[1]

On 26 June 2023, the inaugural IFRS Sustainability Disclosure Standards were issued, in the form of:[2]

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*; and
- IFRS S2 *Climate-related Disclosures*.

Together these two sets of IFRS Standards provide an international base-line for general purpose financial reports.

The objective of general purpose financial reports[3] is to provide financial information about the reporting entity that is useful to primary users[4] in making decisions relating to providing resources to the reporting entity.[5] (paragraph 1.2 of *The Conceptual Framework for Financial Reporting* and Appendix A *Defined Terms* to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*)

To be useful, financial information must not only represent relevant[6] phenomena, but it must also faithfully represent[7] the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon. (paragraph 2.12 of *Conceptual Framework* and paragraph D3 of IFRS S1)

The use of reasonable judgements and estimates is an essential part of preparing general purpose financial reports and does not undermine the usefulness of the information if the material estimates and other significant judgements are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information. (paragraphs 1.1 and 2.19 of *Conceptual Framework* and paragraphs 74 and 79 of IFRS S1)

IFRS financial statements provide relevant information about the assets, liabilities, equity, income and expenses of the reporting entity. (paragraph 3.15 of *Conceptual Framework*)

[1] Source: www.ifrs.org

[2] Source: www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/ (accessed on 22/11/2023)

[3] Including financial statements and sustainability-related financial disclosures

[4] Existing and potential investors, lenders and other creditors

[5] In particular, (a) buying, selling or holding equity and debt instruments; (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

[6] Financial information is relevant if it is capable of making a difference in the decisions of primary users.

[7] A faithful representation of the substance of relevant phenomena, depicted in numbers and words, that is complete, neutral and free from error/accurate.

 This material has benefited greatly from peer review by a number of anonymous reviewers.

IFRS sustainability-related financial disclosures provide relevant information about the reporting entity's sustainability-related risks and opportunities. (Appendix A to IFRS S1)

Connectivity requirements

IFRS connectivity requirements are specified in paragraphs 21–24 and B39–B44 of IFRS S1.

Connectivity provides clear and concise linkages that enable primary users to understand the connections:

- between the reporting entity's material sustainability-related risks and opportunities (for example,[8] if an entity identified a trade-off between two sustainability-related risks it is exposed to and took action on the basis of its assessment of that trade-off, connected information will depict the relationship between those risks and the entity's strategy);
- within the reporting entity's sustainability-related financial disclosures (for example,[9] (i) between disclosures on governance, strategy and risk management; and (ii) between narrative information and quantitative information (like the related metrics and targets); and
- between the reporting entity's financial statements and its sustainability-related financial disclosures (for example,[10] if the reporting entity pursued a particular sustainability-related opportunity and that resulted in an increase in its revenue, connected information will depict that relationship between the entity's strategy and its financial performance).

Consequently, sustainability disclosures must be for the same reporting entity as the related financial statements (paragraphs 20 and B38 of IFRS S1), using a common materiality concept and focused on the common information needs of the same primary users.

Connectivity is further enabled by reporting entities, amongst other things:

- identify the financial statements to which the sustainability-related financial disclosures relate (paragraph 22 of IFRS S1);
- to the extent possible, using data and assumptions in its sustainability disclosures that are consistent with the data, assumptions and units of measure used in preparing its financial statements (paragraphs 23 and B42 of IFRS S1);
- using the entity's financial statements presentation currency in making its currency metric sustainability disclosures (paragraph 24 of IFRS S1).

Moreover, the reporting entity must avoid cluttering its financial information with unnecessary duplication and immaterial information. (paragraph B42(b) of IFRS S1)

Lastly, connectivity is achieved by the reporting entity disclosing information about significant disconnects in its financial information. For example, when significant differences exist between the data and assumptions used in preparing its sustainability disclosures and its related financial statements. (paragraph B42(c) of IFRS S1)

[8] Paragraph B40(b) of IFRS S1
[9] Paragraph B41(a) of IFRS S1
[10] Paragraph B40(a) of IFRS S1

 This material has benefited greatly from peer review by a number of anonymous reviewers.

UK general purpose reporting context

Climate reporting requirements

In the UK climate-related reporting requirements for registered entities are set out in Company Law. In particular:

- Since 2013, the Companies Act 2006 has required all large and medium-sized UK registered entities to file a Strategic Report as part of their publicly available Annual Report.
    - Stock exchange listed (quoted) companies are also required to include information about environmental matters (including the impact of their business on the environment), their employees and social community and human rights issues.
- For financial years beginning on or after 1 April 2019 SECR legislation[11] requires UK quoted, large unquoted and large limited liability partnerships (LLPs) to report on their energy use and greenhouse gas emissions.
- For accounting periods beginning on or after 1 January 2021 the Financial Conduct Authority's (FCA) listing Rules mandated climate reporting for, the nearly 900, premium listed companies to report against the recommendations of the Financial Stability Board's (FSB)[12] Task Force on Climate-related Financial Disclosures (TCFD) recommendations initially on a comply or explain basis.
- for financial years starting on or after 6 April 2022, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022[13] mandate TCFD disclosures for all large companies.

It is worth noting that the IFRS Sustainability Disclosure Standards are based on the TCFD recommendations.[14] The FSB views the ISSB Standards as a culmination of the work of the TCFD and has asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures.[15] Subsequently, the IFRS Foundation published a side-by-side *Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations*.[16] They explain that the core content requirements in IFRS Sustainability Disclosure Standards integrate the TCFD recommendations. In particular, IFRS S2 is consistent with:

- the four core recommendations—governance, strategy, risk management, metrics and targets); and
- 11 recommended disclosures published by the TCFD.

The core content requirements in IFRS S1 also integrate the TCFD recommendations.

The ISSB staff also explain that areas where IFRS S2 differs from the TCFD recommendations reflect differences between IFRS S2 and the TCFD's guidance, not the TCFD's core

[11] Source: www.legislation.gov.uk/uksi/2018/1155/made
[12] The FSB promotes international financial stability; it does so by coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies. It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions (source: www.fsb.org/about/).
[13] Source: www.legislation.gov.uk/uksi/2022/31/contents/made
[14] Source: www.fsb.org/2023/07/fsb-plenary-meets-in-frankfurt/ (accessed on 23/11/2023)
[15] Source: www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024/ (accessed on 23/11/2023)
[16] Source: www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/ifrs-s2-comparison-tcfd-july2023.pdf (accessed on 23/11/2023)

recommendations or recommended disclosures.[17] In particular, IFRS S2:

- uses different language;
- specifies the disclosure of some additional disclosures and sometimes more detailed information; and
- provides additional guidance.

In August 2023, following the issuance of IFRS S1 and S2, the UK Secretary of State for the Department for Business and Trade (DBT) confirmed the aim for endorsement decisions to create the first two UK Sustainability Disclosure Standards (UK SDS) to be made by July 2024. UK SDS will be based on IFRS Sustainability Disclosure Standards and will only divert from the global baseline if absolutely necessary for UK specific matters. Endorsement work will include an analysis of the interactions between IFRS Sustainability Disclosure Standards and existing UK legislation and regulation.[18]

UKEB[19] Climate-Related Matters Connectivity Research Report[20]

The UK Endorsement Board (UKEB) conducted a desktop review of 24 research reports and articles published, during the period February 2020 to April 2023, by both UK and global organisations. (paragraph 1 of executive summary)

Approximately 80% of the reports and articles reviewed noted concerns with a lack of connectivity between climate-related disclosures in companies wider Annual Reports (sometimes called the front half) and their annual financial statements (sometimes called the back half). (paragraph 3 of executive summary)

The report highlighted the following issues and observations: (paragraph 4 of executive summary)

- poor connectivity between various elements of the Annual Report.
- improvements on prior period disclosures but a lack of useful information.
- increased, but generally brief, disclosures, rarely inclusive of financial quantification.
- a lack of preparedness by entities and continued disconnects with financial reporting.
- limited evidence that climate change issues were being considered in the preparation of financial statements.
- insufficient decision-useful climate-related financial information, which may hinder investors, lenders, and insurance underwriters' efforts to appropriately assess and price climate-related risks.

[17] Introduction to IFRS Foundation's *Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations* (July 2023)
[18] Source: www.icaew.com/technical/corporate-reporting/non-financial-reporting/international-sustainability-disclosure-standards/ifrs-s1-and-ifrs-s2-in-the-uk
[19] The UKEB adopts and endorses IFRS Accounting Standards for use in the UK. It is an independent body, with specific delegated powers: to adopt international accounting standards for use within the UK, when they meet the statutory criteria; and, to influence the development of a single set of global international financial reporting standards. (paragraph 1.1)
[20] The content of the UKEB *Climate-Related Matters: Summary of Connectivity Research* report does not represent a UKEB policy position. (paragraph 6 of executive summary)

FRC (UK)

The FRC's core responsibility to enhance public trust and confidence in the quality of audit, corporate reporting and governance whilst supporting the UK's economic growth and international competitiveness [21]

We saw examples of TCFD disclosures[22] which were not well integrated with other elements of companies' narrative reporting. We expect companies to consider the interlinkages of TCFD disclosures with other narrative disclosures in the annual report. For example, they may need to consider the output of climate-related scenario analysis in discussion elsewhere in the strategic report about the company's business model and strategy, or to explain how climate-related risks have been assessed and prioritised compared to other risks.[23] (2022, p4) The FRC (UK) 'sees considerable variation in the quality of companies' disclosures of how climate change targets have been taken into account in the preparation of their financial statements disclosures. We also continue to see mixed practice in our routine correspondence with companies in respect of connectivity between climate-related information included in narrative reporting and financial statements disclosures.[24] (2023, p8)

Greenwashing continues to be an area of concern to investors, regulators and other stakeholders. … through our reviews of company reporting, we have identified some areas that companies should consider, or avoid, when reporting on metrics and targets:[25]

	Consider the overall clarity and balance of reporting, for example between climate-related risks and opportunities and ensuring that key messages are not obscured by the volume of reporting.
	Avoid placing undue focus on immaterial areas of their business which are considered more 'green' at the expense of more material business activities that may be more carbon intensive.
	Consider whether terminology used could imply a greater level of environmental benefit than has actually been achieved. For example, saying that carbon has been 'removed' rather than 'reduced', or that something is 'sustainable' or carbon 'positive without explaining what that means and how it is measured.
	Avoid using misleading presentation or making inappropriate metric comparisons to imply a greater level of performance than actually achieved.
	Ensure the scope and boundaries of any metrics or targets are clear, highlighting where significant areas of the business or activities are excluded, particularly if these are the higher emitting parts of the business.
	Explain the methodology, purpose and scope of any 'avoided emissions', 'Scope 4 emissions' or similar metrics, ensuring that comparisons are on an appropriate basis and the relationship to the company's emissions is explained.
	Explain significant areas of uncertainty that could impact the ability to meet targets, for example explaining where future plans are dependent on technological advances that have not yet been developed.

[21] Source: www.gov.uk/government/publications/financial-reporting-council-frc-remit-letter-from-business-secretary-november-2023

[22] For the purposes of answering this case study, consider TCFD disclosures to be the same as IFRS S2 *Climate-related Disclosures*.

[23] FRC (UK) CRR Thematic review of TCFD disclosures and climate in the financial statements, 2022 (p4)

[24] FRC (UK) CRR Thematic review of climate-related metrics and targets, 2023 (p8)

[25] FRC (UK) CRR Thematic review of climate-related metrics and targets, 2023 (p9)

The FRC's key expectations for good reporting of climate in the financial statements are:[26]

Connectivity with TCFD disclosures	Consider the connectivity between TCFD disclosures and the financial statements, and explain where necessary, including whether: • the emphasis placed on climate change risks and uncertainties in narrative reporting, including TCFD disclosures, is consistent with the disclosure of this impact of those uncertainties on judgements and estimates in the financial statements; • the relationships between assumptions and sensitivities considered in TCFD scenarios, and those in the financial statements, is clear; • emissions reduction commitments and strategies are appropriately reflected in the financial statements; • the scale of growth of businesses and climate-related opportunities is consistent between narrative and segmental disclosures; • the time periods disclosed for TCFD reporting are consistent with the going concern and viability statements; and • discussion of matters that may have an adverse effect on asset values or useful lives in the narrative reporting is consistent with judgements in the financial statements, for example, that there are no indicators of impairment.
Judgements and estimates	Consider whether disclosure of climate-related significant judgements or assumptions and sources of estimation uncertainty is required by paragraphs 122 or 125 of IAS 1. Companies should: • clearly distinguish between these disclosures and any additional disclosures which may be included to address longer term estimation uncertainty which is not expected to result in a material impact in the next financial year; and • consider to what extent the global warming outcomes targeted by the Paris Agreement, and relevant government and regulatory plans to reduce carbon emissions, need to be taken into account in measuring assets and liabilities and in fulfilling the disclosure requirements of IFRS standards.
Impairment	Explain how climate-related uncertainties have been reflected in impairment assessments, avoiding boilerplate statements that climate has been incorporated. Companies should: • ensure that quantified disclosures of impairment assumptions and sensitivities meet the requirements of IAS 36, including the additional requirements for cash generating units (CGUs) containing goodwill or indefinite lived intangibles; • explain how material climate uncertainties and transition plans discussed in the narrative reporting have been incorporated into the assessment including, where relevant, impacts on budget periods or terminal growth rates. We encourage companies to explain whether they have incorporated climate risk into cashflows or discount rates; and • explain significant movements in assumptions, including those associated with climate change.
Useful economic lives	Ensure useful lives of assets are appropriate in the context of the climate transition. Where there are published plans to replace material long-lived assets, or anticipated regulatory changes in a geography or industry which would drive

[26] FRC (UK), Appendix 2–Detailed FRC expectations–*Key expectations for good reporting of climate in the financial statements*, CRR Thematic review of TCFD disclosures and climate in the financial statements, 2022 (p128)

	early retirement of assets, we expect companies to explain how these matters have been taken into account in determining useful lives.
Revenue & segment disclosures	The extent of aggregation permitted in IFRS 8 and IFRS 15 depends on whether component businesses have similar characteristics. Companies should consider these requirements where businesses are subject to very different risks and uncertainties from the climate transition, and keep these disclosures under review as these businesses evolve.

You are required to discuss each of the following questions:

1) Is the reporting entity the same for IFRS financial statements and IFRS sustainability disclosures?

2) Are the IFRS financial statements and the IFRS sustainability disclosures focussed on the same users' needs?

3) Is the same materiality concept used for IFRS financial statements and IFRS sustainability disclosures?

4) Must a reporting entity's IFRS financial statements and its IFRS sustainability disclosures cover the same reporting period (ie coterminous reporting period)?

5) Must a reporting entity's IFRS financial statements and its IFRS sustainability disclosures be published at the same time (ie the same publication date)?

6) Must a reporting entity's IFRS financial statements and its IFRS sustainability disclosures be prepared using the same data, assumptions and units of measure?

7) Whose eyes must management look through when making the relevance judgements in preparing IFRS financial statements?
   (a) The reporting entity's management's eyes;
   (b) The reporting entity's auditor's eyes;
   (c) The reporting entity's regulators' eyes;
   (d) The general public's eyes;
   (e) The reporting entity's competitors' eyes; or
   (f) The eyes of the reporting entity's existing and potential investors, lenders and creditors that are not in a position to demand bespoke information from it.

8) Whose eyes must management look through when making the relevance judgements in preparing its climate-related financial disclosures?
   (a) The reporting entity's management's eyes;
   (b) The reporting entity's auditor's eyes;
   (c) The reporting entity's regulators' eyes;
   (d) The general public's eyes;
   (e) The reporting entity's competitors' eyes; or
   (f) The eyes of the reporting entity's existing and potential investors, lenders and creditors that are not in a position to demand bespoke information from it.

9) Whose eyes must the FRC (UK) look through when assessing the relevance judgements an issuer's management made in preparing IFRS financial statements?

   (a) The reporting entity's management's eyes;
   (b) The reporting entity's auditor's eyes;
   (c) The reporting entity's regulators' eyes;
   (d) The general public's eyes;
   (e) The reporting entity's competitors' eyes; or
   (f) The eyes of the reporting entity's existing and potential investors, lenders and creditors that are not in a position to demand bespoke information from it.

10) Whose eyes must the FRC (UK) look through when assessing the relevance judgements an issuer's management made in preparing climate-related financial disclosures?

   (a) The reporting entity's management's eyes;
   (b) The reporting entity's auditor's eyes;
   (c) The reporting entity's regulators' eyes;
   (d) The general public's eyes;
   (e) The reporting entity's competitors' eyes; or
   (f) The eyes of the reporting entity's existing and potential investors, lenders and creditors that are not in a position to demand bespoke information from it.

International Airlines Group (IAG) Annual Report 2022

Although relevant extracts from IAG's 2022 Annual Report are included in the body of this case study, to answer the questions set out below it is envisaged that workshop participants will access IAG's 2022 Annual Report and IAG's 2022 Consolidated Statement of Non-financial Information. Pdf of these reports can be found on IAG's website, see www.iairgroup.com/investors-and-shareholders/financial-reporting/annual-reports/.

Selected information from the front-end of IAG Annual Report 2022

Outside its financial statements (sometimes called the 'front-end'), in its Annual Report (2022), IAG reports climate-related mitigations, including:

- First:
  - airline group to commit to net zero emissions by 2050, and to then extend this commitment to Scope 3 emissions (p11)
  - European airline group to commit to 10 per cent Sustainable Aviation Fuels (SAF)[27] by 2030[28] (p11)
- During 2022:
  - 12 aircraft were removed from service, pending lease return or disposal (p39)
  - 14 aircraft re-entered service, having previously been stood down from active service (p39)

[27] IAG contends that increasing the use of SAF, which reduces lifecycle CO_2 emissions by 70 per cent, provides the primary near-term opportunity to drive down industry emissions (p47)

[28] In 2022 IAG welcomed the UK's declaration in July of a mandate for 10 per cent SAF by 2030 (in line with IAG's own target) and encourage the government to pass the necessary legislation as soon as possible (p47)

  - IAG took delivery of 27 new aircraft (p33)
  - signed agreements with Airbus and Boeing to acquire 87 new aircraft which will reduce our emissions by up to 20 per cent. (p6)
  - became the first airline to start using SAF produced on a commercial scale in the UK (p49)
  - entered a New Fuel Sales Agreement with Gevo for six million gallons of SAF for five years (p50)
  - Air Lingus signed two SAF offtake agreements commencing from 2025. From 2026, 50 per cent of our fuel on flights from California will be SAF (p54)
  - committed to the equivalent of $865 million in future SAF purchases and investments based on assumed energy prices (p9); including secured 250,000 tonnes of SAF for 2030 (p67)
- Planning to:
  - replace around 192 aircraft in the next five years with new aircraft that are up to 20 per cent more fuel efficient (p11)
  - Ramp up of SAF procurement (p66); and expects to use SAF for 70 per cent of total fuel in 2050.

On the basis of its 2019 baseline, IAG targets:[29]

2025:	2030:	2050:
• 11% better carbon efficiency, to 80 gCO2/pkm • Comprehensive waste targets • 10% lower noise per take off vs 2020 • 40% women in senior leadership roles	• 10% Sustainable Aviation Fuel (SAF) • 20% drop in net Scope 1 emissions, to 22 MT • 20% drop in net Scope 3 emissions, to 6.6 MT	• Net zero Scope 1, 2, and 3 emissions across our full operations and supply chain. • Removals for any residual emissions

IAG's viability assessment regarding this strategic risk is presented as follows:[30]

4	Sustainability	
	An increasing revenue stress on shorthaul operations across the Group to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). Transatlantic revenues below plan expectations also modelled to reflect a potential long-term change in corporate business travel behaviours. Revenue impact from schedule disruption due to extreme weather events also considered within the scenario alongside increased costs from new taxes and additional fuel costs in years 2 and 3 due to biofuels mandate. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the implementation of new regulatory policy, carbon costs and the cost and availability of Sustainable Aviation Fuel are also subject to assessment and modelling by the Group.	5

IAG identifies 'sustainable aviation' to be one of the five biggest strategic risks it is facing:[31]

Sustainable aviation	Strategic priorities	Stakeholder impact	Risk trend 2022	Risk trend 2021	Viability scenario
Chief People, Corporate Affairs and Sustainability Officer	1 2 3		↑	↑	V

IAG is committed to a target of net zero carbon emissions across its operations and supply chain by 2050 along with 2025 and 2030 targets. …

[29] IAG Strategic Report, p64 of IAG Annual Report 2022
[30] IAG Strategic Report, p104 of IAG Annual Report 2022
[31] IAG Strategic Report, p104 of IAG Annual Report 2022

See the Sustainability risk and opportunities section

Risk description

Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel.

New taxes, the potential removal of aviation jet fuel exemptions and increasing price of carbon allowances impact on demand for air travel. Customers may choose to reduce the amount they fly.

The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity, particularly with policy asymmetry in key markets.

Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.

Strategic relevance

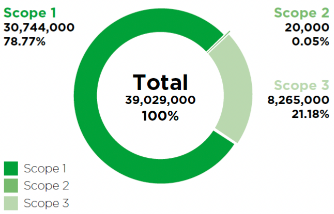
- IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.
- Our stakeholders and potential investors seek confirmation over our sustainability agenda and may link their purchasing, investment or lending decisions to our commitments and progress against them.
- Our customers look to ensure that our airlines allow them to offset their flight emissions.

Mitigations

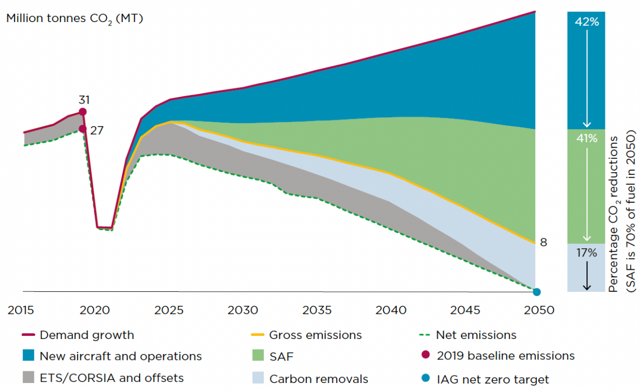
- IAG climate change strategy to meet target of net zero carbon emissions by 2050.
- Annual incentive plans link manager bonuses to annual carbon intensity targets to enable 2025 target.
- All of the Group's airlines have platforms to offset or mitigate passenger flight emissions over time.
- British Airways and Iberia have loans linked to 2025 carbon intensity targets.
- Embedded climate impacts into the financial statements, balance sheet and other relevant disclosures.
- British Airways customer proposition for carbon renewal credits on BA.com which uniquely offers offsets, removals or SAF.
- IAG investment in SAF with operating companies securing deals in 2022.
- Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.
- EcoVadis partnership with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.
- Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.
- Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes.
- Horizon scanning of potential partners and technology.
- Engagement across UK, EU and global trade associations to shape effective climate policy and drive support for low-carbon solutions.

IAG presents its net-zero transition plan, as follows:[32] (i) fleet modernisation; (ii) SAF; (iii) market-based measures including the UK ETS, EU ETS and CORSIA[33]; and carbon removals.

2019 Emissions (tonnes CO_2e)



Latest IAG Roadmap to Net Zero



IAG interim targets: 11% improvement in fuel efficiency 2019-2025, 20% drop in net Scope 1 and 3 emissions 2019-30, 10 per cent SAF in 2030, net zero by 2050.

Pillar of carbon roadmap	Delivery plans	Venture investments/key innovation partners
New aircraft and operations	• €13.5 billion investment between 2023-30 for 192 new, efficient aircraft	ZeroAvia (hydrogen aircraft manufacturer) I6 (fuel management software) NAVflight services (flight planning services) Honeywell Forge (fuel efficiency software)
SAF	• US$865 million committed to date on SAF offtake and agreements, based on assumed energy prices	LanzaJet (sustainable fuels producer)
Carbon removals	• Refining the IAG carbon removals roadmap	Heirloom (carbon capture start-up)
Market-based measures and offsets	• Support for the global CORSIA scheme to limit net emissions from aviation • All airlines offer voluntary offsets for customers	CHOOOSE (customer offsetting platform)
Supply chain	• 74% of suppliers by spend have submitted scorecards on ESG performance • New supplier contract clause on sustainability	EcoVadis (business sustainability ratings)

32 IAG Strategic Report, p69 of IAG Annual Report 2022

33 Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) offers a harmonized way to reduce emissions from international aviation, minimizing market distortion, while respecting the special circumstances and respective capabilities of ICAO Member States, see www.icao.int/environmental-protection/CORSIA/Pages/default.aspx (accessed on 30/11/2023)

 This material has benefited greatly from peer review by a number of anonymous reviewers.

Role of carbon removals[34] in IAG transition plan:[35]

- By 2050 will only use carbon removals to mitigate any residual emissions from its operations.
- Between 2022 and 2050, expects to use approximately 100 MT of carbon removals to mitigate Scope 1 emissions and could potentially be removing 2 MT annually in 2030.
- British Airways started offering removals projects to customers in 2022: mangrove restoration in Pakistan and a biochar project in Oregon, USA.
- IAG continues to advocate for policies that will accelerate global uptake of carbon removals, via the Coalition for Negative Emissions and other trade associations listed in A.1.7., and supports the inclusion of removals in the EU, Swiss and UK ETS.

IAG also reports to:

- invest in innovation to meet its targets, drive decarbonisation and accelerate wider change towards a more sustainable industry. (p69)
- support climate technology innovation via its Hangar 51 accelerator, venture capital investments, university collaborations, pilot schemes, supporting applications for grant funding, and research and development consortia. Since 2019, a dedicated sustainability category has been included in the Group accelerator programme Hangar 51. (p69)

The 2022 Report of the Audit and Compliance Committee to IAG shareholders, includes, amongst others, the following areas of Committee focus:

Area of Committee focus	Activities
Financial reporting	• reviewing, challenging and considering the external auditor's views on significant accounting estimates, judgements and accounting policies applied in the financial statements of the Group and related reporting and disclosures; • reviewing the financial statements and announcements of the Group to ensure integrity; and • consideration of the process for confirming and recommending to the Board that the 2022 Annual Report and Accounts is fair, balanced and understandable.
Non-Financial Information	• reviewing the processes and integrity of information provided in the Group's Consolidated Statement of Non-Financial Information in compliance with Law 11/2018, including information on environmental, social, employee, and human rights-related matters and receiving the external auditor's assurance report and conclusions; and • reviewing the integrity of the reporting and data in respect of the Group's longer-term sustainability and climate-related risks and opportunities, including the Group's alignment with the provisions of the TCFD process, and the appropriate reflection of the implications of climate change in the Group's strategy, financial statements and financial and cash flow forecasts.

Matter	Action taken by the Committee and outcome/future actions
Non-financial information and environment	In conjunction with the Safety, Environment and Corporate Responsibility Committee, the Committee plays a key role in the governance of regulatory reporting requirements in respect of non-financial information, particularly those related to workforce data and climate-related risks and opportunities. The Committee has improved the communication and coordination with the IAG SECR Committee to ensure the correct level of focus on the integrity of the data, effectiveness of relevant controls, and balance of the narrative supporting each data point disclosed. During 2022, management has continued improving the processes and controls to obtain reliable data and, at the request of the Committee, two internal audits were performed over the improved controls on key sources of non-financial information. The Committee has requested that additional non-financial information process and control internal audits are undertaken in 2023, as well as gaining improved clarity on the sources of assurance and review of aspects of the Group's sustainability reporting provided by a range of external parties. In ensuring climate change and other matters related to ESG had been considered and disclosed by the Group, with supporting evidence and balance, the Committee continued to receive regular updates in relation to the statements on non-financial information and diversity (prepared in compliance with the requirements of Law 11/2018) as well as management's demonstration of close alignment with key sustainability frameworks, including TCFD. The Committee considered the financial modelling regarding the Group's various climate commitments and which of the underlying assumptions had been incorporated into financial reporting, as well as those that had been excluded. The Committee observed that for financial reporting purposes management has incorporated assumptions out to 2030, after which the modelling of assumptions and their interconnectivity becomes too uncertain to incorporate into the modelling, an approach which the Committee endorsed. The Committee also reviewed the enhanced disclosures relating to the impact of climate change on financial reporting and challenged the granularity of such disclosure. The Committee also considered the limited assurance reports from KPMG on the Group's non-financial information, including TCFD compliance and EU taxonomy.

[34] Carbon removals solutions extract CO_2 already in the atmosphere & store it in biological or geological ways.
[35] IAG Strategic Report, p70 of IAG Annual Report 2022

IAG's strategic report includes metrics and progress on reducing CO2 emissions from jet fuel use:[36]

A.1.3. Metrics and progress

Overview

IAG's transition plan focuses on reducing CO2 from jet fuel use, as this represents over 99 per cent of Scope 1 emissions. The Group measures its full carbon footprint and tracks multiple metrics each quarter to ensure progress on tackling climate change.

2022 saw strong progress against the key metric of carbon efficiency. With a 12 per cent improvement to 83.5g CO2/pkm1, the Group is on track to deliver the 2025 target of 80g CO2/pkm.

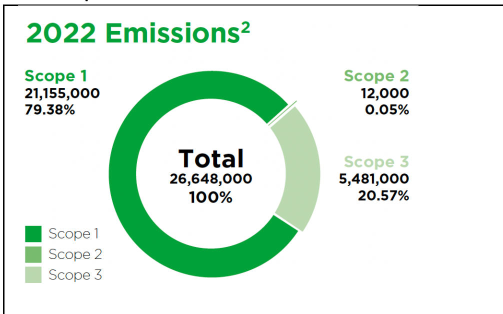
Calculation methodology

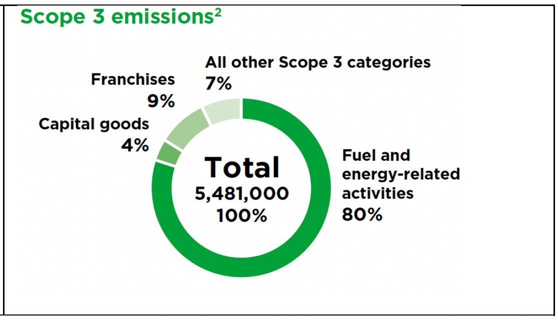
Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report. 2022 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available. Other factors like International Energy Agency emissions factors are used in specific cases as described in the NFIS.

IAG discloses methane (CH4) and nitrous oxide (N2O) as Scope 1 non-CO2 greenhouse gases (GHGs), in line with the UK conversion factors.

Emissions of CH4 were 13,072 tonnes in 2022 and N2O were 198,324 tonnes.

A detailed Scope 3 emissions breakdown is available in the IAG NFIS.





Key carbon footprint metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 1 CO_2e	305-1	MT CO_2e	94%	(31%)	**21.15**	10.92	11.02	30.74*	29.99
Net Scope 1 CO_2e		MT CO_2e	82%	(29%)	**19.13**	10.50	10.85	26.95*	27.22
Scope 2 location-based	305-2	kt CO_2e	30%	(31%)	**51.1**	39.2	48.2	74.6*	70.4
Scope 2 market-based	305-2	kt CO_2e	40%	(40%)	**11.7**	8.4	9.3	19.7*	40.7
Scope 3	305-3	MT CO_2e	65%	(34%)	**5.48**	3.32	3.66*	8.27*	8.79

Key emission reduction metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Flight-only emissions intensity	305-4	gCO_2/pkm	(12%)	(7%)	**83.5**	94.6	106.2	89.8	91.5
GHG reduction initiatives	305-5	$ktCO_2e$	38%	6%	**82.4**	59.7	17.2	77.4	65.9
Net reduction (ETS[3])		$ktCO_2e$	720%	(44%)	**1,796**	219	0	3,182	2,634
Net reduction (offset projects)		$ktCO_2e$	17%	n/a	**229**	196*	168	nr	nr
Fleet age		years	6%	5%	**11.9**	11.2	10.6	11.4	11.3

Other metric	GRI standard	Unit	vly	v2019	2022	2021	2020	2019	2018
Scope 2 emissions intensity	305-4	gCO_2/pkm	(41%)	(8%)	**0.20**	0.34	0.47	0.22*	0.22
Revenue per tonne CO_2e		€/tonne CO_2e	41%	32%	**1,088**	771	705	827	811
Jet fuel	301-1	MT fuel	94%	(31%)	**6.64**	3.42	3.45	9.65	9.41
SAF		kT fuel	338%	n/a	**10.3**	2.4	nr	nr	nr
Electricity	302-1	'000 MWh	13%	(20%)	**213.7**	189.0	200.1	267.7	234.9
Energy	302-1	Mn MWh	93%	(31%)	**81.5**	42.1	41.9	119.7	119.4
Renewable electricity[4]		%	(5pts)	9pts	**81%**	86%	86%	72%	54%
Renewable energy		%	(0.1pts)	0.2pts	**0.4%**	0.5%	0.4%	0.2%	nr

Descriptions and commentary on other metrics is available in the Additional Disclosures section of the IAG NFIS.

Note: 'nr' means 'not reported'. * means restated using the latest data and assumptions.

1 pkm means 'passenger-km'. The passenger-km used for this calculation is 213,376 million, which excludes no-show passengers. The cargo-tonne-km used is 3,712 million, which excludes cargo carried on other airlines or trucks. The jet fuel used excludes fuel for franchises and engine testing.

2 Rounded to the nearest '000 tonnes CO_2e.

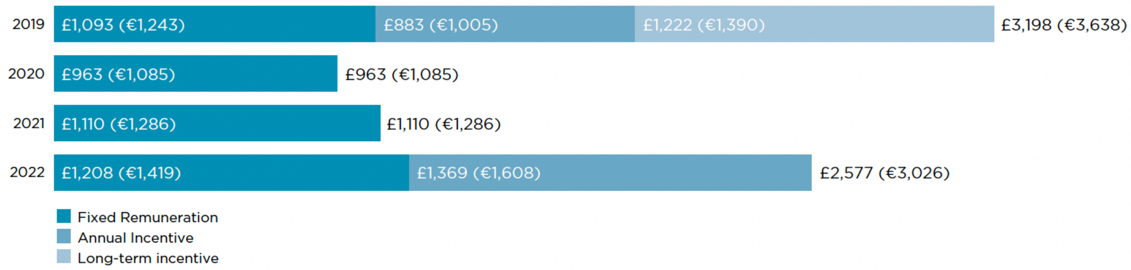
3 2020 emissions were below the EU ETS sector cap for aviation so no net reductions were delivered.

4 For completeness, Scope 2 emissions cover electricity use at airports and overseas offices, which are partly outside IAG's operational control. As part of complying with UK Streamlined Energy and Carbon Reporting regulation, IAG can disclose that 56 per cent of Group energy use was UK energy use, based on Scope 1 emissions and Group electricity use in UK-based offices.

[36] IAG Strategic Report, p71 of IAG Annual Report 2022

The 2022 Annual Remuneration Report to IAG shareholders, includes, the following:[37]

IAG Chief Executive Officer remuneration history



Under the policy, the IAG CEO has a maximum annual incentive opportunity of 200 per cent of contractual salary. The below table details the approved 2022 performance measures and the Board's assessment of both company and individual IAG CEO performance:

Category		Measure type	Weighting	Threshold At which payments begin (20% pay-out)	Target (50% pay-out)	Stretch Max pay-out (100% pay-out)	Performance delivered	Payout % of maximum for each measure	Weighted Payout %	CEO incentive outcome (£'000)
Financial measures	FY 2022	Operating profit before exceptional items (€m)	60 per cent	319	637	956	1,225	100%	60%	£984
Description of performance During 2022 the Group was able to substantially restore its capacity by the end of the year, having operated a significantly reduced schedule in 2020 and 2021 due to the impact of the COVID-19 pandemic. As capacity was increasingly restored through the year the operating result improved, with the third quarter, which includes the airlines' summer peak seasons, approaching levels of profitability seen in 2019. Fuel prices were significantly higher than in both the previous year and 2019 and the airline sector also experienced high supplier price inflation. Due to the strong demand, passenger unit revenues also rose above those in 2019, thus allowing the airlines to recover a substantial portion of the fuel price increase and other cost inflation. The net results was an operating profit before exceptional items for the year of €1,225 million, versus a target of €637million.										
Customer	FY 2022	NPS	20 per cent	17.5	23.3	29.1	18.4	25%	5%	£82
Description of performance The outcome for 2022 was 18.4 vs a FY target of 23.3.The quick ramp up of air travel demand, a lack of staff to manage these volumes at airports as well as in some of our airlines, and operational issues impacted negatively our NPS. To mitigate this impact our airlines reduced their schedules to increase stability, undertook a vast recruitment process and re-trained colleagues to support where necessary. Positive impacts to our NPS came from enhancements to our customer proposition, particularly on our catering and on-board experience.										
Carbon	FY 2022	gCO_2/pKm	10 per cent	91.1	88.8	83.6	83.5	100%	10%	£164
Description of performance The outcome for 2022 was 83.5 vs a FY target of 88.8. IAG is targeting net zero emissions by 2050 across its Scope 1, 2, and 3 emissions. IAG's interim targets are an 11 per cent improvement in fuel efficiency 2019-2025, a 20 per cent drop in net Scope 1 and 3 emissions 2019-30, and 10 per cent SAF in 2030. IAG is on track to deliver its 2025, 2030 and 2050 climate targets by carrying out emission reduction initiatives, working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development. Key measures to reduce emissions are fleet modernisation, sustainable aviation fuel (SAF), market-based measures including the UK and EU ETS and CORSIA, and carbon removals.										
Strategic and personal objectives		As described in the table in the previous page	10 per cent	Low (0% to 40%)	Good to High (45% to 65%)	Exceptional (70% to 100%)	Exceptional	85%	8.5%	£139
Description of performance The IAG CEO has led the group to profitability for the first time in three years and in ensuring the Group returns to 2019 levels of performance and profitability, with a clear plan and delivery against key transformation initiatives. This is a significant achievement particularly given the continued economic uncertainty and challenges faced across the year. The IAG CEO has also driven progress across the ESG agenda, increasing diversity and bench-strength of IAG's senior leadership and making significant progress towards its 2025 carbon efficiency target.										
Total			**100 per cent**						**83.5%**	**£1,369**

[37] IAG Strategic Report, p161 and p170 of IAG Annual Report 2022

You are required to discuss each of the following question:

On the basis of IAG's climate-related disclosures, what aspects of its consolidated financial statements do you expect to be materiality impacted by climate-related matters (and why)?

11) Which financial position line-items?

12) Which aspects of financial performance?

13) Any unrecognised contractual commitments (for example, paragraph 114(c)(iv) of IAS 1; paragraph 74(c) of IAS 16; and paragraph 122(e) of IAS 38)?

14) Any contingent liabilities (IAS 37)?

15) Any key sources of estimation uncertainty (paragraphs 122-124 of IAS 1)?

16) Any change in an accounting estimate (paragraph 39 of IAS 8)?

17) Any other significant judgements (paragraphs 122-124 of IAS 1)?

18) Any other overarching disclosures (for example, paragraphs 31 and 112 of IAS 1)

If IAG used IFRS Sustainability Disclosure Standards, what disclosures about each of the following would it likely have made to its sustainability-related financial disclosures:

19) The correction of prior period errors, if any (paragraphs 83-86 of IFRS S1)?

20) Key sources of measurement uncertainty (paragraphs 77-82 of IFRS S1)?

21) Other significant judgements (paragraphs 74-76 of IFRS S1)?

Extracts from IAG's 2022 Annual Financial Statements

Climate-related extracts from the notes to IAG's 2022 consolidated IFRS financial statements (sometimes called the 'back-end' of an Annual Report), reports mitigations, include:

Note 2 Significant accounting policies

Property, plant and equipment

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

a Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or right of use ('ROU') assets are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and up to 5 per cent residual value for shorthaul aircraft and between 23 and 29 years (depending on aircraft) and up to 5 per cent residual value for long-haul aircraft.

Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rates. Where the lease includes a purchase option, at the discretion of the Group, where it is expected that the purchase option will be exercised, the associated right of use asset is depreciated using the aforementioned depreciation rates to reflect the reasonably certain life of the aircraft, irrespective of the lease term.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of 12 years and the remaining economic life of the aircraft, whether owned or leased.

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

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

Intangible assets

a Goodwill

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

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

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract-based intangibles

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

f Software

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

g Emissions allowances

Where an operating company purchases emissions allowances these amounts are recognised at cost and recorded within Intangible assets.

As an operating company emits CO_2 equivalent and builds up an obligation to the relevant authorities, a provision is recognised.

Emissions allowances recorded within Intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. For those obligations arising for which the operating company has purchased

mission allowances to offset the emissions, the provision is recognised at the weighted average cost of the intangible asset. For those obligations arising for which the operating company has not yet purchased emission allowances to offset the emissions, the provision is recognised at the market price of the allowances required at the reporting date. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges.

The Group's emissions obligation, recognised as a separate liability, is extinguished when the associated emission certificates are surrendered, which is typically within 12 months of the reporting date.

From time to time the Group enters into sale and repurchase transactions for specified emission allowances. Such transactions do not meet the recognition criteria of a sale under IFRS 15 and accordingly the asset is retained on the balance sheet within Intangible assets and an Other financing liability recognised equal to the proceeds received.

Impairment of non-financial assets

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

a Property, plant and equipment, including Right of use assets

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

b Intangible assets

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. Those loans provided and/or guaranteed by governments that represent below market rates of interest are measured at inception at their fair value and recognised within Borrowings, with the differential to the proceeds received recorded within Deferred income and released to the relevant financial statement caption in the Income statement on a systematic basis. Grants that compensate the Group for expenses incurred are recognised in the Income statement in the relevant financial statement caption on a systematic basis in the periods in which the expenses are recognised.

Critical accounting estimates, assumptions and judgements

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

Estimates

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

d Impairment of non-financial assets

At December 31, 2022 the Group recognised €2,423 million (2021: €2,439 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 17.

Goodwill and intangible assets with indefinite economic lives are tested, as part of the cash-generating units to which they relate, for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which use a weighted average multi-scenario discounted cash flow model, which are then compared to the carrying amount of the associated cash-generating unit.

In determining the carrying value of each cash generating unit, the Group allocates all associated operating tangible and intangible assets, including ROU assets. In addition the Group has allocated certain liabilities to the carrying value of each CGU where those liabilities are critical to the underlying operations of the cash-generating unit and in the event of a disposal of the cash-generating unit would be required to be transferred to the purchaser. Such liabilities include lease liabilities.

The Group has applied judgement in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in notes 4 and 17.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When such indicators are identified, then non-financial assets are tested for impairment.

Note 4 Impact of climate change on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group:

- the additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels (SAF) to ten per cent by 2030 and to seventy per cent by 2050;
- the cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and
- the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to consumers, governments and regulators regarding the following:

- the impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- investment and policy regarding the development of SAF production facilities;
- investment and improvements in air traffic management; and
- the price of carbon through the EU, Swiss and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

The level of uncertainty regarding the impact of these factors increases over time. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

Critical accounting estimates, assumptions and judgements – cash flow forecast estimation

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and

 This material has benefited greatly from peer review by a number of anonymous reviewers.

liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting estimates, assumptions and judgements, to the extent they can be reliably measured, have been applied:

a Long-term fleet plans and useful economic lives

The Group's Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of each operating company. This includes the annual assessment of useful lives and the residual values of each aircraft type.

During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 82 aircraft (of which ten were subsequently stood back up), their associated engines and rotable inventories. These permanently stood down aircraft were older generation aircraft, that were less fuel efficient, more carbon intensive and more expensive to operate than more modern models.

With the permanent standing down of these aircraft, coupled with the future committed delivery of 192 fuel efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero climate strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year, nor have the useful lives and residual values of aircraft been amended, as a result of the Group's decarbonisation plans.

b Impairment testing of the Group's cash generating units

The Group applies discounted cash flow models, for each cash generating unit, derived from the cash flow forecasts from the approved three-year business plans. The Group's Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year (being the third year) of these probability weighted cash flows to incorporate the impacts of climate change from the Group's Flightpath Net Zero climate strategy that are expected to occur over the medium term. These adjustments are limited to those that: (i) the Group can reliably estimate at the reporting date; (ii) only relate to the Group's existing asset base in its current condition; and (iii) incorporate legislation and regulation that is expected to be required to achieve the Group's Flightpath Net Zero climate strategy, and which is sufficiently progressed at the reporting date.

As a result, the Group's impairment modelling incorporates the following aspects of the Group's Flightpath Net Zero climate strategy through to 2030, after which time the level of uncertainty regarding timing and costing becomes insufficiently reliable to estimate: (i) an increase in the level of SAF consumption of 10 per cent of the overall fuel mix; (ii) forecast cost of carbon, including SAF, ETS allowances and CORSIA allowances (all derived from externally sourced or derived information); (iii) the removal of existing free ETS allowances issued by the EU member states, Switzerland and the UK; (iv) forecast kerosene taxes applied to jet fuel for all intra EU flight activity; and (v) assumptions regarding the ability of the Group to recover these incremental costs through increased ticket pricing.

In preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring unless already committed and assets not currently in use by the Group. In addition, for the avoidance of doubt, the Group's impairment modelling excludes the following aspects of the Group's Flightpath Net Zero climate strategy: (i) the expected transition to electric and hydrogen aircraft, as well as future technological developments to jet engines and airframes; (ii) any savings from the transition to more fuel efficient aircraft other than those either in the Group's fleet or those committed orders due to be delivered over the business plan period; (iii) the benefit of the development of carbon capture technologies and enhanced carbon offsetting mechanisms; (iv) the required beneficial reforms to air traffic management regulation and legislation; and (v) the required government incentives and/or support across the supply chain.

As detailed in note 17, the Group applies a long-term growth rate to these adjusted probability weighted cash flows, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand and elasticity impact arising from climate change. These impacts are derived with reference to external market data, industry publications and internal analysis.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 17 to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivities of the long-term growth rates, ASKs[38], operating margins and the increased fuel price sensitivity.

c Valuation of employee benefit scheme assets

The Group's employee benefit schemes are principally represented by the British Airways APS and NAPS schemes in the UK. The schemes are structured to make post-employment payments to members over the long term, with the Trustee having established both return seeking assets and liability matching assets that mature over the long-term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The trustees of the schemes have integrated climate change considerations into their long-term decision making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, that such valuation models incorporate long-term expectations regarding the impact of climate change.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applies the future cash flow projections for a period of up to ten years derived from the approved three-year business plans. The Group applies a medium-term growth rate subsequent to the three-year business plans, specific to each operating company. In considering the impact of the Group's Flightpath Net Zero climate strategy, management adjusts this medium-term growth rate, where applicable, to incorporate the assumed impacts on both revenue and costs to the Group.

e The price of carbon through the EU, Swiss and UK Emissions Trading Schemes

The EU, Swiss and the UK's ETS were established to reduce greenhouse gas emissions cost effectively. Under these schemes, companies, including the Group, are required to buy emission allowances, or are issued them under existing quotas. The Group is required to surrender these allowances to the relevant authorities annually dependent on the level of CO2 equivalent emitted within a 12-month period. Over time the level of available emission allowances decreases in order to reduce total emissions, which has the effect of increasing the price of such allowances. The Group expects that the future price of such allowances will continue to increase and that the free allocation of emission allowances will cease. Given the relative illiquid nature of the emission allowance market there is uncertainty as to the future pricing of such allowances.

As detailed in note 2, the Group accounts for the purchase of allowances as an addition to Intangible assets, which are measured at amortised cost. In addition, as the Group emits CO2 equivalent as part of its flight operations, a provision is recorded to settle the obligation.

For emissions for which the Group has already purchased allowances, the provision is valued at the weighted cost of those allowances.

Where the level of emissions exceeds the amounts of allowances held, this deficit is measured at the market price of such allowances at the reporting date.

At December 31, 2022, the Group has recorded ETS allowances within Intangibles assets of €407 million, representing sufficient allowances, by operating company, to settle its forecast obligations through to at least December 31, 2023. At December 31, 2022, the Group has recorded a provision for settling its 2022 emissions obligation of €132 million.

Note 15 Capital expenditure commitments

Capital expenditure authorised and contracted but not provided for in the accounts, including outstanding aircraft commitments, at December 31, 2022 amounted to €13,749 million (December 31, 2021:

[38] In the airline industry ASKs means Available Seat Kilometres (sometimes expressed as ASMs, ie Available Seat Miles) is a measure of passenger carrying capacity.

€10,911 million). The outstanding aircraft commitments including the expected delivery timeframes, totalling €13,484 million (2021: €10,813 million), are as follows:

Aircraft future deliveries at December 31	2022[1]	2021[1]
Airbus A320 (from 2023 to 2028)	45	22
Airbus A321 (from 2023 to 2028)	46	20
Airbus A321 XLR (from 2024 to 2026)	14	14
Airbus A350-900 (from 2023 to 2030)	7	16
Airbus A350-1000 (from 2023 to 2024)	5	10
Boeing 777-9 (from 2026 to 2028)	18	18
Boeing 787-10 (from 2023 to 2024)	7	10
Boeing 737-8200 (from 2024 to 2025)	25	–
Boeing 737-10 (from 2026 to 2027)	25	–
Total	192	110

1 Capital commitments exclude options to purchase additional aircraft.

In May 2022, the Group agreed to purchase 25 Boeing 737-8200 and 25 737-10 aircraft, with 100 options to purchase further such aircraft.

In addition, in July 2022, the Group agreed to exercise its option over 12 Airbus A320neos/A321neos and to purchase 25 Airbus A320neos/A321neos with 50 options to purchase further such aircraft. The determination of the split between A320neos and A321neos will be made closer to delivery. Both of these agreements were subject to shareholder approval and were subsequently approved at the Extraordinary General Meeting of the Company on October 26, 2022.

The majority of these commitments are denominated in US dollars translated at the closing exchange rate at the reporting date and include escalation clauses dependent on the timing of aircraft deliveries. Under the terms of the committed purchase agreements, the Group is required to make periodic advance payments towards the purchase price, with the commitments above stated net of advance payments that have been made at the reporting date.

The Group has certain rights to defer aircraft deliveries and to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2022.

Note 16 Non-current assets held for sale

As at December 31, 2022, the non-current assets held for sale of €19 million represented two Airbus A321 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft were presented within the British Airways segment and are expected to exit the business during 2023.

As at December 31, 2021, the non-current assets held for sale of €20 million represented three Airbus A321 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are presented within the Aer Lingus segment and exited the business during 2022.

Note 17 Intangible assets and impairment review

Basis for calculating recoverable amount

The recoverable amounts of the Group's CGUs have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the Base Case and 30 per cent to the Downside Case. Cash flow projections are based on the business plans approved by the relevant operating companies covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using each CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve three-year business plans, and the Board approved the Group three-year business plan in the fourth quarter of the year. Adjustments have been made to the final year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations (refer to note 4). The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by management under existing labour agreements.

Key assumptions

The value-in-use calculations for each CGU reflect the ongoing uncertainty of the future implications of COVID-19 and the wider economic and geopolitical environments, including updated projected cash flows for activity from 2023 through to the end of 2025. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

	2022				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	**5-13**	**5-10**	**0-10**	**4-12**	**23-25**
ASKs as a proportion of 2019[1,2]	**90-105**	**92-107**	**113-123**	**102-127**	**n/a**
Long-term growth rate	**1.7**	**1.5**	**1.4**	**1.6**	**1.7**
Pre-tax discount rate	**10.4**	**11.2**	**12.8**	**10.1**	**13.4**

	2021				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	3-13	2-12	2-11	0-14	22-24
ASKs as a proportion of 2019[1,2]	75-103	77-100	97-119	84-115	n/a
Long-term growth rate	1.9	1.7	1.6	1.7	1.6
Pre-tax discount rate	11.8	11.4	11.1	10.1	12.0

1 ASKs as a proportion of 2019 and operating margin are both stated as the weighted average derived from the multi-scenario discounted cash flow model.
2 In prior periods the Group applied the average ASK growth per annum as a key assumption. Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

Jet fuel price ($ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
2022	**867**	**809**	**780**	**780**
2021	690	673	659	659

Forecast ASKs reflect the range of ASKs as a percentage of the 2019 actual ASKs over the forecast period, based on planned network growth and taking into account management's expectation of the market.

The long-term growth rate is calculated for each CGU, considering a number of data points: (i) industry publications; (ii) forecast weighted average exposure in each primary market using gross domestic product (GDP); and (iii) internal analysis regarding the long-term changes in consumer preferences and the effects on demand from the increased costs to the Group of climate change. The calculation of the long-term growth rate utilises a Base Case and a Downside Case growth rate, which is then weighted on the same basis as the cash flows detailed above of 70 per cent to the Base Case and 30 per cent to the Downside Case. The terminal value cash flows and long-term growth rate incorporate the impacts of climate change insofar as they can be determined (note 4). The airlines' network plans are reviewed annually as part of the three-year business plan preparation and reflect management's plans in response to specific market risk or opportunity.

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

Jet fuel price assumptions are derived from forward price curves in the fourth quarter of each year and sourced externally. The cash flow forecasts reflect these price increases after taking into consideration the level of fuel derivatives and their associated prices that the Group has in place.

As detailed above, the Group adjusts the final year of the three-year business plans to incorporate the medium-term impacts of climate change from the Group's Flightpath Net Zero climate strategy. These adjustments include the following key assumptions: (i) a 10 per cent level of SAF consumption out of the overall fuel mix with an assumed price of €2,275 per metric tonne; (ii) a kerosene tax of €325 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of €130, €130, €175 and €25 for EU ETS allowances, Swiss ETS allowances,

UK ETS allowances and CORSIA allowances, respectively, per tonne of CO_2 equivalents emitted; and (iv) the removal of all free ETS and CORSIA allowances.

Summary of results

At December 31, 2022 management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each CGU, where applicable, which include reducing the operating margin by 2 percentage points in each year, ASKs by 5 percentage points in each year, long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the Base Case and the Downside Case to be 100 per cent weighted towards the Downside Case and increasing the fuel price (both jet fuel and SAF) by 45 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible greater impact of climate change on the CGUs than that included in the impairment models.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €15,432 million, €3,213 million, €1,606 million and €1,407 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes, over the forecast period, in assumptions in each of the following scenarios:

- British Airways: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 22 per cent; and (ii) if the fuel price had been 27 per cent higher without cost recovery;
- Iberia: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 20 per cent; and (ii) if the fuel price had been 27 per cent higher without cost recovery;
- Vueling: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 15 per cent; and (ii) if the fuel price had been 20 per cent higher without cost recovery; and
- Aer Lingus: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 7 per cent; and (ii) if the fuel price had been 14 per cent higher without cost recovery.

For the remainder of the reasonably possible changes in key assumptions applied to the British Airways, Iberia, Vueling and Aer Lingus CGUs and for all the reasonably possible changes in key assumptions applied to the IAG Loyalty CGU, no impairment arises.

Note 26 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims and contractual disputes provisions	ETS provisions[1]	Other provisions[1]	Total
Net book value January 1, 2022[1]	1,832	274	720	90	9	74	**2,999**
Provisions recorded during the year	596	14	74	47	134	31	**896**
Reclassifications	(15)	–	–	–	–	–	**(15)**
Utilised during the year	(167)	(81)	(32)	(2)	(10)	(31)	**(323)**
Release of unused amounts	(42)	(12)	(24)	(45)	–	(14)	**(137)**
Unwinding of discount	38	–	5	–	–	–	**43**
Remeasurements	27	–	(69)	–	–	–	**(42)**
Exchange differences	131	(1)	(1)	(1)	(1)	–	**127**
Net book value December 31, 2022	**2,400**	**194**	**673**	**89**	**132**	**60**	**3,548**
Analysis:							
Current	508	112	70	66	132	8	**896**
Non-current	1,892	82	603	23	–	52	**2,652**
	2,400	194	673	89	132	60	**3,548**

1 During 2022 the Group has separated the ETS provision from Other provisions. This change resulted in an amount of €9 million recorded within ETS provisions at January 1, 2022. There was no net change in total provisions.

ETS provisions

ETS provisions relate to the Emissions Trading Scheme for CO2 equivalent emitted on flights within the EU, Switzerland and the United Kingdom and due to be settled in the year subsequent to the reporting date. See note 4 for further information.

Note 33 Contingent liabilities

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2022, where they could be reliably estimated, amounted to €11 million (December 31, 2021:

€22 million). The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provisions have been recorded.

Contingent liabilities associated with income taxes, deferred taxes and indirect taxes are presented in note 10.

You are required to discuss each of the following questions:

22) Are clear and concise linkages that enable primary users to understand the connections between IAG's material sustainability-related risks and opportunities (for example, connected information depicting the relationship between risks trade-offs and IAG's strategy)?

23) Are clear and concise linkages that enable primary users to understand the connections within IAG's climate-related financial disclosures (for example, (i) between disclosures on governance, strategy and risk management; and (ii) between narrative information and quantitative information (like the related metrics and targets)?

24) Is the reporting entity the same for IAG's 2022 sustainability disclosures in the front end of its 2022 Annual Report and its 2022 consolidated IFRS financial statements?

25) Do IAG's TCFD disclosures identify the financial statements to which the climate-related financial disclosures relate?

26) Are IAG's 2022 consolidated IFRS financial statements and the sustainability disclosures in the front end of its 2022 Annual Report focussed on the same users' needs?

27) Does IAG use the same materiality concept in its 2022 consolidated IFRS financial statements and its climate-related financial disclosures in the front end of its 2022 Annual Report?

28) Do IAG's 2022 consolidated IFRS financial statements and its climate-related financial disclosures presented in the front end of its 2022 Annual Report cover the same reporting period (ie coterminous reporting period)?

29) Were IAG's 2022 consolidated IFRS financial statements and the sustainability disclosures in the front end of its 2022 Annual Report made publicly available at the same time?

30) To the extent possible, are IAG's 2022 consolidated IFRS financial statements and its climate-related financial disclosures prepared using the same data, assumptions and units of measure?

31) Does IAG disclose information about significant disconnects, if any, in its climate-related financial information (for example, TCFD and financial statements)?

32) Are clear and concise linkages that enable primary users to understand the connections between IAG's financial statements and its climate-related financial disclosures?

33) Does IAG use its consolidated financial statement presentation currency in making its currency metric climate-related disclosures?

34) Does IAG avoid cluttering its climate-related financial information (for example, TCFD and financial statements) with unnecessary duplication and immaterial information?

Hypothetical: IAG adoption of IFRS Sustainability Disclosure Standards

In identifying material sustainability-related risks and opportunities IFRS S1 (paragraph 55) specifies that in addition to ISSB Standards an entity:

- must refer to and consider the applicability of the disclosure topics in the SASB Standards; and
- may also refer to and consider the applicability of:
  (i) the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures;
  (ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
  (iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).

In identifying applicable disclosure requirements about each of its material sustainability-related risks and opportunities IFRS S1 (paragraphs 56-58) specifies that in addition to ISSB Standards that specifically applies to that sustainability-related risk or opportunity, an entity must use its judgement to identify relevant information that can be faithfully represented by (ie the process):

- must refer to and consider the applicability of the metrics associated with the disclosure topic specified in the applicable SASB Standards, if any; and
- may—to the extent that these sources do not conflict with ISSB Standards—also refer to and consider the applicability of:
  (i) the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures;
  (ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
  (iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).
- may—to the extent that these sources assist the entity in meeting the objective of IFRS S1 (see paragraphs 1-4 of IFRS S1) and neither conflict with ISSB Standards nor result in obscuring material information required by ISSB Standards—refer to and consider the applicability of: (i) GRI Standards; and (ii) European Sustainability Reporting Standards. (see Appendix C to IFRS S1)

In the part of its Strategic Report dedicated to Sustainability, IAG:[39]

- sets out its wholistic approach to sustainability along three dimensions: A. Planet; B. People and prosperity; and C. Principles of governance;
- describes its principles of governance as 'sustainability strategy, governance frameworks, workforce governance, supply chain governance, ethics and integrity, ESG risk management, reporting and data governance, alignment with GRI and SASB standards.'; and
- provides an overview of sustainability ambitions, strategy and governance as follows:

[39] Source: IAG Annual Report and Accounts 2022, p63-65

IAG climate connectivity case study

Our vision

Is to be the world's leading airline group on sustainability.

Our strategy

Is to pursue nine sustainability leadership KPIs as listed in section C.1.

Our governance

Board-level oversight	IAG Management Committee oversight	Operating company oversight	Cross-Group alignment
Safety, Environment and Corporate Responsibility Audit and Compliance	Chief People, Corporate Affairs and Sustainability Officer (CPCASO)	Management committees oversee tailored sustainability programmes	Group sustainability team updates Group sustainability strategy

Our material issues and initiatives

IAG takes a holistic approach to sustainability[1].

A. Planet

Key material issues

- Reducing our climate impact
- Influencing policy

Key policies

- Environmental Sustainability Policy

Annual initiatives

- Flightpath Net Zero strategy
- Climate-related remuneration
- Policy advocacy for green solutions
- Leadership in trade associations

Key UN Sustainable Development Goals

B. People and prosperity

Key material issues

- Engaging with employees
- Building a diverse, inclusive and equal workplace

Key policies

- Equity, Diversity and Inclusion (EDI) Policy
- Modern slavery and anti-trafficking statement

Annual initiatives

- Organizational Health Index (OHI) surveys
- EDI and engagement initiatives
- Community giving and fundraising
- Developing a social roadmap

Key UN Sustainable Development Goals

C. Principles of governance

Key material issues

- Investing in the future
- Planning for climate-resilient operations
- Working with suppliers

Key policies

- Code of Conduct
- Supplier Code of Conduct
- Anti-bribery and corruption Policy
- Whistleblowing Policy
- Policy on disclosure of corporate information and engagement with shareholders

Annual initiatives

- Accelerator programme and ventures
- Supply Chain Sustainability Programme
- Task Force on Climate-related Financial Disclosures (TCFD) scenario analysis

Key UN Sustainable Development Goals

Targets

2019
Target Baseline

2025

- 11% better carbon efficiency, to 80 gCO_2/pkm
- Comprehensive waste targets
- 10% lower noise per take off vs 2020
- 40% women in senior leadership roles

2030

- 10% Sustainable Aviation Fuel (SAF)
- 20% drop in net Scope 1 emissions, to 22 MT
- 20% drop in net Scope 3 emissions, to 6.6 MT

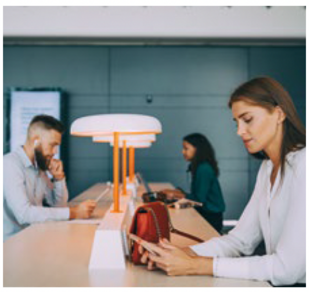
2050

- Net zero Scope 1, 2, and 3 emissions across our full operations and supply chain.
- Removals for any residual emissions

Towards more sustainable journeys

Our sustainable products and services for customers help them to reduce their carbon emissions and support wider sustainability goals. We continue to trial new offers.

Pre-flight services at airports

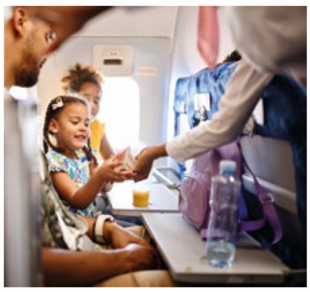


- Renewable electricity in lounges[1]
- Vegan menus in lounges[2,3]
- Pre-ordering meal service to reduce food waste[3]

Ground transport at airports

- Trialling electric buses for passengers[2]
- Electric Mototoks to pull aircraft to runways[2,3]
- Trialling electric trucks[5]
- Renewable electricity to power aircraft on the ground[1]

On-board impacts



- Voluntary offsetting for customers using verified[6] offsets[1]
- Voluntary SAF for customers[2,4]
- Use of IAG-procured SAF[2]
- Vegan food[2,3]
- Recycling on-board[2,3,4]

1 All airlines. 2 British Airways. 3 Iberia. 4 Vueling. 5 IAG Cargo. 6 Gold-standard or Verra-accredited projects to ensure real carbon savings.

In the part of its Strategic Report dedicated to Sustainability reporting and data governance, IAG discloses:[40]

C.7.1. Reporting and data governance

The full contents of this sustainability report are included in the IAG Non-Financial and Sustainability Information Statement (NFIS), which is third-party independently verified to limited assurance standards in line with ISAE3000 (Revised)[1] standards. Compliance with specific frameworks and standards is listed under relevant section headings.

IAG complies with current and emerging standards on sustainability reporting.

These include obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, the 2018 UK Streamlined Energy and Carbon Reporting regulation, the Task Force on Climate-related Financial Disclosures (TCFD), and the EU Taxonomy Regulation (2020/852).

IAG does not align with GRI Core or GRI Comprehensive options but instead aligns with selected GRI standards based on compliance with Spanish Law 11/2018. In cases where GRI alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used and described.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU ETS, and for all flights for the UN CORSIA scheme. Any material changes to key metrics are highlighted in future Annual Reports.

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, GRI Standards for material issues, and relevant criteria from external ESG rating agencies. IAG supported IATA and the GRI to develop the IATA handbook.

The scope of environment performance data in this report includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This is also the scope of the net zero targets. Some exceptions for non-material business units have been applied for specific metrics, and these are clearly stated with rationale provided.

The scope of workforce and ethics and integrity data includes all IAG operating companies and support functions. Some exceptions have been applied and these are clearly stated with rationale provided.

The scope of human rights and modern slavery reporting is as above and includes data from all suppliers in the IAG supply chain.

For any specific cases where full-year data was not available for selected metrics, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust. Any prior-year restatements are indicated next to relevant metrics with reasons provided.

C.7.2. Alignment with GRI and SASB standards

Key: **Green** is GRI CORE

Sustainability section	Sustainability subsection	GRI	SASB
A.1. Planet – climate change	A.1.3. Metrics and progress	305-1/2/3/4/5, 301-1, 302-1	TR-AL-110a.1.
	A.1.4. Emissions reduction initiatives	305-5	TR-AL-110a.2.
	A.1.7. Stakeholder engagement	**102-13/-43/-44**	
A.2. Planet – wider issues	A.2.1. Waste	306-1/-2/-3 (2020)	
	A.2.2. Noise and air quality	305-7	
B. People and prosperity	B.2. Workforce metrics	102-7/8, 401-1, 405-1, 102-41, 404-1, 403-9	TR-AL-310a.1.
	B.6. Community engagement and charitable support	**102-13**, 201-1	
C. Principles of sustainability governance	C.2. Governance frameworks	**102-46/-48**	
	C.3. Workforce governance	**403-4**, **408-1**, **409-1**	
	C.4. Supply chain governance	308-2, 414-2	
	C.5. Ethics and integrity	**102-16**, 102-17, 205-1/-2/-3	
	C.6. ESG risk management	**102-11**, 102-15	

You are required to discuss each of the following questions:

35) If IAG were to adopt IFRS Sustainability Disclosure Standards, what changes would it necessarily make to its sustainability-related financial disclosures?

36) If IAG were to adopt IFRS Sustainability Disclosure Standards, could it also continue to align its sustainability-related financial disclosures with GRI Standards?

37) If IAG were required to apply European Sustainability Reporting Standards, could it automatically also claim compliance with IFRS Sustainability Disclosure Standards?

[40] Source: IAG Annual Report and Accounts 2022, p95