Auditor's Report on IB Opco Holding, S.L. and subsidiaries

(Together with the consolidated financial statements and consolidated management report of IB Opco Holding, S.L. and subsidiaries for the year ended 31 December 2023)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Consolidated Financial Statements

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

To the shareholders of IB Opco Holding S.L. and subsidiaries

Opinion

We have audited the consolidated financial statements of IB Opco Holding S.L. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2023, and the consolidated income statement, consolidated total statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 3 to the consolidated financial statements) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated F*inancial Statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

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On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
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Provision for major repairs (see notes 5.13 and 12 to the consolidated financial statements)

At 31 December 2023, the Group recognised Euros 435 million as Provisions for major repairs and refurbishments that, as detailed in note 11.3 of the accompanying notes to the consolidated financial statements, includes the cost of repairs to be carried out upon return of the aircraft under operating leases to bring them to the conditions of use agreed with each lessor. The Group calculates the provisions based on key assumptions, requiring management judgment, such as flight hours and cycles, as well as anticipated costs. Changes in these factors could result in significant adjustments to the level of recognized provisions. Due to the size of the fleet of leased aircraft, the uncertainty associated with these estimates, and the potential material differences in provisions recorded due to changes in these estimates, this matter has been considered one of the most relevant aspects of the audit.

Our audit procedures included the evaluation of the mathematical accuracy of the provision calculation held at the close of the fiscal year and the check that all aircraft under operating leases have an associated provision. We also performed an analysis, for a sample of lease contracts, of the significant return obligations included in these contracts have been considered in the calculation of the provision, as well as the comparison of the rates included in these contracts. Furthermore, we have assessed the key assumptions applied in the calculation of the provision, among others, hours and flight cycles and, with the support of our valuation specialists, discount rate as well as whether previous estimates performed by the Group have been historically accurate by comparing actual costs with previously recognized provisions.

Additionally, we assessed whether the information included in the attached memorandum complies with the requirements of the applicable financial reporting framework for the Group.

Recognition of revenue from passengers (see notes 5.12 and 17.1 to the consolidated financial statements)

Passenger revenue recognition, amounting to Euros 5,611 million and Euros 282 million, respectively, comprises high volumes of low value transactions that are recorded through complex and automated processes, including third party booking management systems, as well as the timing of the recognition based on when the flight took place. Passenger revenue includes coupons for different flights, classes, surcharges and taxes that vary according to the route. The accuracy of revenue recognition depends on the correct application of the standards. Also, due to flight restrictions and cancellations during the pandemic, there has been an increased number of refunds and vouchers issued to be exchanged for future tickets. The recognition of passenger revenue is not subject to a high degree of judgement and estimation by Group management and therefore does not carry a significant risk of material misstatement. However, due to the significance of the amount, it is considered one of the most relevant aspects of the audit.

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Our audit procedures included assessing the design and implementation of key process-related controls, testing the operating effectiveness of the Group's general controls over key systems to ensure that they are adequately configured and that unauthorised changes are logged, as well as testing manual controls that support revenue recognition. We also analysed the expected routine of revenue streams, confirming that inflows pass through the expected accounts and, with the support of our technological audit specialists, we checked customer advances for the year against cash inflows by reviewing the correct revenue recognition for a sample of tickets against external flight information.

We also assessed whether the disclosures in the accompanying notes to the consolidated financial statements meet the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Management Report

Other information solely comprises the 2023 consolidated management report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not encompass the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement has been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated management report with the consolidated financial statements, based on knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements. Also, assess and report on whether the content and presentation of this part of the consolidated management report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, the non-financial information mentioned in section a) above has not been provided in the manner stipulated in the applicable legislation, although we have checked that the rest of the information contained in the consolidated management report is consistent with that disclosed in the consolidated financial statements for 2022, and that the content and presentation of the report are in accordance with applicable legislation.

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Directors' Responsibility for the Consolidated Financial Statements

The Parent's Directors are responsible for the preparation of the accompanying consolidated financial statements in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

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- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

From the significant risks communicated to the Directors of IB Opco Holding S.L., we determine those that were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the most significant risks.

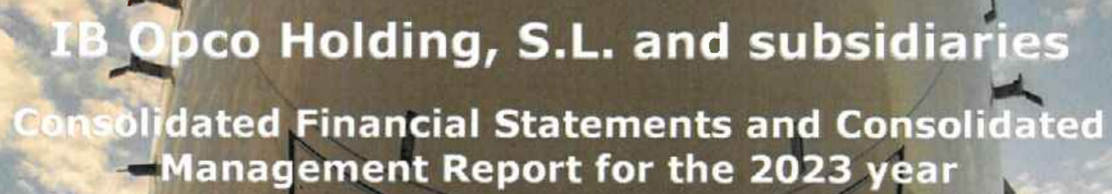
We describe these risks in our auditor’s report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors (“ROAC”) with No. S0702

(Signed on original in Spanish)

Bernardo Rücker-Embden
On the Spanish Official Register of Auditors (“ROAC”) with n.º 18.836

7 March 2024



IB Opco Holding, S.L. and subsidiaries

Consolidated Financial Statements and Consolidated Management Report for the 2023 year

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Consolidated balance sheet at 31 December 2023

€ million	Note	31 December 2023	31 December 2022
NON-CURRENT ASSETS		**4,218**	3,600
Intangible assets	6	**232**	290
Goodwill		131	197
Other intangible assets		101	93
Property, plant and equipment	7	**2,470**	1,933
Aircraft		2,089	1,439
Other property, plant and equipment		381	494
Investments in Group companies and associates		**649**	635
Investments accounted for using the equity method	8.1	264	250
Other equity instruments	8.2	385	385
Non-current financial assets	9.1	**65**	61
Equity instruments		10	10
Derivatives financial instruments	10	9	6
Other financial assets	9.1.3	46	45
Deferred tax assets	15	**802**	681
CURRENT ASSETS		**3,354**	3,796
Inventories	17.3	**545**	452
Aircraft spare parts		277	210
Other inventories		268	242
Trade and other receivables		**874**	699
Trade receivables for services rendered		488	397
Trade receivables from Group companies and associates	19.2	139	157
Other receivables		151	80
Public authorities	15	96	65
Investments in Group companies, associates and related parties		**-**	101
Loans to companies	19.2	-	101
Short-term financial investments:	9.2	**783**	283
Derivatives financial instruments	10	21	128
Other financial assets		762	155
Prepayments		**24**	27
Cash and cash equivalents	5.7	**1,128**	2,234
Cash at bank		372	360
Short term deposits maturing within three months		756	1,874
TOTAL ASSETS		**7,572**	7,396
EQUITY	11	**695**	(90)
SHAREHOLDERS' EQUITY			
Share capital and share premium		**2,301**	2,301
Reserves		**(2,635)**	(2,860)
Other shareholder contributions		**38**	-
Profit/(loss) for the year attributable to the Parent		**1,001**	272
VALUATION ADJUSTMENTS-	11.4		
Financial assets at fair value through equity		**41**	41
Hedging transactions		**(65)**	124
Other		**12**	30
SUBSIDIES, DONATIONS AND BEQUESTS RECEIVED		**-**	-
NON-CONTROLLING INTERESTS		**2**	2
NON-CURRENT LIABILITIES		**3,294**	4,161
Non-current provisions	12	**1,313**	1,450
Non-current borrowings	13	**1,349**	2,059
Non-current borrowings with Group companies and associates	19.2	**380**	377
Deferred tax liabilities	15	**24**	84
Non-current accruals		**153**	148
Other non-current liabilities		**75**	43
CURRENT LIABILITIES		**3,583**	3,325
Current provisions	12	**316**	259
Current borrowings	13	**220**	388
Trade creditors and other payables		**3,032**	2,665
Suppliers and other accounts payable		970	839
Suppliers, Group companies and associates	19.2	143	113
Remuneration payable		145	176
Payables to public authorities	15	307	305
Deferred revenue	5.12	1,467	1,232
Prepayments		**15**	13
TOTAL EQUITY AND LIABILITIES		**7,572**	7,396

Notes 1 to 22 to the accompanying consolidated financial statements are an integral part of the consolidated statement of financial position for the year ended 31 December 2023

Consolidated income statement for the year ended 31 December 2023

€ million	Notes	**2023**	2022
CONTINUING OPERATIONS:			
Revenue	17.1	**7,136**	5,562
In-house work on non-current assets	6 and 7	**23**	21
Supplies	17.3	**(2,261)**	(1,873)
Other operating income	17.2	**283**	294
Personnel expenses	17.4	**(1,231)**	(1,116)
Wages, salaries and similar expenses		(953)	(870)
Social charges		(278)	(246)
Other operating expenses	17.5	**(2,828)**	(2,370)
Depreciation, amortisation and impairment	6, 7 and	**(296)**	(297)
Overprovisions	12	**35**	26
Impairment and gains/(losses) on disposal of non-current assets		**(2)**	3
Gain/(loss) on disposals		(2)	3
Operating profit/(loss)		**859**	250
Financial income	17.6	**75**	6
Finance costs	17.7	**(158)**	(117)
Variation in the fair value of financial instruments	10	**3**	(21)
Currency differences		**27**	(13)
Impairment and gains or losses on disposal of financial instruments	2.3	**11**	-
FINANCIAL (LOSS)/PROFIT		**(42)**	(145)
Share of profit (loss) of companies accounted for using the equity method		**203**	100
PROFIT/(LOSS) BEFORE TAX		**1,020**	205
Income tax	15	**(19)**	67
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**1,001**	272
Profit (loss) attributed to the parent Company		**1,001**	272
Profit attributable to non-controlling interests		**-**	-

Notes 1 to 22 to the accompanying consolidated financial statements are an integral part of the consolidated income statement for the year ended 31 December 2023

Consolidated statement of changes in equity for the year ended 31 December 2023

A) Consolidated statement of recognised income and expenses

€ million	Notes	2023	2022
PROFIT / (LOSS) PER CONSOLIDATED INCOME STATEMENT		**1,001**	272
Income and expense recognised directly in equity:			
Hedges	10	**(61)**	374
Subsidies, donations and bequests received		**62**	63
From actuarial gains and losses and other adjustments		**(24)**	69
Tax impact		**6**	(125)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	11.4	**(17)**	381
Transfers to the income statement:			
Hedges	10	**(207)**	(305)
Subsidies, donations and bequests received		**(62)**	(71)
Tax impact		**79**	83
TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT	11.4	**(190)**	(293)
TOTAL RECOGNISED INCOME/(EXPENSE)		**794**	360

Notes 1 to 22 to the accompanying consolidated financial statements are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2023

B) Consolidated total statement of changes in equity

€ million	Share capital and share premium	Reserves	Other shareholder contributions (Note 11.5)	Profit/(loss) for the year	Valuation adjustments	Subsidies	Total	Non-controlling interests	Total equity
FINAL BALANCE - 2021	2,301	(2,146)	-	(704)	101	6	(442)	2	(440)
Distribution of 2021 profit/(loss)	-	(704)	-	704	-	-	-	-	-
Total recognised income and expense	-	-	-	272	94	(6)	360	-	360
Other	-	(10)	-	-	-	-	(10)	-	(10)
FINAL BALANCE - 2022	2,301	(2,860)	-	272	195	-	(92)	2	(90)
Distribution of 2022 profit/(loss)	-	272	-	(272)	-	-	-	-	-
Total recognised income and expense	-	-	-	1,001	(207)	-	**794**	-	**794**
Other	-	(47)	38	-	-	-	**(9)**	-	**(9)**
FINAL BALANCE - 2023	**2,301**	**(2,635)**	**38**	**1,001**	**(12)**	**-**	**693**	**2**	**695**

Notes 1 to 22 to the accompanying financial statements are an integral part of the consolidated total statement of changes in equity for the year ended 31 December 2023

Consolidated cash flow statement

€ million	Notes	**2023**	2022
CASH FLOWS USED IN OPERATING ACTIVITIES:		**933**	1,417
Profit /(loss) before tax		**1,020**	205
Adjustments for:		**180**	604
Depreciation, amortisation and impairment	6, 7 and 8.1	296	297
Variation in provisions		185	307
Allocation of subsidies		(4)	(3)
Losses on retirements and disposal of fixed assets and financial assets	6 and 7	(9)	(3)
Financial income	17.6	(75)	(6)
Finance costs	17.7	158	117
Currency differences		7	21
Variation in the fair value of financial instruments		(3)	21
Other income and expenses		(172)	(47)
Share of profit/(loss) of companies accounted for using the equity method		(203)	(100)
Changes in working capital		**112**	663
Inventories		(113)	96
Trade and other receivables		(1)	(242)
Other current assets		(93)	19
Trade and other payables		337	793
Other current liabilities		(18)	(3)
Other cash flows used in operating activities		**(379)**	(55)
Interest payments		(112)	(62)
Dividends received	17.6	4	-
Interest received		68	3
Income tax payments		(166)	-
Other payments		(173)	4
CASH FLOWS USED IN INVESTING ACTIVITIES:		**(1,286)**	(588)
Payments on investments		**(1,501)**	(1,558)
Intangible assets		(33)	(35)
Property, plant and equipment		(859)	(1,359)
Other financial assets		(609)	(164)
Proceeds from disposals		**215**	970
Group companies and associates		11	200
Property, plant and equipment		204	767
Other financial assets		-	3
CASH FLOWS USED IN FINANCING ACTIVITIES:		**(738)**	651
Proceeds from and payments for financial liabilities		**(738)**	651
Issue of debts with credit institutions		113	696
Repayment and amortisation of debts with credit institutions		(951)	(345)
Group companies and associates		100	300
IMPACT OF EXCHANGE RATE VARIATIONS		**(15)**	(7)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**(1,106)**	1,473
Cash and cash equivalents at the beginning of the year		**2,234**	761
Cash and cash equivalents at the end of the year		**1,128**	2,234

Notes 1 to 22 to the accompanying consolidated financial statements are an integral part of the consolidated cash flow statement for the year ended 31 December 2023

IB Opco Holding, S.L. and Subsidiaries
Notes to the 2023 consolidated financial statements

1. ACTIVITY OF THE PARENT COMPANY AND THE GROUP

IB Opco Holding, S.L. (hereinafter "the Parent") was incorporated for an indefinite period of time on 23 December 2009 and its registered office is in Madrid, at calle Martínez Villergas, 49.

The main activity of the parent Company, in accordance with its articles of association, is the holding, management and administration of the shares of the Spanish company "Iberia Líneas Aéreas de España, S.A. Operadora (Unipersonal)", hereinafter "Iberia".

Iberia mainly engages in the air transport of passengers and cargo, although it also has a number of complementary activities, particularly services for passengers and aircraft at airports and aircraft maintenance.

As a passenger and cargo airline, Iberia is an operator with a broad network serving four main markets alongside Iberia Express since 2012: Spain, Europe, the Americas and Asia. Since 2017, Iberia has operated the LEVEL brand, mainly serving routes from Barcelona to the Americas. Both Iberia and Iberia Express are full members of the **one**world airline alliance, one of the most important in the world, which enables the globalisation of its air transport operations.

In addition to the lines of business carried on directly by Iberia and Iberia Express, the Parent has sought to complement these or develop in other businesses in connection with air transport through indirect holdings in a number of companies making up the Iberia Group, hereinafter "the Group", headed by IB Opco Holding, S.L.

Iberia Group is also a subsidiary of International Consolidated Airlines Group, S.A. ("IAG or IAG Group"), which has its registered office in Madrid, El Caserío, Iberia Zona Industrial nº2, Camino de la Muñoza, s/n, and whose shares have been listed on the London Stock Exchange and the four Spanish stock exchanges since 24 January 2011. The consolidated financial statements of the IAG group for the 2022 financial year were prepared by the Board of Directors of IAG at its meeting held on 23 February 2023, approved by the General Meeting of Shareholders held on 15 June 2023 and filed with the Commercial Registry of Madrid.

2. SUBSIDIARY, ASSOCIATE and JOINTLY CONTROLLED ENTITIES

2.1 Subsidiaries

All subsidiaries were fully consolidated. Subsidiaries are defined as those over which the Parent exercises or can exercise direct or indirect control, understood as the capacity to direct the financial and operating policies of a company with a view to securing economic profit from its business activities. This circumstance is generally, though not solely, manifested by the direct or indirect ownership of 50% or more of the company's voting rights.

The shareholdings of minority shareholders in equity and in the results of the consolidated subsidiaries are presented under "Non-controllinc interest" within the "Equity" heading of the consolidated statement of financial position and in "Profit attributable to non-controlling interest"" within the consolidated income statement, respectively.

Appendix I contains a list of the consolidated subsidiaries.

All subsidiaries have the same financial year as the parent Company, which closes on 31 December each year.

2.2 Associates

Associates are accounted for using the equity method. Associates are companies over which there is significant influence over their management, understood as the capacity for involvement in decisions concerning the financial and operating policies of the investee, although without any control or joint control. Significant influence is presumed to exist if one or more group companies hold at least 20 per cent of the voting rights of a company that does not belong to the group.

The equity method consists of recognising the value of net assets and any goodwill corresponding to the holding in the associate as non-current "Investment in Group companies and associates accounted for using the equity method". The net result achieved in each year, which corresponds to the percentage interest in these companies,

is shown in the consolidated income statement as "Share of profit of companies accounted for using the equity method".

Annex II provides a list of consolidated associates, and Note 8 to these consolidated financial statements shows the contributions by these companies to Group earnings.

All subsidiaries have the same financial year as the parent Company, which closes on 31 December each year.

2.3 Change in scope of consolidation

On 13 March 2023, the subsidiary Iberia L.A.E. S.A. Operadora's 100% interest in Iberia México S.A. was sold for €12 million, generating a gain of €11 million, which is recognised in the consolidated income statement for 2023 under "Gains on disposal of financial instruments".

In addition, in 2023 the Group incorporated Mundiplan Turismo y Ocio, S.L., in which it held a 50% interest at year-end. This company is still inactive and has therefore had no impact on the consolidated financial statements.

In 2022, the Group, through the subsidiary Iberia, incorporated a new subsidiary in Mexico, Iberia Líneas Aéreas de México, S.A.C.V., whose activity has started in the financial year 2023.

3. BASES OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

3.1 Regulatory financial reporting framework applicable

These 2023 consolidated financial statements were drawn up by the Directors of the Parent pursuant to the regulatory financial reporting framework applicable to the Group, as laid down in:

- The Spanish Commercial Code and other commercial legislation.
- The Standards for Drawing up Consolidated Annual Accounts approved by Royal Decree 1159/2010 and the Chart of Accounts approved by Royal Decree 1514/2007 and its amendments approved in Royal Decree 602/2016 and Royal Decree 1/2021
- The mandatory rules approved by the Instituto de Contabilidad y Auditoría de Cuentas (Institute of Accounting and Auditing) in the development of the Spanish Chart of Accounts and its supplementary rules
- Any other Spanish accounting regulations applicable.

The figures included in the consolidated financial statements are expressed in millions of euros (€) unless otherwise stated.

3.2 True and fair view

The 2023 consolidated financial statements have been prepared from the accounting records of the parent Company and its subsidiaries and associates and are presented in accordance with the regulatory accounting requirements applicable to them as described in note 3.1 above and, in particular, the accounting policies and criteria therein so as to give a true and fair view of the consolidated equity and financial position of the Group as at 31 December 2023 and of its consolidated results and cash flows for the year ended 31 December 2023.

These consolidated financial statements for the year 2023 prepared by the Board of Directors of the parent Company, as well as the financial statements of the subsidiaries and associates, will be submitted to the respective annual general meetings of shareholders for approval and are expected to be approved without amendment.

These financial statements omit information or disclosures that, although not required to be presented in detail because of their qualitative significance, are considered non-material or have no relative importance in accordance with the concept of materiality or relative importance as defined in the conceptual framework of the Spanish Chart of Accounts.

3.3 Significant issues regarding the measurement and estimation of uncertainty and relevant judgments in the application of accounting policies

The preparation of the consolidated financial statements requires the use of significant accounting estimates and the making of judgements, estimates and assumptions in the process of applying the Group's accounting policies. In this context, the following is a summary of the aspects that required a higher degree of judgement and complexity or where the assumptions and estimates are significant to the preparation of the financial statements:

- The measurement of possible impairments of property, plant and equipment, goodwill, inventories and financial assets and the valuation of deferred tax assets.
- The fair value of derivative financial instruments
- The evaluation of provisions and contingencies.
- The useful life of property, plant and equipment and the estimation of residual values
- The assumptions used in the actuarial calculation of commitments to employees.

In this regard, the estimates of the directors of the subsidiary Iberia arising from the successive transformation plans described in note 3.6 are noteworthy.

Although the estimates made by the directors of the parent Company have been calculated based on the best information available as at 31 December 2023, it is possible that future events may require a change in these estimates in future years. The impact of any changes resulting from adjustments to be made in future years would be recognised prospectively in the consolidated financial statements.

3.4 Comparative information

The information in these consolidated financial statements for the financial year 2022 is presented for comparison purposes only with the information for the financial year 2023. The application of accounting policies has been consistent in both years.

3.5 Grouping of items

Certain items on the consolidated balance sheet, the income statement, the statement of changes in equity and the consolidated statement of cash flows are presented in groups to make them easier to understand, although where individual data is significant, they have been included in the respective notes to these consolidated financial statements.

3.6 Plan for the future: Iberia Next Chapter

The Group Board of Directors approved a new plan, Iberia Next Chapter, as the roadmap to follow in the coming years.

This plan is based on five pillars that have given rise to specific initiatives grouped around a series of programmes. The five pillars are as follows:

- Financial robustness aimed at recovering and improving revenues, maintaining cost efficiency and focusing on cash generation and debt repayment.
- Social and environmental sustainability as a key, cross-cutting element of Iberia's strategy and business, consistent with the Company's mission.
- Trusted airline
- Leadership in Madrid
- Employees

As a result of the positive outcome of this plan, it has enabled the Group to return to a positive financial result after the uncertainty following COVID-19.

3.7 Going concern principle

The global health emergency caused by the pandemic had a substantial impact on the Group's financial situation in 2020 and 2021, which resulted in the Group having negative equity of €440 million.

In view of this situation, the Board of Directors of the subsidiary Iberia approved the following measures for the financial year 2022 to restore the equity balance:

- Appropriation of available voluntary reserves as well as this Company's legal reserve as at 31 December 2021 to offset prior years' losses
- Reduction of share capital by €676 million to €67 million

- Taking out a shareholder loan for €300 million with IAG, as financial support, which is considered equity for commercial purposes.

As a result of these measures and improved results in 2022, this subsidiary reported a positive equity of €125 million.

Likewise, with regard to the Group's activity in 2023, there has been a significant increase in activity, reaching a positive result of €1,001 million and an operating profit of €859 million. As a result of the above, the Group has positive equity of €695 million at year-end 2023.

Regarding the Group's working capital, at 31 December 2023, current liabilities exceed current assets by €229 million. However, excluding customer advances, working capital at that date would be positive in the amount of €1,238 million.

Additionally, at 31 December 2023 the Group had a total liquidity of €2,215 million, comprising cash and cash equivalents as well as interest-bearing deposits, recorded on the balance sheet as other financial assets, amounting to €1,890 million, €325 million in arranged and undrawn credit facilities, including €238 million through a credit facility arranged by IAG Group for the Group to drawn on and another €87 million in undrawn credit facilities. In addition, at 31 December 2023 the Group has positive net debt amounted in €411 million (Note 13.4).

On the basis of the above, it is considered that there is no doubt that the going concern principle is complied with. In this respect, the Directors of the Group have prepared these consolidated financial statements for the year 2023 in accordance with the going concern principle.

4. DISTRIBUTION OF PROFIT AND LOSS OF THE PARENT COMPANY

The proposal to be submitted by the Directors of the parent Company for approval by the General Meeting of Shareholders is to applicate the profit to compensate the "Losses of the previous years".

Similarly, the appropriation of the 2022 losses approved by the sole shareholder on 13 June 2023 was to allocate them in full to the "Losses of the previous years".

5. RECOGNITION AND MEASUREMENT STANDARDS

The principal accounting policies adopted by the Group in the preparation of these 2023 financial statements in accordance with the Spanish Chart of Accounts and in the Standards for the Preparation of Consolidated Financial Statements are as follows:

5.1 Consolidation principles applied

Transactions with companies within the scope of consolidation

All balances, transactions and earnings of fully consolidated companies were removed from the consolidation process.

Uniformity of items

The accounting principles and procedures employed by Group companies were unified in order to present the consolidated financial statements on a consistent valuation basis.

Translation of financial statements drawn up in foreign currencies

The financial statements of investees the functional currency of which is other than the presentation currency, the euro, were translated as follows:

- Assets and liabilities in their statements of financial position are translated at the closing rate at the respective statement of financial position date.

- Income and expenses for each income item are translated at the cumulative average exchange rate of the period in which they occurred.

No major translation differences arose from application of the above procedures.

5.2 Intangible assets

Intangible assets are generally valued initially at their acquisition price or production cost. They are subsequently valued at cost, less their accumulated amortisation and any impairment losses they may have incurred, estimated as described in Note 5.4. These assets are amortised in accordance with their useful lives.

Goodwill

The parent Company taking over a subsidiary is a business combination that the acquisition method will be applied to. In subsequent consolidations, the investment-equity shall generally be eliminated from subsidiaries based on the values arising from applying the acquisition method described as follows on the control date.

Business combinations are recognised by applying the acquisitive method for which the acquisition date is determined and the cost of the combination is calculated, the identifiable assets acquired and the liabilities assumed are recognised at their fair value on the aforementioned date.

Goodwill or the negative difference of the combination is determined by the difference between the fair value of the recognised assets acquired and the liabilities assumed and the cost of the combination, all on the date of acquisition.

The cost of the combination is determined by adding:

- The fair values on the acquisition date of the acquisition of transferred assets, liabilities incurred and the equity instruments issued.

- The fair value of any contingent consideration which depends on future events or on predetermined conditions being complied with.

The cost of the combination does not include expenditure relating to the issue of the equity instruments or the financial liabilities delivered in exchange for items acquired.

Likewise and as of 1 January 2010, nor will the cost of the combination include the fees paid to legal advisers or other professionals who take part in the combination or, of course, any costs generated internally by these concepts. These amounts will be attributed directly to the income statement.

If the business combination takes place in stages, so that there is a preliminary investment prior to the date of acquisition (takeover date), the goodwill or negative difference is obtained by the difference between:

- The cost of the business combination plus the fair value on the date of acquisition of any prior share in the acquired company held by the acquiring company, and

- The value of the identifiable assets acquired minus that of the assumed liabilities, determined in accordance with the above.

Any profit or loss that arises as a consequence of the fair value valuation on the date when control of the prior share in the acquired company is obtained will be recognised in the income statement. If the investment in the subsidiary was previously valued at its fair value, the valuation adjustment pending recognition in the year's financial statement will be transferred to the income statement. In addition, it is assumed that the cost of the business combination is the best reference point for estimating the fair value on the date of acquisition of any previous share.

In the exceptional event that there is a negative difference in the combination, it will be recognised in the income statement as revenue.

If, at the end of the financial year in which the combination takes place, the valuation processes required for applying the acquisition method described above cannot be concluded, this accounting is considered provisional and these provisional values may be adjusted within the period required for obtaining the necessary information, which may not be longer than one year under any circumstances. The effects of the adjustments made in this period are recognised retroactively, changing the comparative information if necessary.

After initial recognition, the goodwill is valued by its acquisition price minus the accumulated depreciation and, where applicable, the amount accumulated from valuation corrections due to recognised impairment. In accordance with applicable regulations, the useful life of goodwill has been established at 10 years and amortisation is on a straight line basis.

The Parent accepted control of Iberia through the non-monetary contribution made by IAG. The difference between the value of the identifiable net assets acquired, which were measured at the carrying amount at the time of initial consolidation, amounting to €2,077 million, and the amount of the capital increase through which the Parent obtained control of Iberia, amounting to €2,734 million, was recognised as "Goodwill" in the consolidated statement of financial position.

Industrial property

This account records the amounts paid for the acquisition of the property or for the expenses incurred for the registration of the property developed by the Group. Industrial property is amortised on a straight-line basis over its estimated useful life of 10 years.

Computer software

The Group recognises costs incurred to acquire and develop software programmes or have them developed under this heading. The maintenance costs of computer applications are recognised with a charge to the income statement for the year in which they are incurred.

These costs are amortised on a straight-line basis over a maximum period of 5 years.

5.3 Property, plant and equipment

Property, plant and equipment are carried at historical cost, net of the related accumulated depreciation and impairment losses, if any, calculated as described in Note 5.4.

Any improvements to items of property, plant and equipment leading to increased capacity, efficiency, or to a lengthening of the useful lives of the assets are capitalised.

The Group depreciates its property, plant and equipment on a straight-line basis, distributing the depreciable cost over the years of estimated useful life, as follows:

	Years
Aircraft	23 – 25
Buildings and other constructions	20 – 50
Machinery, fixtures and tools	10 – 15
Overland travel elements	7 – 10
Furniture and fixtures	10
Computer hardware	4 – 7
Spare parts for property, plant and equipment	10 – 18
Flight simulators	12 – 14

The residual value of aircraft is estimated at 5% of acquisition cost. The residual value of rotable fuselage spares (i.e. those assigned specifically to types or families of aircraft, included in "Spare parts") is estimated at between 10% and 20% of acquisition cost, depending on the type of fleet. The Group depreciates in full the acquisition cost of other items of property, plant and equipment.

When consolidating owned aircraft and aircraft operated under finance leases, the Group strips out from the cost of the aircraft, the cost that will be replaced during regular scheduled overhauls. This cost is depreciated on a straight-line basis over the period from the addition of each aircraft to the first scheduled overhaul. The cost of repairs during these shutdowns is capitalised as an increase in the value of the asset and depreciated over the period between overhauls.

For each aircraft held under an operating lease, the Group makes a provision for the total costs that will be incurred for the periodic overhaul, depending on the lease terms. These costs are recognised in the income statement on a straight-line basis over the period between two successive overhauls. In addition, a provision is made to cover the estimated cost of necessary repairs to each aircraft when it is returned and to maintain it in the condition agreed with each lessor (Note 5.13).

Maintenance costs of property, plant and equipment and the cost of minor repairs to all aircraft operated by the Group are taken to the income statement in the year in which they were incurred.

5.4 Impairment of the value of property, plant and equipment and intangible assets

When there is any indication of a decline in value, the Group performs an impairment analysis to estimate the possible loss of value that may reduce the recoverable amount of the assets to below their net carrying amount.

The recoverable value is established as the greater between fair value less costs to sell and value in use.

In addition, irrespective of indications of impairment, the Group tests intangible assets that are not yet in a usable condition for impairment at least once a year.

Value in use of the asset is determined using the future expected cash flows which would derive from the use of the asset, expectations about possible changes in the amount or distribution over time of the flows, the temporary value of money, the price to be paid to withstand uncertainty relating to the asset and other factors which market participants would consider when valuing the future cash flows relating to the asset.

Impairment losses related to the impairment of the Cash Generating Unit (CGU) reduce the non-current assets of the CGU proportionately based on their carrying amount, with the limit for each asset being the higher of fair value less costs to sell, value in use and nil.

Once an impairment loss has been recognised or reversed, the accumulated amortisation or depreciation is adjusted in the following years based on the new carrying amount.

Valuation corrections due to impairment, and their reversion are recorded on the income statement and are reverted when the circumstances which prompted such a reversion are no longer applicable, except those corresponding to goodwill. The limit for the reversion of the impairment is the carrying amount of the asset which would appear if the pertinent impairment in value had not been previously entered.

The IAG Group has performed an impairment analysis of the Group's assets based on a business plan approved by the Board of Directors of the parent Company in December 2023, with a time horizon of 2024-2026, based on the best estimate as at the date of preparation of these consolidated financial statements on 31 December 2023.

In this business plan, each subsidiary company as a whole is considered as a cash-generating unit, taking into account the interconnectedness of its business activities. The main features of this Business Plan are its forecasts for earnings, investments and changes in working capital.

Projections are prepared on the basis of past experience and in accordance with the best possible estimates which are consistent with outside information and which assume sustainable growth in the level of production.

In determining the value in use, there are other variables that affect the calculation of the aforementioned value:

- The discount rate to be applied, understood as the weighted average cost of capital, the main variables affecting its calculation being the cost of liabilities and the specific risks of the assets, which has been set at 12.4% before tax (11.2% in 2022).
- The cash flow growth rate used to extrapolate the cash flow projections beyond the period covered by the budgets or forecasts was estimated at 1.5% (1.5% in 2022).

5.5 Leases

Leases are classified as finance or operating leases depending on the underlying value and the nature of the transaction.

To evaluate the substance and nature of a lease (finance or operating), Group management considers the following at the inception of the lease: whether the lease transfers ownership by the end of the lease term; whether it is felt that the lessee will exercise any purchase option; whether the lease term is for the major part of the lifespan of the asset; whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. If any of these four conditions are met the lease is classified as a finance lease, and otherwise it is classified as an operating lease.

The main leases entered into by the Group are for aircraft, and do not include automatic transfer of ownership at the end of the lease term.

Finance lease

In the case of finance leases, the cost of the leased asset is recognised in the consolidated statement of financial position according to its nature and a liability of the same amount is recognised at the same time. This amount is calculated as the lesser of the fair value of the leased asset and the present value, at the beginning of the lease term, of the minimum payments agreed upon, plus any purchase option, when there is no reasonable doubt as to its exercise. The calculation does not include contingent payments, service costs or taxes that can be passed on by the lessor. The total finance charge on the lease is recognised in the consolidated income statement for the

year in which it is incurred, using the effective interest rate method. Contingent payments, if any, are recognised as an expense for the year in which they are arise.

The assets recognised for these types of transactions are depreciated on the basis of their nature using the same criteria as those applied to other items of property, plant and equipment.

Operating leases

Under operating leases, ownership of the leased asset and substantially all the risks and rewards incidental to ownership of the leased asset remain with the lessor.

When the Group is the lessor, the income and costs arising from operating leases are recognised in the consolidated income statement in the year in which they are incurred. In addition, the cost of the leased asset is recognised in the consolidated statement of financial position according to the nature of the asset, increased by costs directly attributable to the lease, which are expensed over the lease term using the same method as for the recognition of lease income.

When the Group acts as a lessee, the expenses arising from the operating lease agreements are charged to the consolidated income statement in the year in which they are accrued.

Any collection or payment that may be made when arranging an operating lease will be treated as a prepaid lease collection or payment that will be allocated to profit or loss over the lease's term as the benefits of the leased asset are provided or received.

Sale-and-leaseback transactions

Sale and leaseback transactions of assets that qualify as finance leases are considered financing transactions so that the nature of the asset does not change and no gain or loss is recognised.

If the leaseback transaction is classified as an operating lease, the asset is derecognised from the statement of financial position. If the selling price is below fair value, any gain or loss is recognised immediately unless the loss is offset by future lease payments below market prices. In this case, it is deferred and amortised in proportion to the lease payments made over the period in which the asset is expected to be used. If the selling price exceeds the fair value, the excess is deferred and amortised over the period in which the asset is expected to be used.

5.6 Financial instruments

Financial instruments are classified at the time of their initial recognition as financial assets, financial liabilities or equity instruments, in accordance with the funds arising from the contractual agreement and with the definitions of financial asset, financial liability and equity instrument.

The Group recognises a financial instrument when it becomes a party to it under the terms of the contract or legal instrument, either as the issuer or as the holder or acquirer of the instrument.

For measurement purposes, the Group classifies financial instruments as financial assets and financial liabilities at fair value through consolidated profit or loss, separating those originally designated and those held for trading and those mandatorily designated at fair value through consolidated profit or loss, financial assets and liabilities measured at amortised cost, financial assets measured at fair value through equity, separating equity instruments designated as such from other financial assets, and financial assets measured at cost. The Group classifies financial assets at amortised cost and fair value through equity, except for designated equity instruments, in accordance with the business model and the characteristics of the contractual cash flows. The Group classifies financial liabilities as measured at amortised cost, except for those designated at fair value through profit or loss and those held for trading.

The Group classifies a financial asset or financial liability as held for trading if:

- It was originated, acquired or issued principally for the purpose of selling or repurchasing it in the immediate future.
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actions to realise gains in the immediate future;
- It is a derivative financial instrument, other than a derivative designated as a hedging instrument that is not a financial guarantee contract; or

- It is an obligation of the Group in a short position to deliver financial assets that have been lent to it.

The Group classifies a financial asset at amortised cost, even if it is held for trading, if it is held within a business model whose objective is to hold the asset to collect cash flows from the settlement of the contract and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding at specified dates.

The Group classifies a financial asset at fair value through equity if it is held within a business model whose objective is to generate contractual cash flows and sell financial assets and the contractual terms of the financial asset give rise to cash flows at specified dates that are solely payments of principal and interest.

The business model is determined by the Group's key personnel at a level that reflects the way in which they collectively manage groups of financial assets to achieve a particular business objective. The Group's business model represents how it manages its financial assets to generate cash flows.

The Group designates a financial asset on initial recognition as at fair value through consolidated profit or loss if this eliminates or significantly reduces measurement inconsistencies or accounting mismatches that would otherwise arise if the assets or liabilities were measured on different bases or the results of those assets or liabilities were recognised on different bases.

In any case, the Group classifies investments in the equity of Group companies and associates and investments in equity instruments whose fair value cannot be determined by reference to a quoted price in an active market for an identical instrument, or cannot be reliably estimated, at cost.

All other financial assets are designated as at fair value through consolidated profit or loss, with the exception of equity instruments which are designated as at fair value through other comprehensive income.

The Group designates a financial liability as at fair value through profit or loss on initial recognition if this eliminates or significantly reduces an accounting inconsistency or mismatch in measurement or recognition that would otherwise arise, if the valuation of assets or liabilities or the recognition of the results of those assets or liabilities would be made on a different basis, or if a group of financial liabilities or financial assets and financial liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about that group is communicated internally on the same basis to the Group's key management personnel.

The Group classifies all other financial liabilities as financial liabilities at amortised cost.

(i) *Compensation principles*

A financial asset and a financial liability are only an object of compensation when the Group has the legally enforceable right to compensate the amounts registered and intends to settle the net amount or realise the asset and cancel the liability simultaneously.

(ii) *Financial assets and liabilities at fair value through profit or loss*

The Group recognises financial assets and liabilities at fair value through profit or loss initially at fair value. Transaction costs directly attributable to the purchase or issue are expensed as incurred.

The fair value of a financial instrument at initial recognition is usually the transaction price, unless that price includes elements other than the instrument, in which case the Group determines the instrument's fair value. After initial recognition, they are carried at fair value with changes recognised in the income statement. Changes in fair value include the interest and dividend components. The fair value is not reduced by transaction costs that may be incurred in the event of a sale or other disposal.

(iii) *Financial assets and liabilities at amortised cost*

Financial assets and liabilities at amortised cost are initially recognised at fair value plus or minus transaction costs incurred and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to the estimated cash flows over the expected life of the instrument, based on its contractual terms and, for financial assets, excluding future credit losses, except for those acquired or originated with incurred losses for which the effective interest rate adjusted for credit risk is used, i.e. taking into account credit losses incurred at the date of acquisition or origin.

(iv) *Financial assets at fair value through equity*

Financial assets at fair value through equity are initially recognised at fair value plus transaction costs directly attributable to the acquisition.

After initial recognition, financial assets in this category are measured at fair value with the gain or loss recognised in recognised income and expense in equity, except for impairment losses and foreign exchange gains and losses on debt instruments. The amounts recognised in equity are recognised in the income statement when the financial assets are derecognised and impairment losses are recognised, if any. However, interest calculated using the effective interest method is recognised in the income statement.

(v) *Financial assets and liabilities measured at cost*

Investments in equity instruments whose fair value cannot be reliably estimated and derivative instruments that are linked to equity instruments and must be settled by delivery of such unquoted equity instruments are measured at cost. However, if at any time a reliable measure of the financial asset or financial liability is available to the Group at any time on an ongoing basis, the financial asset or financial liability is carried at fair value at that time, with gains or losses recognised in accordance with the classification of the asset or liability.

The Group measures investments included in this category at cost, which is the fair value of the consideration given or received, plus or minus directly attributable transaction costs, less any accumulated impairment losses. The initial measurement of equity instruments also includes the amount of acquired preferential subscription rights and similar rights.

(vi) *Reclassifications of financial instruments*

The Group reclassifies financial assets when it changes the business model for managing them or when it meets or ceases to meet the criteria to be classified as an investment in group entities, jointly controlled entities or associates, or when the fair value of an investment ceases or becomes unreliable, except for equity instruments designated classified at fair value through equity, which cannot be reclassified. The Group does not reclassify financial liabilities.

(vii) *Interests and dividends*

Interest and dividends on financial assets accrued after the time of acquisition are recognised as income in the income statement.

Interest received from financial assets is recognised at amortised cost using the effective interest rate method and dividends are recognised when the Group's right to receive them is declared.

If the dividends distributed clearly arise from profits earned before the acquisition date because amounts were distributed in excess of the profits earned by the investee or an investee of the investee since the acquisition, they reduce the carrying amount of the investment. This criterion is applied independently of the measurement criterion for equity instruments. Therefore, for equity instruments measured at fair value, the value of the investment is also reduced and the subsequent increase in value is recognised in the consolidated income statement or in equity, depending on the classification of the instruments.

(viii) *Elimination of financial assets*

The Group applies the criteria for derecognition of financial assets to part of a financial asset or part of a group of similar financial assets or to a financial asset or a group of similar financial assets.

Financial assets are derecognised when the related rights to receive cash flows have expired or have been transferred and the Group has substantially transferred the risks and rewards of ownership. Financial assets are derecognised only when the Group retains the contractual rights to receive the cash flows, contractual obligations have been incurred to pay the cash flows to one or more recipients and the following conditions are met:

- The payment of cash flows is conditional on prior collection.
- The Group may not sell or pledge the financial asset; and
- Cash flows collected on behalf of potential recipients are remitted without material delay and the Group is unable to reinvest the cash flows. Investments in cash or cash equivalents made by the Group during the accounting period between the collection date and the remittance date agreed with the potential

recipients are excluded from this criterion, provided that the accrued interest is attributed to the potential recipients.

The derecognition of a financial asset involves the recognition of results owing to the difference between its carrying amount and the amount of the compensation received, net of transaction fees; any assets obtained or liabilities assumed. Any deferred amounts in equity are reclassified to the consolidated income statement.

The recognition criteria for derecognition of financial assets in transactions where the Group neither assigns nor substantially retains the risks and rewards of ownership are based on analysis of the degree of control. Thus:

- If the Group has not retained control, the financial asset is derecognised and any rights or obligations created or retained by the transfer are recognised separately as assets or liabilities.
- If control has been retained, the financial asset continues to be recognised for the Group's continuing involvement in the financial asset and an associated liability is recognised. The continuing involvement in relation to the financial asset is determined by the level of exposure to changes in the value of the asset. The asset and the associated liability are measured on the basis of the rights and obligations that the Group has recognised. The associated liability is recognised such that the carrying amount of the asset and the associated liability equals the amortised cost of the rights and obligations held by the Group if the asset is measured at amortised cost or the fair value of the rights and obligations held by the Group if the asset is measured at fair value. The Group continues to recognise income on the asset to the extent of its continuing involvement and expense on the associated liability. Changes in the fair value of the asset and the associated liability are recognised consistently in the income statement or in equity in accordance with the general recognition criteria set out above and should not be offset.

Transactions in which the Group retains substantially all the risks and rewards of ownership of a transferred financial asset are recognised by recognising the consideration received as a liability. Transaction costs are recognised in the income statement using the effective interest method.

(ix) *Impairment in value of financial assets*

A financial asset or group of financial assets is impaired and a loss produced as a cause of impairment if there is objective evidence of the impairment as the result of one or more events occurring after the initial recognition of the asset where the event or events causing the loss have an impact on estimated future cash flows from the financial asset or group of financial assets, which can be reliably estimated.

The Group recognises impairment losses on financial assets at amortised cost if there has been a reduction or delay in the estimated future cash flows due to the insolvency of the debtor.

Similarly, in the case of equity instruments, impairment exists if the carrying amount of the asset is no longer recoverable due to a prolonged or significant decline in its fair value.

- Impairment in the value of financial assets valued at amortised cost

The amount of the loss from impairment in the value of financial assets valued at amortised cost is the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows, excluding future credit losses that have not been incurred, with the original effective interest rate of the asset discounted. For financial assets at a variable interest rate, the effective interest rate corresponding to the valuation date will be used according to contract conditions. However, the Group uses their market value, provided that this is sufficiently reliable to be considered representative of the value that could be recovered.

Loss from impairment of value is entered on the income statement and is reversible in later years if the decrease can be objectively related to an event occurring after its recognition. Nonetheless, the reversal of the loss has a limit of the amortised cost the assets would have had if the loss for impairment had not been recognised.

The Group directly reduces the carrying amount of a financial asset when it has reasonable expectations of full or partial recoverability.

(x) *Eliminations and modifications of financial liabilities*

The Group derecognises a financial liability or part of one when it has fulfilled the obligation contained in the liability or where the Group has been legally exempted from the basic liability contained in the instrument either by virtue of legal proceedings or by the creditor.

Exchanges of debt instruments between the Group and the counterparty, or substantial modifications to the liabilities initially recognised are recognised through derecognition of the original financial liability and recognition of a new financial liability, provided that the instruments have substantially different conditions The Group considers that the conditions are substantially different if the current value of the discounted cash flows under the new conditions, including any net paid fee of any received fee, and using the original effective interest rate for the discount, differs at least 10 per cent from the current discounted value of the cash flows that still remain from the original financial liability.

If the exchange is recorded as a settlement of the original financial liability, the costs or fees are recognised in the consolidated income statement as part of profit or loss. Otherwise, costs or commissions adjust the carrying amount of liability and are amortised using the amortised cost method during the rest of the life of the changed liability. In the latter case, a new effective interest rate is determined at the modification date that equates the present value of the flows payable under the new terms with the carrying amount of the financial liability at that date.

The Group recognises the difference between the carrying amount of the financial liability cancelled or assigned to a third party and the consideration paid, including any asset assigned which is different to the cash or liability assumed, and charges it to the income statement. When the Group delivers non-monetary assets in settlement of liabilities, it recognises the difference between the fair value of the assets and their carrying amount as operating profit or loss and the difference between the value of the liabilities to be written off and the fair value of the assets as financial result. When the Group delivers inventory, the corresponding sales transaction is recognised at fair value and the change in inventory is recognised at carrying amount.

5.7 Cash and cash equivalents

The Group classifies under this consolidated statement of financial position item cash and short-term, highly liquid investments with a maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value, as well as the interest receivables on these investments at the year.

5.8 Hedge accounting

Derivative financial instruments are initially recognised following the criteria set out above for financial assets and liabilities. Specifically, derivative financial instruments that do not meet the hedge accounting criteria below are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments that meet the criteria for hedge accounting are initially recognised at fair value plus, where applicable, transaction costs directly attributable to entering into the instruments or less transaction costs directly attributable to issuing the instruments. However, the transaction costs are subsequently recognised in profit or loss to the extent that they do not form part of the effective change in the financial hedge.

The derivatives held by the Group mainly relate to hedges of foreign exchange risk, interest rate risk, fuel price risk and the value of investments in certain equity instruments, with the objective of significantly reducing these risks in the underlying hedged transactions.

Derivatives are recognised under "Non-current financial assets – Derivatives financial instruments" or "Current financial assets – Derivatives financial instruments" of the consolidated statement of financial position if they are positive, and under "Non-current borrowings – Derivatives financial instruments" or "Current borrowings – Derivatives financial instruments" if they are negative.

Accounting recognition of hedging transactions is only required when there is an economic relationship between the item hedged and the hedging instrument, credit risk does not have a dominant effect on the resulting changes in value of that economic relationship, and the hedging ratio is the same as that resulting from the amount of the item hedged that la Group actually uses to cover the said amount of the item hedged. However, such designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that results in recognised or unrecognised hedge ineffectiveness that would cause a result contrary to the purpose of hedge accounting.

The Group applies the following types of hedges, recognised as described below:

1. Fair value hedges: the hedged item and the hedging instrument are both measured at fair value, and any changes in their fair values are recognised in the consolidated income statement.

2. Cash flow hedging: Changes in value of the hedging instrument are recognised in consolidated equity for the effective portion of the hedge in "Equity – Valuation adjustments", while the ineffective part of the hedge is taken directly to the income statement. The cumulative gain or loss recognised under "Equity – Valuation adjustments" is transferred to the consolidated income statement to match the underlying's impact (for the risk hedged) on the consolidated income statement; thus this effect is netted under the same heading in the consolidated income statement.

If the hedging relationship ceases to meet the effectiveness requirements related to the hedging ratio, but the risk management objective remains the same for that relationship, la Group adjusts the hedging ratio so that the criteria for hedging relationships continue to be met (rebalancing). Rebalancing refers to adjustments made to the designated amounts of the hedged item or hedging instrument in an existing relationship to maintain the hedge ratio that meets the hedge effectiveness requirements. The Group accounts for this rebalancing as a continuation of the hedging relationship. On the rebalancing date, the Group determines the ineffective part of the relationship and recognises any ineffectiveness in profit or loss.

Hedge accounting is discontinued when the hedging instrument reaches maturity, or is sold, finalised or exercised, or no longer qualifies for hedge accounting. At this point, any cumulative profit or loss on the hedging instrument recognised in equity remains in equity until the operation planned has been carried out. When the hedging operation is not expected to be carried out, the net cumulative profit or loss on the hedging instrument is taken to net profit or loss for the period.

The fair value of the various derivative financial instruments is calculated by discounting estimated future cash flows based on spot and forward market conditions at the reporting date.

The hedging operations are properly documented, including the way in which it is expected to achieve and measure their effectiveness, in accordance with the Group's risk management policy.

All the Group's hedging relationships meet the requirements for hedge accounting under the General Chart of Accounts.

5.9 Inventories

Inventories are valued at the lower of cost, calculated using the average weighted price method, and net realizable value. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and emission allowances.

The Group makes the appropriate valuation allowances and recognises them as an expense in the consolidated income statement when net realizable value is below purchase price (note 17.3).

Emission allowances

Pursuant to Directive 2003/87/EC, which establishes a scheme for emission allowance trading system within the European Community (EU ETS), measures to reduce the impact of aviation on climate change became effective in 2012, whereby airlines must bear certain costs for CO2 emissions caused by flights to or from a European Union member airport.

Directive (EU) 2018/410, amending Directive 2003/87/EC, was approved in 2018 to establish the regulatory framework for phase IV emissions trading, which will take place between 2021 and 2030, seeking to reduce emissions in a cost-effective way and promote investment in low-carbon technologies. This new directive is the European Union's main instrument for achieving its 2030 emission-reduction targets, included in the European Union´s climate strategy known as the Green Deal or European Green Pact.

In June 2021, the European Commission presented a new draft Directive included in the climate policy package known as Fit for 55, through which the European Union wants to update the EU climate policy framework to make the reduction of EU emissions - at least 55% by 2030 - a legal obligation. This regulatory proposal is currently under negotiation.

Decision No. 2/2019, of 5 December 2019, agreed the linkage of the Swiss emissions scheme with the European scheme. From 1 January 2020 all flights originating in any European Union country bound for an airport in Swiss territory are covered by the EU Emissions Trading Scheme; and all flights originating in Switzerland bound for a destination in any European Union country are covered by the Swiss scheme.

In October 2016, the OACI (International Civil Aviation Organization) agreed on a Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). The implementation of the CORSIA started with a pilot phase until the end of 2023, in which the Group is included, followed by a first phase from 2024 until the end of 2026. From 1 January 2019, the Group is monitoring all its emissions in detail and reporting them to the Competent Authority, as 2019 is used as the base year for the emissions calculations during the pilot phase of the scheme. Following the agreement reached at the 41st OACI General Assembly, from 2024, the base year for this emissions scheme will be modified to stabilise the sector's emissions at 85% of the 2019 level in order to increase the sector's climate ambition internationally.

Due to the UK leaving the European Union (Brexit), a new UK-ETS emissions trading scheme has been in effect since 1 January 2021. This applies to all flights originating in the UK bound for a destination airport in the European Economic Area. The operations from the European Union to the UK are included in the EU Emissions Trading

Scheme. The Group has the tools and procedures needed to monitor its emissions and ensure it complies with all of these schemes.

The greenhouse gas emission allowances assigned to the Group at no cost through the Spanish National Allocation Plan pursuant to Law 9/2020, of 16 December, modifying Law 1/2005 and governing trading in these allowances, were recognised on allocation in 2023 under "Inventories" at their market value, with a non-refundable capital grant being simultaneously recognised for the same amount. The rights received are recorded at cost. From 2021, a linear reduction of 2.2% will be applied to the free allocation of allowances, as required by Directive (EU) 2018/410. At the same time, by decision of the European Commission, from 2024 onwards the free allowances to airlines will be drastically reduced, starting with 25% in 2024, 50% in 2025 and finally 100% in 2026.

The "Current provisions" in the consolidated statement of financial position, with a charge to "Other operating expenses" in the consolidated income statement, includes the amount of expenses related to greenhouse gas emission allowances consumed in the year measured at the amount at which they were granted or acquired, if the rights are held, or based on the best estimate of the expenditure required to cover the shortfall of allowances.

The related provision and inventories recognised upon receipt of the rights are cancelled on settlement of the liabilities, which will be before 30 April 2024.

The non-refundable subsidies associated with emission allowances acquired at no cost were recognised on the consolidated income statement as the costs arising from greenhouse gas emissions in relation to the subsidised emission allowances were recognised.

5.10 Balances and transactions in currencies other than the euro

Transactions in currencies other than the Euro and the resulting receivables and payables are recognised at their equivalent Euro value at the transaction date. At the close of each financial year, the receivables and payables denominated in currencies other than the Euro are translated at the exchange rates prevailing at said date. Any differences in value arising from a discrepancy between the official exchange rates at year-end and the exchange rates at which non-euro receivables and payables were originally recognised or from differences with exchange rates at the date of collection or payment of non-euro receivables, payables and cash or equivalent balances are recognised under "Exchange differences" or "Other operating costs" on the consolidated income statement, depending on their nature.

In accordance with standard airline practise, the balance representing the liability for unused traffic documents is recorded in the consolidated statement of financial position at the International Air Transport Association (IATA) exchange rate for the month of sale, which is the average exchange rate for the last five banking days up to and including the 25th of the previous month. These balances are not remeasured at the exchange rate prevailing at the end of the reporting period and there are only exchange differences when they are reimbursed. This did not have a significant effect on the consolidated financial statements.

5.11 Income tax

The expense of income for tax on profits includes both current and deferred tax.

Assets and liabilities for current tax on profits are valued at the amounts that are expected to be paid or recovered from the tax authorities, using the standard and tax rates in force or approved and pending publication at year end.

Tax on current or deferred profits is recognised in the income statement, except when it arises from a transaction or economic event that has been recognised in the same year or a different year against equity or from a combination of businesses.

Since 2012, the Group has been taxed under the consolidated tax regime, with IB Opco Holding, S.L, being the parent company of the tax group. In addition to the aforementioned entities, this tax group includes the group companies Iberia Lineas Aereas de España S.A. Operadora, Compañía Operadora de Corto y Medio Radio Iberia Express, S.A., Compañía de Explotación de Aviones Cargueros, Cargosur, S.A., Iberia Desarrollo Barcelona S.L. and Iberia Tecnología S.A.

(i) Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases, except when they arise from the initial recognition of the goodwill or from an asset or liability in a transaction that is not a business combination and which on the date of the transaction does not affect the accounting profit/(loss) or the tax base;

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets when it is probable that sufficient future taxable profit will be available against which they can be utilised or when tax legislation provides for the possibility of future conversion of deferred tax assets into a receivable from the tax authorities.

However, assets which arise from the initial recognition of assets and liabilities in a transaction which is not a business combination, and which on the transaction date does not affect accounting profit/(loss) or the tax base, are not recognised.

In the absence of evidence to the contrary, it is considered unlikely that future taxable profits will be available to the Group if their future realisation is expected more than ten years after the reporting date, regardless of the nature of the deferred tax asset, or in the case of tax credits and other tax benefits, which are not yet available for tax purposes due to insufficient taxable profit when the activity has been carried out or the income has been earned that gives rise to the entitlement to the tax credit or tax benefit and there is reasonable doubt as to whether the conditions for claiming the tax credit or tax benefit have been met.

The Group recognises deferred tax assets arising from tax loss carry forwards only to the extent that it is probable that future taxable profit will be available against which they can be utilised within a period not exceeding ten years, unless there is evidence that it is probable that they can be utilised within a longer period, when tax legislation permits their utilisation within a longer period or does not impose a time limit on their utilisation.

On the other hand, it is considered probable that the Group will have sufficient taxable profits to realise deferred tax assets, provided that there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that may be reversed in the same year as the expected reversal of deductible temporary differences or in years in which a tax loss, due to a deductible temporary difference, can be netted against previous or subsequent gains.

The Group recognises deferred tax assets that have not been recognised because they exceed the ten-year reversal period to the extent that the future reversal period does not exceed ten years from the end of the reporting period or when sufficient taxable temporary differences exist.

In determining future taxable profit, the Group considers tax planning opportunities when it intends to use them or is likely to use them.

(iii) Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that will apply in the years in which the assets are expected to be realised or the liabilities are expected to be settled, based on tax rates and tax laws that have been enacted or substantively enacted and taking into account the tax consequences that will follow from the manner in which the Group expects to realise the assets or settle the liabilities.

(iv) Classification

Deferred tax assets and liabilities are recognised on the consolidated statement of financial income as non-current assets or liabilities, regardless of their expected realisation or settlement dates.

5.12 Income and expenses

Income and expenses are recognised when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Ticket sales and sales of the traffic documents for cargo and other services are initially recognised under "Deferred revenue" in the consolidated statement of financial position. The balance of this heading includes the estimated liabilities for ticket sales and traffic documents sold each year prior to 31 December but not yet used at that date. Ticket and traffic document revenue are recognised on the date established for the provision of the carriage or service. Unclaimed tickets are recognised as revenue after the contractual departure date, with the timing of recognition estimated based on ticket terms and conditions and statistical analysis of historical trends.

The Group analyses whether it acts as an agent or as a commission agent in relation to transport services by considering whether it has a performance obligation to the customer or whether its obligation is to arrange for the service to be provided by a third party. The Group acts as an agent when (i) it collects and remits to the relevant tax authorities various taxes and commissions charged on the sale of tickets to passengers; and (ii) it provides interline services to partner airlines.

Other revenue, such as maintenance and handling (aircraft handling and airport services) is recognised when the performance obligations are satisfied (over time) and control of the goods or services is transferred to the customer.

In 2015, the Group transferred the Iberia Plus loyalty programme to Avios Group (AGL) Ltd, trading as IAG Loyalty (IAGL), a Spanish branch of the IAG Group. IAG Loyalty (IAGL), whose object is creating the customer loyalty allowing them accumulate Avios each time the participants of the same perform determined flights, use the services of other participating entities of the programme or perform their purchases with select credit cards. Since then, the Avios points awarded in services provided by Iberia are measured at their fair value and recognized as a payable to AGL, which is settled monthly. When programme users redeem their Avios for services provided by IAG Group companies, revenue is recognised in the consolidated income statement when the Avios is used, with a balancing entry in a liability account funded by the amount the Group charges IAGL for the contracted value at the time the award is issued.

In general, any incentives, bonuses or discounts received in cash or in kind by the Group relating to aircraft coming into service under operating leases are recognised in the consolidated income statement either on a straight-line basis over the term of the lease or when the incentive, bonus or discount is used. Amounts not yet recognised as income at each year-end are included under "Long-term accruals" on the liabilities side of the consolidated statement of financial position.

Interest income from financial assets is recognised using the effective interest method, and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the consolidated income statement.

5.13 Provisions

Provisions are recognised when the Group has a present legal, contractual, constructive or legal obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amounts recognised in the consolidated statement of financial position represent the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into account the risks and uncertainties associated with the provision and, where material, the financial effects of discounting, provided that the expenditure to be incurred in each period can be estimated reliably. The discount rate is determined on a pre-tax basis, taking into account the time value of money and the specific risks not reflected in the future flows relating to the provision at each reporting date.

Provisions are reversed through profit or loss if it is not probable that an outflow of resources will be required to settle the obligation.

Obligations to personnel

Pension obligations and net pension costs are determined using actuarial calculations. These valuations are based on key assumptions such as the discount rate, estimated salary increases, mortality rates and social security assumptions. The discount rate assumptions reflect the interest rates available for high-quality corporate bonds with an appropriate maturity at the reporting date. Due to changes in economic and market conditions, key assumptions may differ from current assumptions and result in changes in the pension liability. These differences are recognised in full in equity as actuarial gains or losses.

In its defined benefit plans, the Group includes benefits, where there is a legal or implicit obligation to deliver the promised benefits directly to the employees when these become due for services provided by the employees in the current or previous periods.

The defined benefit liability recognised in the consolidated balance sheet is the present value of the obligation at the reporting date, less the fair value of plan assets at that date and less unrecognised past service costs. The Group recognises actuarial gains and losses in its equity in the period in which they occur.

Under the collective bargaining agreements in force, on reaching the age of 62 Iberia flight crew shall retire from the flying services and be placed on reserve, retaining their employment relationship until they reach the age of 67 at the latest or until they reach a lower age if they retire, or remaining active with restrictions on their activity. The Group recognises the costs of staff placed on reserve throughout the active working life of each employee in accordance with the related actuarial studies based on estimates at the time of this placement. At present, 22 employees have taken up this scheme.

Likewise, there are 3 cabin crew members who, by virtue of the collective bargaining agreement in force, is covered by this benefit.

The collective labour agreements in force also provide that flight crew who meet certain conditions may take early retirement (special leave of absence and voluntary termination until November 2010). Iberia is required to remunerate these employees until they reach the age of 65 or 67. The Group recognises a provision for this based on actuarial studies, with a charge against the consolidated income statement in the year that this happens to add to the fund already created for reserve placements. At present, 446 employees are on special leave and no employee has opted for voluntary retirement. In addition, 33 members of the technical crew are covered by the special termination programme for pilots.

The present value of the defined benefit obligations, the cost of benefits provided and the cost of past service are calculated annually by independent actuaries using the projected unit credit method, with the most recent calculation in December 2023 using a technical rate of interest, rate consistent with the iBoxx index, of 3.17% and 2.98%, depending on whether or not they are currently active staff, the mortality tables PER_Col_2020.1er.orden., and assuming and annual increases in benefits of 3.8% in 2024, 3.3% in 2025 and 2.2% beyond.

Restructuring provisions

Compensation for involuntary termination of employment is recognised as soon as a detailed official plan exists and has produced a valid expectation among affected personnel that there will be a termination of labour relations, either the result of the plan being put into place or because its main features have been announced.

Provisions related to restructuring processes are recognised when the Group has a constructive obligation because a detailed formal plan exists and there is a valid expectation among those affected that the process will be carried out, either by starting to implement the plan or by announcing its main features. Furthermore, these provisions only include disbursements directly related to the restructuring that are not associated with the Group's continuing operations.

In December 2001, Iberia secured authorisation from the employment authorities for a collective redundancy procedure (ERE 72/01) to be applied to various employee groups. This plan has been extended by further authorisations and will remain in force until 31 December 2015. This plan involves the payment of certain amounts to the staff members concerned up to the age of 65.

In 2014, Iberia obtained the approval of another severance plan (ERE 187/14), applicable to the ground and pilot staff collectives, valid until December 2017, but which ceased to be applied in 2016, as all the departures of the quota allocated to it were covered. This programme provides for the payment of certain amounts to the staff concerned up to the age of 65.

In 2017, Iberia obtained approval for a new severance plan (ERE 65/17), applicable to all groups and valid until 31 December 2019.

The actuarial studies performed in December 2023 by independent experts to estimate the liabilities for the restructuring plans were based on the same assumptions as those made to determine the provisions for obligations with employees, with the exception of the technical discount rate, which in this case was 3.15%, also consistent with the iBoxx index. Due to changes in economic and market conditions, key assumptions may differ from current assumptions and may result in changes to pension liabilities. Such differences are recognised in full as actuarial gains or losses in the income statement.

Provisions for major repairs and refurbishments

As mentioned in note 5.3, the Group has entered into certain operating leases under which it is contractually obliged to carry out major repairs at regular intervals and upon return of the aircraft. At the end of each reporting period, the Group recognises a provision for the estimated amount of the obligation incurred at that time and charges it to the consolidated income statement.

The provisions referred to in this section are recognised in accordance with the general criteria for the recognition of provisions. In particular, the amount is estimated using key assumptions such as flight hours and flight cycles based on historical information.

5.14 Montepío de Previsión Social Loreto

Montepío de Previsión Social Loreto's main purpose is to pay retirement pensions to its members (which include employees of subsidiary Iberia) and other welfare benefits in certain circumstances (death and permanent disability).

Under the current collective labour agreements, the subsidiary Iberia and its employees make the statutory contributions established therein (defined contributions). The Montepío's by-laws limit the Group's economic liability to payment of the statutory contributions established.

The Group recognises contributions to defined contribution plans when employees render service. The amount of contributions accrued is recognised as an employee benefit expense and as a liability net of any amounts already paid. In the event that the amounts paid exceed the accrued expenses, the corresponding assets are recognised only to the extent that they can be used to reduce future payments or result in a cash refund.

In the 2023 financial year, contributions in this context amounted to €19 million (2022: €16 million) and were recognised in the accompanying consolidated income statement for 2023 under "Employee costs – Employee welfare costs".

5.15 Related party transactions

Transactions between Group companies, with the exception of mergers, spin-offs and contributions in kind of business units to which special rules apply, including investments in Group companies, are recognised at the fair value of the consideration given or received. The difference between this value and the agreed amount is recognised according to the underlying economic substance either as a contribution or as a dividend distribution. However, the portion that is not realised in proportion to the percentage interest in the Group company is recognised as donation income or expense.

The special provisions refer, in the valuation of the transactions received, to the values of the consolidated accounts of the group or of the larger sub-group in which the assets and liabilities are included and whose parent company is Spanish. If the aforementioned financial statements are not prepared under one of the exemption grounds provided for in the consolidation rules, or the values of the consolidated annual accounts whichever is lower, the values used shall be those existing prior to the transaction in the separate financial statements of the transferring or acquired company.

Furthermore, transfer prices are adequately documented, and, therefore, the Directors of the parent Company believe there are no significant risks in this regard which might give rise to considerable liabilities in the future.

5.16 Current / non-current

In the consolidated balance sheet, assets and liabilities that are expected to be settled or fall due within 12 months of the reporting date are classified as current items, and those which fall due or will be settled after more than 12 months are classified as non-current items.

Financial liabilities are classified as current if they fall due within twelve months of the reporting date even if the original term is for a period longer than twelve months and there is an agreement to refinance or restructure long-term payments that was concluded after the reporting date and before the consolidated financial statements are authorised for issue.

5.17 Furlough schemes

The Group benefited until February 2022 from the aid provided by the temporary redundancy programmes (ERTE) provided for in Royal Legislative Decree 8/2020 of 17 March on extraordinary emergency measures to deal with the economic and social consequences of COVID-19. For this purpose, the Group recognises the full amount of the company's contribution to social security for employees who are temporarily released from work, reduce their working hours or are rehired as an expense according to their nature and as a subsidy for the subsidised part. The Group has not availed itself of any such grants during the 2023 financial year.

5.18 Share-based payments

The IAG Group has a number of equity-settled share-based payment plans in return for services rendered. The IAG Group estimates annually the expense to be passed on by the employees of the subsidiaries Iberia and Iberia Express who are members of the plan, taking into account management's estimate of the achievement of the targets set and therefore the number of equity instruments that will ultimately be granted.

5.19 The impact of climate change on financial reporting

Environmental activities are generally considered to be those aimed at preventing, reducing or repairing damage to the environment. Accordingly, investments arising from environmental activities are recognised at cost and capitalised as an increase to property, plant and equipment and inventories in the year they are made, in accordance with the criteria described in Notes 5.3 and 5.9.

Costs arising from environmental protection and improvements are taken to the income statement for the year in which they are incurred, irrespective of when the associated monetary or financial flows take place.

Provisions for contingencies or liabilities, litigation in progress and indemnities or obligations of undetermined amount related to the environment that are not covered by insurance policies are made as soon as the contingency or liability giving rise to the indemnity or payment occurs.

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 to 10 per cent by 2030 and to 70 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 Sustainable Aviation Fuel (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 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. This includes the annual assessment of useful lives and the residual values of each aircraft type.

As a result of the impact of the COVID-19 pandemic, the Group permanently stood down 17 A-340-600s, their engines and rotable inventories during 2020. 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.

Subsequent to the retirement of these aircraft, along with the committed future delivery of fuel-efficient aircraft, 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 IAG Group's decarbonisation plans.

b. Impairment testing of the Group's cash generating units

The Group applies discounted cash flow models 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 IAG Group's Flightpath Net Zero climate strategy that are expected to occur over the medium-term, being to 2030. These adjustments are limited to those that: (i) the Group can reliably estimate at the reporting date, with those costs subsequent to 2030 having such a high degree of uncertainty that they cannot be reliably estimated; (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 IAG 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 IAG 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 the removal of existing free ETS allowances issued by the UK and EU member states; 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 IAG 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.

The Group applies a long-term growth rate to these adjusted probability weighted cash flows and long-term growth rates and 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 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, operating margins and the increased fuel price sensitivity.

c. 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.

The Group accounts the purchase of allowances as detailed in note 5.9. At December 31, 2023, the Group has recorded ETS allowances within Inventories (note 17.3) in the consolidated balance of €165 million, representing sufficient allowances, by operating Group, to settle its forecast obligations through to at least December 31, 2024. At December 31, 2023, the Group has recorded a provision (note 12.4) in the consolidated balance for settling its 2023 emissions obligation of €103 million.

6. INTANGIBLE ASSETS

The changes under this heading in 2023 and 2022 were as follows:

Year 2023

€ million	Balance at 31-12-2022	Additions or provisions	Transfers	Withdrawals	**Balance at 31-12-2023**
Cost:					
Goodwill	657	-	-	-	**657**
	657	-	-	-	**657**
Other intangible assets					
Industrial property and transfer rights	1	-	-	-	**1**
Computer software	306	18	5	-	**329**
Computer applications in progress	19	17	(5)	-	**31**
	326	**35**	-	-	**361**
Amortisation and depreciation:					
Goodwill	(460)	(66)	-	-	**(526)**
	(460)	**(66)**	-	-	**(526)**
Other intangible assets					
Industrial property and transfer rights	(1)	-	-	-	**(1)**
Computer software	(232)	(27)	-	-	**(259)**
	(233)	**(27)**	-	-	**(260)**
Total net	290	**(58)**	-	-	**232**

Year 2022

€ million	Balance at 31-12-2021	Additions or provisions	Transfers	Withdrawals	Balance at 31-12-2022
Cost:					
Goodwill	657	-	-	-	657
	657	-	-	-	657
Other intangible assets					
Industrial property and transfer rights	1	-	-	-	1
Computer software	277	21	9	(1)	306
Computer applications in progress	13	15	(9)	-	19
	291	36	-	(1)	326
Amortisation and depreciation:					
Goodwill	(395)	(65)	-	-	(460)
	(395)	(65)	-	-	(460)
Other intangible assets					
Industrial property and transfer rights	(1)	-	-	-	(1)
Computer software	(206)	(27)	-	1	(232)
	(207)	(27)	-	1	(233)
Total net	346	(56)	-	-	290

In 2023, the Group acquired computer developments or programs from third parties for a total of €35 million (2022: €36 million), of which €15 million are in the process of being put into operation. The Group has carried out improvement works on its fixed assets which have been capitalised as an increase in the cost of computer software, with a balancing entry under the heading of "In-housework on non-current assets" in the 2023 consolidated income statement, in the amount of €2 million (2022: €1 million).

At 31 December 2023, the Group had fully depreciated property, plant and equipment items which continued to be in use, made up as follows:

€ million	2023	2022
Industrial property and transfer rights	1	1
Computer software	199	166
	200	167

7. PROPERTY, PLANT AND EQUIPMENT

The changes under this heading in 2023 and 2022 were as follows:

Year 2023

€ million	Balance at 31-12-2022	Additions or provisions	Transfers	Withdrawals	**Balance at 31-12-2023**
Cost:					
Aircraft	2,553	705	257	(408)	**3,107**
	2,553	**705**	**257**	**(408)**	**3,107**
Other property, plant and equipment					
Land	2	-	-	-	**2**
Buildings and other constructions	170	-	-	-	**170**
Machinery, fixtures and tools	544	15	6	(5)	**560**
Overland travel elements	27	-	-	-	**27**
Furniture and fixtures	16	-	-	-	**16**
Computer hardware	88	3	-	-	**91**
Spare parts for property, plant and equipment	88	23	2	(8)	**105**
Flight simulators	3	-	-	-	**3**
Work in progress	318	124	(249)	(3)	**190**
	1,256	**165**	**(241)**	**(16)**	**1,164**
Amortisation and depreciation:					
Aircraft	(1,022)	(133)	-	137	**(1,018)**
	(1,022)	**(133)**	**-**	**137**	**(1,018)**
Other property, plant and equipment					
Buildings and other constructions	(145)	(2)	-	-	**(147)**
Machinery, fixtures and tools	(445)	(20)	-	5	**(460)**
Overland travel elements	(26)	-	-	-	**(26)**
Furniture and fixtures	(16)	-	-	-	**(16)**
Computer hardware	(84)	(1)	-	-	**(85)**
Spare parts for property, plant and equipment	(43)	(5)	-	2	**(46)**
Flight simulators	(3)	-	-	-	**(3)**
	(762)	**(28)**	**-**	**7**	**(783)**
Provisions:					
Aircraft	(92)	-	-	92	**-**
	(92)	**-**	**-**	**92**	
Total net	1,933	**709**	**16**	**(188)**	**2,470**

Year 2022

€ million	Balance at 31-12-2021	Additions or provisions	Transfers	Withdrawals	Balance at 31-12-2022
Cost:					
Aircraft	2,185	894	457	(983)	2,553
	2,185	894	457	(983)	2,553
Other property, plant and equipment					
Land	2	-	-	-	2
Buildings and other constructions	170	-	-	-	170
Machinery, fixtures and tools	566	6	2	(30)	544
Overland travel elements	33	-	-	(6)	27
Furniture and fixtures	16	-	-	-	16
Computer hardware	86	2	-	-	88
Spare parts for property, plant and equipment	82	13	1	(8)	88
Flight simulators	3	-	-	-	3
Work in progress	316	410	(401)	(7)	318
	1,274	431	(398)	(51)	1,256
Amortisation and depreciation:					
Aircraft	(1,026)	(134)	-	138	(1,022)
	(1,026)	(134)	-	138	(1,022)
Other property, plant and equipment					
Buildings and other constructions	(143)	(2)	-	-	(145)
Machinery, fixtures and tools	(451)	(21)	-	27	(445)
Overland travel elements	(32)	-	-	6	(26)
Furniture and fixtures	(16)	-	-	-	(16)
Computer hardware	(83)	(1)	-	-	(84)
Spare parts for property, plant and equipment	(41)	(4)	-	2	(43)
Flight simulators	(3)		-	-	(3)
	(769)	(28)	-	35	(762)
Provisions:					
Aircraft	(112)	-	(47)	67	(92)
	(112)	-	(47)	67	(92)
Total net	1,552	1,163	12	(794)	1,933

7.1 Aircraft

7.1.1 Fleet in service

A summary of the Group's aircraft in service at 31 December 2023 is as follows:

	Number of aircraft			
Fleet	Owned	Operating Financial	Lease Operational (*)	**Total**
A-319	-	4	2	**6**
A-320	-	21	21	**42**
A-321	3	17	6	**26**
A-330-300	-	-	8	**8**
A-330-200	-	1	17	**18**
A-350-900	3	6	12	**21**
	6	**49**	**66**	**121**

(*) Include 2 A-330-200 pending in preparation to be operative (see Note 7.1.2)

a. Owned aircraft and aircraft on finance leases:

The main changes under this heading in 2023 and 2022 were as follows:

- Additions:

Additions in 2023 and 2022 were as follows:

€ million	2023	2022
Airframe and Engines	705	891
Refurbishment	-	3
	705	894

In 2023, the Group acquired twelve aircrafts, which 4 of them were subsequently sold for subsequent leaseback (operating lease). The company had made prepayments for these acquisitions.

In addition, following the modification of the term of an operating lease held by the Group on an A-321 family aircraft, this is now classified as a finance lease.

The Group has performed improvement work on its fixed assets that has been capitalised as an increase in the cost of airframe, engines and refurbishment, with a corresponding entry under "In-house work on non-current assets" in the 2023 consolidated income statement, in the amount of €21 million (2022: €20 million).

- Retirements:

At the beginning of 2023, three aircrafts from the A-340-600 fleet and a number of engines from this fleet were sold. These had no net carrying amount on the disposal date.

During 2023, four aircrafts of the A-320 and A-321 fleet acquired during the year were sold, which were all financed again through operating lease agreements.

None of these transactions had a material impact on the consolidated income statement.

b. Aircraft operated under an operating lease:

Following are the expiry dates of the operating leases of aircraft being operated by the Group:

	Years							
Fleet	2024	2025	2026	2027	2028	2029	Subsequent	**No. of aircraft**
A-319	-	2	-	-	-	-	-	**2**
A-320	3	8	3	-	-	-	7	**21**
A-321	1	-	-	-	-	-	5	**6**
A-330-300	-	-	-	-	5	3	-	**8**
A-330-200	-	-	-	-	7	4	6	**17**
A-350-900	-	-	-	-	-	-	12	**12**
	4	**10**	**3**	**-**	**12**	**7**	**30**	**66**

Operating lease costs:

The lease payments in 2023 and 2022 for passenger aircraft operating leases amounted to €290 million and €280 million respectively, recognised under "Other operating costs" in the consolidated income statement (see Note 17.5). The approximate total of future operating lease payments, including estimated contingency payments calculated based on the interest rates and exchange rates prevailing at 31 December 2023 and 2022, respectively, is as follows:

€ million	2023	2022
Up to one year	400	379
Between one and five years	1,421	1,357
In five years or more	775	953
	2,596	2,689

Equivalent to $2,866 million and $2,879 million at the 2023 and 2022 year-end exchange rate. The exchange rate and interest rate risks on these lease payments are partially hedged with derivatives (Note 10).

c. Commitments on the fleet:

The Group is carrying out an aircraft renewal programme under various agreements with Airbus, covering the A-320, A-321 XLR and A-350 fleets. Following the updated agreement with Airbus, aircraft pending delivery at 31 December 2023 will be included in accordance with the following schedule:

Fleet in service	2024	2025	2026	2027
A-321 XLR	1	6	1	-
A-350-900	1	1	-	-
	2	**7**	**1**	**-**

The Group paid €114 million in pre-payments to implement this renewal programme, as follows:

€ million	31-12-2023		31-12-2022	
	Outright purchase	Option	Outright purchase	Option
A-320 NEO Family	-	2	105	-
A-321 XLR	71	-	59	-
A-350	38	3	83	-
	109	**5**	247	-

Based on the basic prices established in the agreements, the total cost of the aircraft subject to outright purchase commitments not yet delivered at 31 December 2023 was approximately €691 million.

7.1.2. Fleet not in service

In addition, the Group has entered into operating leases on two A-330-200 aircraft during the last months of 2023. These aircraft were not yet operational at year end.

7.2 Other property, plant and equipment

"Property, plant and equipment in progress and pre-payments" includes the sums paid out on the fleet renewal agreements described in Note 7.1.1.c) above, in addition to aircraft instruction sheets and configuration of the new cabins of aircraft.

In 2023 and 2022 there were significant retirements amounting to €16 million and €51 million respectively, mainly relating to airport equipment and spare parts for property, plant and equipment. Most of these assets were either fully depreciated.

The carrying amount of the buildings and facilities built on land owned by the Spanish government, mainly at Spanish airports, was €20 million at 31 December 2023 (2022: €21 million). The Parent's Directors do not expect any material losses to arise as a result of the reversal process, since Group maintenance programmes ensure that the items are always in good operating condition.

7.3 Assets held under finance lease

At 31 December 2023, the total cost of property, plant and equipment acquired under finance leases, mainly aircraft and airport equipment, was €2,392 million with accumulated depreciation of €944 million (2022: €2,263 million and €852 million respectively).

The schedule for lease payments outstanding at 31 December 2023, including any purchase options, is shown in Note 13.3.

7.4 Fully depreciated items:

At 31 December 2023 and 2022 the cost of the Group's fully depreciated items of property, plant and equipment was €659 million and €766 million respectively. The breakdown is as follows:

€ million	2023	2022
Aircraft	67	189
Buildings and other constructions	114	114
Machinery, fixtures and tools	351	339
Furniture and fixtures	15	14
Computer hardware	83	82
Other fixed assets	29	28
	659	766

7.5 Insurance coverage

The Group has taken out insurance policies for its property, plant and equipment, which provided adequate coverage for their carrying amount at 31 December 2023. It has also maintained its insurance policies to cover aircraft leased to third parties.

8. INVESTMENTS IN GROUP COMPANIES, ASSOCIATES AND NON-CONSOLIDATED COMPANIES

8.1 Investments accounted for using the equity method

Changes in 2023 and 2022 in the different items of the consolidated statement of financial position are as follows:

Year 2023

€ million	Balance at 31-12-2022	Share of profit/(loss)	Amortisation of implicit goodwill	Other	**Balance at 31-12-2023**
Vueling Airlines, S.A.	-	159	(10)	(149)	**-**
Avios Group (AGL) Limited	222	39	(32)	2	**231**
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	14	1	-	-	**15**
Others	14	4	-	-	**18**
	250	**203**	**(42)**	**(147)**	**264**

Year 2022

€ million	Balance at 31-12-2021	Share of profit/(loss)	Amortisation of implicit goodwill	Other	Balance at 31-12-2022
Vueling Airlines, S.A.	-	66	(10)	(56)	-
Avios Group (AGL Limited	228	32	(32)	(6)	222
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	14	-	-	-	14
Others	12	2	-	-	14
	254	100	(42)	(62)	250

Vueling Airlines, S.A.

The acquisition of 45.85% of Vueling, S.A. was recognised following the 9th recognition and measurement standard of the Spanish Chart of Accounts for the consolidated historic cost within the Group of Clickair S.A. assets and liabilities provided as compensation for the operation.

On 8 November 2012, Veloz Holdco, S.L. (Sole-Shareholder Company), a company wholly owned by IAG, presented its application for a voluntary takeover bid for Vueling to the Spanish National Securities Market Commission (CNMV), and this was accepted for proceedings by the CNMV on December 20, 2012.

Iberia notified Veloz Holdco, S.L.U. of its unconditional and irrevocable undertaking not to accept the bid with respect to any of its 13,711,221 shares in Vueling, accounting for 45.85% of the company's share capital, and immobilised the shares to demonstrate this commitment. Consequently, the bid made by Veloz Holdco, S.L.U. effectively targeted only 16,193,297 Vueling shares, accounting for 54.15% of the company's share capital and the same percentage of voting rights. In 2013, IAG increased its shareholding to 53.51% through its subsidiary Veloz Holdco, S.L.U. in three operations, and this, coupled with the 45.85% indirect stake already held through Iberia put the total ownership interest of the IAG Group in Vueling at 99.36% at 31 December 2013.

In December 2020, the Group acquired an additional 4.25% for €30 million, taking its holding to 50.10%. However, as a result of an agreement signed by the shareholders of that investee, the Group does not have control over the investee.

As a result of the merger between Vueling Airlines, S.A. and its parent company Veloz Holdco S.L.U., in 2023 the value of the Group's interest in Vueling Airlines, S.A. increased by €38 million, which has been considered as a shareholder contribution in the equity of consolidated balance sheet (Note 11.5).

The Group did not receive any dividends from Vueling in 2023 or 2022.

Avios Group (AGL) Limited

The merger of IAG Group's loyalty programmes was formalised on 28 January 2015: Iberia Plus and BA Executive Club, and the company Avios Group (AGL) Limited took over responsibility for the management of both programmes.

As part of this merger, certain assets were contributed from the company's AVIOS loyalty programme to the Spanish branch of Avios Group (AGL) Limited, which is responsible for managing assets received. This has entailed the transfer of assets related to the loyalty programmes along with the transfer of certain partnership agreements to this branch under the form of a non-monetary contribution, to which the special taxation system provided for in Chapter VII, Title VII of Spanish Act 27/2014, of 27 November, on Corporate Tax is applicable. Assets related to the loyalty programme were valued by an independent expert, amounting to €327 million, proceeding to deliver a 14% of AGL shares as consideration to such contribution.

The Group did not receive any dividends from IAGL in 2023 or 2022.

At 31 December 2023 the main indicators for the Group's associates were as follows:

€ million	Active	Liabilities	Revenue	Profit for the year
Vueling Airlines, S.A.	2,346	2,688	3,267	316
IAG Loyalty	3,786	3,114	1,200	279
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.	122	86	1	1

8.2 Other equity instruments

On 21 January 2011, the date on which the IAG Group was created - composed of the Iberia Group and British Airways Plc - the Group maintained a 9.98% holding in British Airways Plc, the acquisition cost of which was €331 million, with a fair value at that date, based on its stock market price, of €385 million. After the settlement of the convertible bonds issued by British Airways Plc, the interest has decreased to a 8.68%.

Following creation of the IAG Group, the Group recognised the balance of its shareholding in British Airways Plc under "Investments in Group companies and associates", maintaining €54 million net of tax effect in valuation adjustments under "Equity - Valuation adjustments" (see Note 11.4). The main financial information in accordance with the audited financial statements for 2023, is as follows:

		Carrying amount				
€ million	Ownership	Cost	Impairment for the year	Accumulated impairment	Total equity	Profit/(loss) after tax
British Airways Plc.	8.68%	385	-	-	3,012.6	1,345.3

British Airways Plc. operates as a passenger and goods carrier, and its registered address is Harmondsworth, Waterside PO BOX 365 (England, UK).

The Group did not receive any dividends from British Airways in 2023 or 2022.

8.3 Impairment review

Basis for calculating recoverable amount

As part of its impairment analysis, IAG Group has calculated the recoverable amounts for British Airways, Vueling and Avios Group (AGL) Limited, based on value in use and using a discounted cash flow model weighted for a number of scenarios.

The recoverable amounts of the Group's cash generating units (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 were determined by IAG Group 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 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. 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 wider economic and geopolitical environments, including updated projected cash flows for activity from 2024 through to the end of 2026. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

	British Airways		Iberia		Vueling		IAGL	
	2023	2022	2023	2022	2023	2022	2023	2022
Operating Margin	7-14	5-13	7-14	5-10	4-12	0-10	23	24-25
Average ASK growth per annun[1, 2, 3]	3-9	90-105	4-10	92-107	1-6	113-123	N/A	N/A
Long-term growth rate	1.7	1.7	1.5	1.5	0.9	1.4	1.5	1.7
Pre-tax discount rate	11.2	10.4	12.4	10.4	14.3	12.8	14.7	13.4

[1] In 2023, the ASK growth assumptions are shown as the growth from the previous year, while in 2022, the ASK growth assumptions were in reference to 2019.

[2] Average ASK growth per annum, ASKs as a proportion of 2019 and operating margin are stated as the weighted average derived from the multi-scenario discounted cash flow model [1] Operating margin and ASKs as a proportion of 2019 are both stated as the weighted average derived from the multi-scenario discounted cash flow model.

[3] 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
2023	895	829	800	800
2022	867	809	780	780

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 IAG Group of climate change. The calculation of the long-term growth rate using internal analysis 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. The airlines' network plans are reviewed annually as part of the Business plan and reflect management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the IAG 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 comparative 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 from readily available market data at the valuation date. The cash flow forecasts reflect these price increases after taking into consideration the level of fuel derivatives and their associated prices that the IAG Group has in place and the incremental price differentials expected for the purchase of SAF.

As detailed above, the IAG 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 through to 2030. 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 €3,412 per metric tonne; (ii) a kerosene tax of €526 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of €173, €110 and €19 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, 2023 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, reducing ASKs by 5 percentage points in each year, reducing long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points and increasing the fuel price (both jet fuel and SAF) by 40 per cent, both with cost recovery consistent with that experienced historically and with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible impact of climate change on the CGUs greater than that included in the impairment models.

As a result of this impairment analysis and the changes in the key assumptions, it has not been considered necessary to recognise impairment for the Group's investments in the year ended 31 December 2023.

9. FINANCIAL ASSETS

9.1 Non-current financial assets

The detail of "Non-current financial assets" at 31 December 2023 and 2022 is as follows:

31 December 2023

€ million	Equity instruments	Derivatives	Other financial assets	**Total**
Financial assets at amortised cost				
Credits and other financial assets	-	-	46	**46**
Financial assets at cost				
Equity instruments	10	-	-	**10**
Derivatives financial instruments	-	9	-	**9**
	10	**9**	**46**	**65**

31 December 2022

€ million	Equity instruments	Derivatives	Other financial assets	Total
Financial assets at amortised cost				
Credits and other financial assets	-	-	45	45
Financial assets at cost				
Equity instruments	10	-	-	10
Derivatives financial instruments	-	6	-	6
	10	6	45	61

The carrying amount of financial assets approximates their fair value.

9.1.1 Equity instruments

The changes in this item of the consolidated statement of financial position in 2023 and 2022 were as follows:

Year 2023

€ million	% Holding at 31-12-2023	Balance at 31-12-2022	Additions	Withdrawals	Valuation Adjustments	Transfers	**Balance at 31-12-2023**
Servicios de Instrucción de Vuelo, S.L.	19.9	9	-	-	-	-	**9**
Other		1	-	-	-	-	**1**
		10	**-**	**-**	**-**	**-**	**10**

In 2023, dividends of €2.7 million were received from Servicios de Instrucción de Vuelo, S.L. (see Note 17.6).

Year 2022

€ million	% Holding at 31-12-2022	Balance at 31-12-2021	Additions	Withdrawals	Valuation Adjustments	Transfers	Balance at 31-12-2022
Servicios de Instrucción de Vuelo, S.L.	19.9	9	-	-	-	-	9
Other		1	-	-	-	-	1
		10	-	-	-	-	10

9.1.2 Loans to third parties

The activity in this item of the consolidated statement of financial position during the financial years 2023 and 2022 are as follows:

Year 2023

€ million	Balance at 31-12-2022	Transfers	Balance at 31-12-2023
Loans to Venezolana Internacional de Aviación, S.A. (*)	26	-	**26**
Provisions	(26)	-	**(26)**
Total net	-	**-**	**-**

(*) Loans to Venezolana Internacional de Aviación, S.A. (VIASA), are carried forward from previous years and are fully provided as at 31 December 2023

Year 2022

€ million	Balance at 31-12-2021	Transfers	Balance at 31-12-2022
Loans to Venezolana Internacional de Aviación, S.A.	26	-	26
Provisions	(26)	-	(26)
Total net	-	-	-

9.1.3 Other financial assets

In 2023 and 2022, the changes under this item of the consolidated statement of financial position were as follows:

€ million	2023	2022
Opening balance	45	38
Additions	2	9
Withdrawals or provisions used	-	(3)
Currency differences	(1)	1
Final balance	**46**	45

Other financial assets mainly include deposits and guarantees.

9.2 Short-term financial investments:

The balance of "Current financial assets" at 31 December 2023 and 2022 is as follows:

€ million	2023	2022
Financial assets at amortised cost:		
Other financial assets	762	155
Derivatives financial instruments	21	128
Total	**783**	283

Other financial assets include interest-bearing deposits with a maturity of more than three months from the date of constitution.

10. INFORMATION CONCERNING THE NATURE AND RISK OF FINANCIAL INSTRUMENTS

10.1 Risk management policies

The Group deploys procedures and systems to identify and mitigate the main risks affecting its various areas of business.

Risk management policies are integrated within the Group's key areas of management, including the following: the consolidated income statement, gearing levels, investments and disposals. This approach allows the Group to optimise the consolidated income statement and gearing level and take balanced decisions in terms of risk/return offered by new investments.

With respect to financial risk, in accordance with the policy of the IAG Group of which it forms part, the Group has a management programme to control and reduce the potential impact of fluctuations in exchange rates, interest rates and fuel prices on earnings, and to maintain sufficient liquidity for its current transactions, and investing and financing activities.

Foreign exchange risk

Due to its global activity, the Group generates receipts and payments in currencies other than the euro. The main risk is a strengthening of the US dollar against the euro, as the Group expects more expenditure than income in dollars.

This risk is managed through the progressive accumulation of hedges, with a time horizon of up to three years under the policies applied at the Group level. The hedging profile during this time is decreasing, showing a higher percentage of hedging in the immediate quarters. The implementation of the hedging strategy is reviewed on a monthly basis. The instruments used are mainly forwards, options and swaps.

Interest rate risk

The Group's position as a net creditor (including aircraft operating leases) means it is exposed to increases in the interest rates of the currencies in which its short-term and long-term borrowing are denominated.

To manage this risk the Group keeps at least a percentage of its borrowings at fixed rates or protected by hedges.

Fuel price risk

This is the risk caused by higher prices for aircraft fuel brought about by rising prices on fuel indexes.

This risk is managed through the progressive accumulation of hedges, which also reach a time horizon up to three years under policies applied at Group level. The hedging profile during this time is decreasing, showing a higher percentage of hedging in the immediate quarters. The hedging strategy is reviewed on a monthly basis in accordance with the decisions taken by the Risk Management Committee. The instruments used are generally swaps and options.

Liquidity risk

Due to the seasonal nature of its business and the need for investment and finance to renew its aircraft, the Group applies a liquidity policy of maintaining substantial amounts of cash and current financial assets.

This cash position is invested in highly liquid short-term instruments such deposits money market funds with leading financial institutions, in accordance with the existing policy on counterparty risk, with priority given to liquidity and security over profitability in view of the current situation of financial markets.

Besides these short-term investments and its cash position, the Group also has permanent credit facilities in place that guarantee its liquidity requirements, as discussed in Note 3.7.

Pursuant to Law 3/2004, of 29 December, which sets out measures to combat arrears in trading operations and in accordance with the transitory provisions set out in Law 15/2010, of 5 July, the legal payment deadline applicable to the Group in the 2023 year is 60 days until the publication of Law 11/2013 of 26 July and 30 days from the publication of that Law and until the present (unless the conditions set out in the Act are fulfilled, in which case the payment deadline is extended to 60 days). The information required by this provision is as follows:

	2023	2022
Average payment period to suppliers	24	20
Ratio of transactions settled	24	20
Outstanding payment transactions ratio	15	13

€ million	2023	2022
Total payments made	7,344	5,958
Total payments due	131	224

From the total payments made during the financial year 2023, €6,526 million were made in a period from the maximum period established in the regulations on late payment, which represents 89% of the total payments made (2022: €5,340 million; 90% of the total).

During 2023, a total of 223,604 invoices were paid, of which 74% of total number of invoices were paid from the maximum period established in the regulations on late payment (2022: 172,723 invoices; 69% of the total).

Credit risk

The Group's main financial assets are cash, equity instruments and other financial assets, and trade and other receivables. These last two categories carry most of the insolvency and bad debt risk. In general, the Group controls its bad debt and insolvency risks by setting credit limits and applying strict conditions on collection periods.

Trade and other receivables are mainly the amounts pending collection from travel and cargo agencies for the transport of passengers and goods, in addition to handling and maintenance services for customers. In transactions with national airlines and travel agencies, the Group has an established policy of requiring bank guarantees in the form of pledges that hedge part of the credit extended to counterparties. Most Group transactions with travel and cargo agencies and airlines are carried out through a settlement system managed by the International Air Transport Association (IATA), which also imposes credit conditions on the companies in each country using the system.

The Group has no significant concentration of credit risk with third parties as its commercial risk is spread across a large number of entities. The provision for impairment of trade receivables at 31 December 2023 stood at €71 million (2022: €71 million).

10.2 Derivative financial instruments

In accordance with the risk management policy set out in Note 10.1, the Group contracts exchange rate, interest rate and aviation fuel derivatives, and others, to mitigate the impact of price changes in the financial markets.

The exchange rate derivatives used include forwards and options. Interest rate swaps are used for interest rate derivatives. The fuel price derivatives used are swaps and options.

The Group classifies its derivatives into two types:

1. Derivatives designated as cash flow hedges: these mainly hedge the cash flows from operating leases, ticket sales in non-euro currencies, fuel procurement and fleet purchases and disposals, inter alia.

2. Other derivatives: those that have not been designated as hedging instruments or that do not meet the criteria of accounting regulations to qualify as such.

Foreign exchange hedges

At 31 December 2023, the derivatives hedging exchange differences but not specifically designated as accounting hedges and the underlying assets and liabilities are:

31 December 2023	$ million	JPY million
Underlying assets:		
Assets:		
Existing guarantees extended to the long term	32	-
MMF	22	-
Liabilities:		
Loan for engines	(54)	-
Loan A-319/320/321	(47)	(3,041)
Loan A-330/332	(19)	-
JOLCOs	(861)	-
Net	(927)	(3,041)
Fx Swaps	**818**	**19**
Outrights	**109**	**3,022**

31 December 2022	$ million	JPY million
Underlying assets:		
Assets:		
Existing guarantees extended to the long term.	31	-
MMF	16	-
Liabilities:		
Loan for engines	(76)	-
Loan A-319/320/321	(52)	(3,003)
Loan A-330/332	(26)	-
JOLCOs	(930)	-
Net	(1,037)	(3,003)
Fx Swaps	**703**	**3,003**
Outrights	**334**	**-**

The net fair value of these derivatives was negative at €12 million at 31 December 2023, with €2 million in assets and €14 million in liabilities on the consolidated statement of financial position (2022: €16 million negative).

At 31 December 2023, the total notional value of cash flow hedges against exchange risks is as follows:

	$ million		Cash flows hedged ($ million)			
Underlying	Expected cash outflows in 2024 (Opex)	Hedging instruments	**2024**	2025	2026	2027
Foreign currency cost	**1,650**	Fx forwards	**413**	127	-	-
		FX options	**215**	115	-	-

	$ million		Cash flows hedged ($ million)			
Underlying	Expected cash outflows in 2024 (Capex)	Hedging instruments	**2024**	2025	2026	2027
Foreign currency cost	**217**	Fx forwards	**235**	-	-	-
		FX options	**21**	-	-	-

	$ million		Cash flows hedged ($ million)			
Underlying	Expected cash inflows in 2024	Hedging instruments	**2024**	2025	2026	2027
Foreign currency income	**2,712**	Fx forwards	**(407)**	(111)	-	-

At 31 December 2022 the information was as follows:

Underlying	$ million Expected cash outflows in 2023 (Opex)	Hedging instruments	Cash flows hedged ($ million) **2023**	2024	2025	2026
Foreign currency cost	**1,817**	Fx forwards	**243**	32	-	-
		FX options	**375**	197	-	-

Underlying	$ million Expected cash outflows in 2023 (Capex)	Hedging instruments	Cash flows hedged ($ million) **2023**	2024	2025	2026
Foreign currency cost	**862**	Fx forwards	**274**	90	-	-
		FX options	**34**	21	-	-

Underlying	$ million Expected cash inflows in 2023	Hedging instruments	Cash flows hedged ($ million) **2023**	2024	2025	2026
Foreign currency income	**2,757**	Fx forwards	**(526)**	(177)	-	-

As at 31 December 2023, the Group held $2,227 million in FX Forward contracts in which only the spot component has been designated as accounting hedge for US dollar denominated aircraft rentals (2022: $2,446 million).

Valuation of FX forwards and currency options

The net market value of exchange rate derivatives (FX forwards and options) at 31 December 2023 is negative and amounts to €40 million (2022: €1 million negative). The net amount is composed of €13 million recognised under "Financial assets – Derivatives financial instruments" in the short and long term, and €53 million recognised under "Non-current borrowings" and "Current borrowings" on the liabilities side of the accompanying consolidated statement of financial position at 31 December 2023. These hedges are related to cash flows that will take place over the next three years.

The change in fair value during the period of the exchange rate derivatives that are effective as cash-flow hedges was a negative €193 million before considering tax effects, which was deferred and taken to equity, net of its tax effect, the exchange rate hedging related to aircraft leases settlement adjustment included.

The exchange rate hedging related to aircraft leases expenses is performed on a cumulative basis with the net settlement of the purchase and sale transactions hedging the exposure. On a monthly basis, the Group rolls forward part of the notional amount to other months using swaps (rolling strategy). Therefore, the gains/losses realised during the year as a result of the settlement of the derivatives, which hedge the future lease payments, have been recorded in equity and will be reclassified to the profit and loss account when such payments impact the profit and loss account. The amount recorded in equity for this item amounts to €4 million positive (2022: €153 million positive), under the heading Valuation adjustments in the accompanying consolidated balance sheet and will be reclassified to the consolidated income statement in 2024 and 2025.

The changes in fair value during the year of the ineffective portion of forwards and options were positive at €3 million and were taken to the consolidated income statement for 2023 (2022: €22 million negative).

A movement of +/-20 basis points on the USD/EUR exchange rate at 31 December 2023 would have an impact on both designated as hedges and non-designated as hedges of +375/-366 million € respectively.

Interest rate hedges

The Group uses interest rate swaps to manage its exposure to fluctuations in interest rates arising from its aircraft financing activities. Details at 31 December each year are as follows:

Instrument	Group Receives	Pays	€ million 2024	2025	2026
Interest Rate Swaps:					
IRS	$	$	598	260	146

The fair value of interest rate swaps entered into at 31 December 2023 was a positive €7 million, recognised in assets (2022: €24 million positives). These hedges are related to cash flows that will take place from 2024 to 2026.

During the 2023 financial year, the changes in value by the effective portion of the swaps used for cash-flow and interest rate hedges, which amounted to a negative €28 million, was recognised in equity, net of its tax effect. No cumulative changes in the ineffective portion were taken to profit or loss for the financial year.

A movement of +/-150 bp on the 3-month EURIBOR yield curve would have a positive impact of +/- €5 million, respectively. For the purpose of these calculations, the Group considers the likeliest scenario to be a change in the yield curves of this scale in years 2024-2026.

Fuel price hedges

The Group chooses to hedge its jet fuel risk through its main components: Brent, Gasoil and Jet. Improved hedging quality can be achieved through purchases of Gasoil Crack, Jet Crack or Jet Diff, which improve Brent positions against Gasoil, Brent positions against Jet and Gasoil positions against Jet, respectively.

At 31 December 2023, the derivatives of the JET Kero CIF-NWE contracts are as follows:

Underlying	Commodity	M/tonnes Fuel 2024	Hedges		
			Type	Mt 2024	Mt 2025
Purchases of JET Kerosene fuel	Brent ICE GO	1,859,182	Swaps	7,492	-
			Options	1,308,116	630,557

Fuel price risk is hedged with swaps and options that protect against changes in financial flows due to changes in the price of fuel.

At 31 December 2023, the Group held derivative contracts with the underlying Brent ICE with a nominal amount of 1,070,100 Mt, and derivative contracts with the underlying Gasoil with a nominal amount of 1,040,364 Mt.

The market value of fuel price derivatives was a negative €18 million at 31 December 2023, with a €8 million in assets and negative €26 million in liabilities on the consolidated statement of financial position. At 31 December 2022 the market value of fuel price derivatives was a positive €9 million.

The change in value of the effective portion of fuel price derivatives for this period was a negative €47 million before tax effects and was recognised under equity, net of its tax effect.

During the year 2023 there have been no changes in the fair value of the ineffective portion due to price analysis that have been recognised in the consolidated profit and loss account.

The impact of a +40% change in the price of fuel on the value of derivatives at 31 December 2023 is a positive €346 million. A change of -40% would reduce the value of the hedging position at 31 December 2023 by negative €345 million.

Cash flow hedges

Hedge accounting is applied on the following cash flow hedges.

At 31 December 2023, the Group had five principal risk management activities that were designated as hedges of expected future transactions. They are:

- A proportion of future revenue receipts, hedging future foreign currency risk
- Future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk
- Aircraft lease cash outflows hedging interest rate risk
- Certain revenue receipts hedging future foreign currency risk with foreign exchange contracts;
- Certain foreign short and long-term currency operational payments by hedging future foreign currency risk with forward currency contracts

To the extent that the hedges were deemed effective, the changes in their value were recognised in equity. The breakdown of cash flows based on the periods in which they are expected to occur is as follows:

Year 2023

€ million	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	**Total 31 December 2023**
Hedging of fuel derivatives	(4)	(3)	(1)	(8)	-	**(16)**
Exchange rate risk hedging for future fuel purchases	(4)	(6)	(2)	-	-	**(12)**
Hedging of forward foreign exchange contracts	(1)	6	2	-	-	**7**
Hedging of exchange rate risk related to fleet financing	(15)	(13)	-	-	-	**(28)**
Hedging of interest rate risk			(2)	(3)	(1)	**(6)**
	(24)	(16)	(3)	(11)	(1)	**(55)**

Year 2022

€ million	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 31 December 2022
Hedging of fuel derivatives	(21)	2	-	-	-	(19)
Exchange rate risk hedging for future fuel purchases	(12)	(8)	1	-	-	(19)
Hedging of forward foreign exchange contracts	(4)	(18)	(2)	-	-	(24)
Hedging of exchange rate risk related to fleet financing	(91)	(23)	(5)	-	-	(119)
Hedging of interest rate risk	(28)	-	-	1	2	(25)
	(156)	(47)	(6)	1	2	(206)

The notional amounts of principal are as follows:

€ million	31 December 2023	31 December 2022
To hedge future currency revenues against US dollars	818	(703)
Hedges of future fuel purchases in tonnes	7,492 MT	47,609 MT
Hedges of aircraft leases	2,227	2,446
Exchange rate options	1,004	931
Fuel options in tonnes	1,938,674 MT	1,077,066 MT

11. CONSOLIDATED EQUITY AND SHAREHOLDERS' EQUITY

11.1 Share capital

At 31 December 2023 and 2022 the Parent's share capital amounted to €10,000, represented by 1,000 shares of €10 par value each, distributed as follows:

Shareholder	Number of shares	Class
IAG	431	A
British Airways Holdings, B.V.	68	A
Garanair, S.L.	501	B
	1,000	

All shares have the same voting rights. However, class B shares are entitled to a dividend equal to the lesser of (i) 1 per cent of the total dividends which the Parent agrees to distribute divided by the number of shares in the class B category and (ii) one (1) euro for each share in the class B category, with the rest made over to holders of class A shares.

11.2 Share premium

The Corporate Enterprises Act (Ley de Sociedades de Capital) expressly allows the balance of the share premium to increase capital, and does not establish any specific restrictions on the availability of this balance.

11.3 Reserves

The composition and movements in the accounts under the heading of reserves and income are shown below:

€ million	Legal reserves	Voluntary reserves	Reserves in consolidated companies	Translation differences	Profit (loss) for the year attributed to the parent company	Total
Final balance - 2021	-	33	(2,185)	6	(704)	(2,850)
Allocation of 2021 losses	-	-	(704)	-	704	-
Other	-	-	(4)	(6)	272	262
Final balance - 2022	-	33	(2,893)	-	272	(2,588)
Allocation of 2022 losses	-	-	272	-	(272)	-
Other	-	-	(50)	3	1,001	**954**
Final balance - 2023	**-**	**33**	**(2,671)**	**3**	**1,001**	**(1,634)**

Legal reserve

Pursuant to the Corporate Enterprise Act, the Parent must earmark an amount equal to 10 per cent of the profit for the year for the legal reserve until such reserve represents at least 20 per cent of the capital. The legal reserve may be used to increase capital to the extent that the balance of the reserve exceeds 10% of the amount of capital resulting from any such increase. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses if no other reserves are available. At 31 December 2023, this reserve was fully constituted.

Voluntary reserves

The voluntary reserves are fully available.

11.4 Valuation adjustments and grants

Activity in 2023 and 2022 in this heading of the consolidated statement of financial position is as follows:

Year 2023

€ million	Balance at 31-12-2022	Income and directly attributable costs to Net Assets	Transfers to the income statement	**Balance at 31-12-2023**
Financial hedging instruments	179	(61)	(207)	**(89)**
Available-for-sale financial assets (British Airways Plc (Note 8.2)	54	-	-	**54**
Subsidies, donations and bequests received	-	62	(62)	**-**
From actuarial gains and losses and other adjustments	39	(24)	-	**15**
Tax effect (Note 15.3)	(78)	6	79	**8**
Total	195	**(17)**	**(190)**	**(12)**

Year 2022

€ million	Balance at 31-12-2021	Income and directly attributable costs to Net Assets	Transfers to the income statement	Balance at 31-12-2022
Financial hedging instruments	110	374	(305)	179
Available-for-sale financial assets (British Airways Plc)	54	-	-	54
Subsidies, donations and bequests received	8	63	(71)	-
From actuarial gains and losses and other adjustments	(30)	69	-	39
Tax effect	(34)	(125)	83	(78)
Total	109	381	(295)	195

11.5 Other shareholder contributions

During the 2023 financial year, the merger by absorption between Vueling Airlines, S.A. and Veloz HoldCo, S.L. as absorbing and absorbed companies, respectively, was approved. This merger took place through the absorbing company's absorption of the absorbed company, with the consequent dissolution without liquidation of the latter and the attribution to the absorbing company of all the assets and liabilities of the absorbed company on a universal basis. Likewise, the shares held by the absorbed company in the absorbing company become the property of IAG, this being the only consideration that IAG receives within the framework of the operation. As a

result of this transaction, the valuation of the subsidiary Iberia L.A.E. S.A. Operadora's stake in Vueling Airlines has been increased by €38,493,808. The merger is tax neutral.

11.6 Restrictions on the distribution of profits

Dividends may only be distributed out of the profit for the year, or out of unrestricted reserves, if the value of the net assets is not or, as a result of the distribution, would not be less than the share capital, after the provisions of the law or the articles of association have been complied with. For these purposes, profits charged directly to equity may not be distributed, either directly or indirectly. If there are losses from prior years that cause the value of the parent Company's equity to be less than the amount of share capital, the profits would be allocated to offset such losses.

12. CURRENT AND NON-CURRENT PROVISIONS

The main changes in provisions in 2023 and 2022 were as follows:

Year 2023

€ million	Balance at 31-12-2022	Additions	Updating of exchange rate	Amounts used	Overprovisions	**Balance at 31-12-2023**	Current	Non-current
Employee benefit obligations	611	94	-	(28)	-	**677**	35	642
Provisions for restructuring costs	148	2	-	(63)	(15)	**72**	36	36
Provisions for major repairs	514	156	(15)	(28)	(62)	**565**	111	454
Other provisions	436	142	-	(121)	(142)	**315**	134	181
Total	1,709	**370**	**(15)**	**(240)**	**(195)**	**1,629**	**316**	**1,313**

Year 2022

€ million	Balance at 31-12-2021	Additions	Updating of exchange rate	Amounts used	Overprovisions	Balance at 31-12-2022	Current	Non-current
Employee benefit obligations	643	59	-	(22)	(69)	611	29	582
Provisions for restructuring costs	218	-	-	(64)	(6)	148	67	81
Provisions for major repairs	403	172	23	(58)	(26)	514	43	471
Other provisions	417	118	-	(44)	(55)	436	120	316
Total	1,681	349	23	(188)	(156)	1.709	259	1.450

12.1 Non-current employee benefit obligations

The additions under "Non-current provisions for employee benefits" include interest payments on the provision recognised, which are recognised in the 2023 consolidated income statement under "Finance costs", amounting to €23 million (2022: €5 million) (Note 17.7). In addition, due to the actuarial remeasurements, an amount of positive €24 million has been recognised in 2023, which is recognised in "Valuation adjustments - Others" in Equity at 31 December 2023 net of tax (Note 11.4) (2022: €69 million negative considered as overprovision).

12.2 Restructuring provisions

The balance of "Restructuring provisions" relates to the present value of the liabilities arising from a collective redundancy procedure explained as follows:

a) Redundancy procedure prior to 2013, affecting 4 employees at 31 December 2023 (4 in 2022). The total amount of payments made in this connection in 2023 was €30 thousands (€0.1 million in 2022). Payments related to this provision will be made over the coming years in accordance with the age of the employees who have availed themselves of the procedure.

b) Under the Iberia "Plan de Futuro" (Future Plan), the mediation process that ended in 2015 with 3,134 redundancies across all employee groups led to total payments in this connection in 2023 of €18 million (2022: €22 million). It currently applies to 347 of 3,134 employees (466 in 2022).

c) In the first half of 2014, employment agreements were reached with all employee groups. These agreements included a redundancy plan for up to 1,427 people from the ground crew and pilot groups, based on early retirement and incentivised voluntary redundancies, which were completed in December 2016, even though they were available until December 2017. The total amount of payments made in this connection in 2023 was €2 million (2022: €12 million). In 2023 there was not employees affected (105 in 2022).

d) Authorisation was received in 2017 for a new redundancy plan for up to 955 employees, applicable to all groups in Iberia based on early retirement and incentivised voluntary redundancies, which were available until December 2019. The total amount paid for this item in 2023 amounted to €43 million (2022: €30 million) The number of current employees affected is 421 (530 in 2022).

The additions to the account "Restructuring provisions" include financial returns on the provision already made, which are included in the consolidated profit and loss account for the year 2023 under the heading "Finance costs" in the amount of €2 million.

12.3 Provisions for major repairs

Here the Group has included the estimated cost of scheduled periodic maintenance reviews of its aircraft held under operating leases, and the repairs to be made to each of the aircraft when they are returned so that they are in the conditions of use agreed with each lessor.

The additions to this account include the annual provision for the normal cost and interest payments on the provision recognised, which are recognised in the 2023 consolidated income statement under "Aircraft maintenance", amounting to €141 million (2022: €165 million) and "Financial expenses" amounting to €15 million (2022: €7 million) (Note 17.7) respectively. Updating these provisions using the exchange rate at 31 December 2023 had a positive impact of €15 million on the accompanying consolidated income statement (2022: €23 million negative) included under the headings "Other operating expenses" and "Exchange differences".

12.4 Other provisions

This account includes the forecast amount to meet probable liabilities of a varied nature, related mainly to employment and other litigation and tax assessments and the provision for compensation payments to passengers.

Additions to the "Other Provisions" account basically include:

- amounts recognised to cover legal claims and tax assessments, along with the related interest. These amounts are recognised in the 2023 consolidated income statement under "Other operating costs" and "Personnel expenses" for €8 million (2022: €10 million) (Note 17.5) and "Financial expenses" amounting to €0.2 million (2022: €0.2 million) (Note 17.7) respectively.

- the provisions for costs associated with greenhouse gas emission allowances consumed in the year measured at the amount at which they were granted or acquired, charged to "Other operating expenses" in the consolidated income statement for €98 million (2022: €90 million) and the application of these at the time of their settlement, amounting to €89 million (2022: €21 million).

- the overprovision corresponding to the obligations arising from the profit of the associated company Vueling Airlines, SA amounting to €124 million (2022: €53 million), due to the recovery of the associate´s activity.

13. NON-CURRENT AND CURRENT BORROWINGS

The balance of "Non-current borrowings" and "Current borrowings" on the consolidated statement of financial position at 31 December 2023 and 2022 is as follows:

€ million	2023			2022		
	Current	Non-current	**Total**	Current	Non-current	Total
Measured at amortised cost-						
Bonds and other marketable debt securities	1	54	**55**	1	54	55
Bank borrowings	3	7	**10**	125	696	821
Finance lease	133	1,260	**1,393**	148	1,290	1,438
Other financial liabilities	7	11	**21**	8	7	15
At fair value:						
Derivatives financial instruments (Note 10.2)	76	17	**93**	106	12	118
Total	**220**	**1,349**	**1,572**	388	2,059	2,447

The carrying amount of financial liabilities is an acceptable approximation of their fair value.

13.1 Bonds and other marketable debt securities

Debt issuances are initially recorded at fair value of their consideration, less costs directly attributable to the transaction. Subsequently, they are valued at amortised cost using the effective interest method. Bonds due in more than twelve months are classified within the non-current liabilities, while those with a shorter maturity are reflected in the current liabilities.

On 27 April 2015, the board of directors of the subsidiary company Iberia approved the issue of straight bonds up to a maximum of €200 million. Successive issuances were made in 2015 and 2016 until the authorised maximum amount was fully reached.

The main features of the outstanding issues as at 31 December 2023 are as follows:

€ million	
Issuer	Iberia Líneas Aéreas de España, S.A. Operadora
Date of issue	28/05/2015
Issue amount	55.0
Nominal value	0.1
Maturity*	28/05/2027
Interest rate	3.75%
Nature of issue	Straight bonds

* In certain cases, this instrument may be redeemed early.
* The bond placements described above are guaranteed by Iberia's assets

The issuance costs associated with these issuances amounted to €2 million (2022: €2 million) which are recorded as a reduction of debt. Of the total issuance costs, in 2023 €0.2 million was transferred to "Finance costs" in the consolidated income statement for the year 2023 (2022: €0.2 million). As at 31 December 2023 the outstanding issuance costs to be amortised amount to €1 million (2022: €1 million).

Interest accrued during the financial year 2023 amounted to €2 million (2022: €4 million), with €1 million outstanding as at 31 December 2023.

On 29 March 2016, the Board of Directors of the subsidiary Iberia approved a new issue of straight bonds up to a maximum amount of €250 million. As of year-end 2023, no placement has taken place.

13.2 Bank borrowings

In April 2020, the Group agreed a syndicated bank loan amounting to €750 million, subsequently extended by an additional €8 million. 80% of the loan amount is guaranteed by the Instituto de Crédito Oficial (ICO) and matures in 2026, with the first repayment instalment due in 2023 and a market interest rate.

Additionally, during 2021, the subsidiary Iberia arranged a bank loan backed by Spain's Instituto de Crédito Oficial (Official Credit Institute) amounting to €50 million, with conditions similar to those of the syndicated loan and the first repayment in 2023, accruing interest at the market rate.

Both loans have been repaid prior to their maturity in the last quarter of 2023.

The detail, by maturity, of bank borrowings in the form of loans and lines of credit at 31 December 2023 and 2022 was as follows:

31 December 2023

€ million	Maturity						
Currency	2023	2024	2025	2026	2027	2028 and subsequent years	**Total**
Euro	3	2	2	2	1	-	**10**

31 December 2022

€ million	Maturity						
Currency	2023	2024	2025	2026	2027	2028 and subsequent years	**Total**
Euro	125	173	208	314	1	-	**821**

The main features of the loan agreements arranged by the Group at 31 December 2023 are as follows:

	€ million	
Expiry	Available limit	Amount drawn down
2024	87	-

The Group has guarantees for an amount of €117 million, which are required mainly in the course of its ordinary business.

13.3 Finance lease creditors

During 2019 and 2022, the subsidiary Iberia formalised finance leases for aircrafts. These financing arrangements were based on private debt placements. An amount of €667 million was pending amortisation at 31 December 2023.

In addition, during 2023, a new debt placement was made for the formalisation of finance leases on two aircrafts (2 A-321-NEO) for a value of €112 million. An amount of €110 million was pending amortisation at 31 December 2023.

At the end of 2023 and 2022, the Group was contracted to pay the following minimum lease payments including, where applicable, purchase options:

	31-12-2023				31-12-2022			
€ million	Borrowings denominated in:				Borrowings denominated in:			
	€	$(*)	JPY(*)	**Total**	€	$(*)	JPY(*)	Total
Less than a year	50	83	**-**	**133**	49	99	-	148
Between two and five years	204	268	19	**491**	182	295	-	477
In five years or more	130	639	-	**769**	130	662	21	813
Total	**384**	**990**	**19**	**1,393**	361	1,056	21	1,438

(*) Converted to € at the year-end exchange rate.

The main finance leases held by the Group relate to aircraft and airport equipment (see Note 7.3) and bear interest at rates linked to Euribor or SOFR plus a market spread.

13.4 Net borrowings

Details of net borrowings activity and reconciliation to cash balances in 2023 and 2022 are shown below:

Year 2023

€ million	1 January 2023	Cash flows	Currency differences	Other non-cash movements	**31 December 2023**
Bank and other loans	891	(804)	(1)	-	86
Lease liabilities	1,438	(28)	(32)	15	1,393
Interest-bearing borrowings	**2,329**	**(832)**	**(33)**	**15**	**1,479**
Cash and cash equivalents	2,234	(1,091)	(15)	-	1,128
Other current interest-bearing deposits	155	607	-	-	762
	(60)	**(348)**	**(18)**	**15**	**(411)**

Year 2022

€ million	1 January 2022	Cash flows	Currency differences	Other non-cash movements	31 December 2022
Bank and other loans	1,006	(114)	-	(1)	891
Lease liabilities	891	464	39	44	1,438
Interest-bearing borrowings	1,897	350	39	43	2,329
Cash and cash equivalents	761	1,485	(7)	(5)	2,234
Other current interest-bearing deposits	-	155	-	-	155
	1,136	(1,290)	46	48	(60)

14. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial instruments are disclosed in hierarchy levels based on the nature of the inputs used in determining the fair values as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis;

- Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates; and

- Level 3: Inputs for the asset or liability that are not based on observable market data.

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

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

- The instruments included in Level 1 consist of bonds traded on regulated markets.
- The instruments included in Level 2 comprise derivatives and interest-bearing financial liabilities.

Forward foreign exchange contracts, fuel derivative contracts and interest rate derivative contracts are entered into with various counterparties, mainly financial institutions with high credit ratings. These instruments are valued at the fair value of instruments with similar terms and conditions at the date of the consolidated statement of financial position, determined using forward pricing models.

The fair value of interest-bearing loans and borrowings, including leases, is determined by discounting the cash flows to the end of the contract at market interest rates at the date of the consolidated balance sheet.

All resulting fair value estimates are included in Level 2.

The carrying amounts and fair values of the Group's financial assets and liabilities other than trade and other receivables and accounts payable and other liabilities as at 31 December 2023 are shown below:

€ million	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Non-current financial assets	-	-	10	10	10
Hedging of fuel derivatives	-	8	-	8	8
Exchange rate risk hedging for future fuel purchases	-	1	-	1	1
Hedging of forward foreign exchange contracts	-	11	-	11	11
Hedging of exchange rate risk related to fleet financing		3	-	3	3
Hedging of interest rate risk	-	7	-	7	7
Financial liabilities					
Bank borrowings	-	10	-	10	10
Lease liabilities	-	1,200	-	1,200	1,393
Bonds	55	-	-	55	55
Hedging of fuel derivatives	-	26	-	26	26
Exchange rate risk hedging for future fuel purchases	-	13	-	13	13
Hedging of forward foreign exchange contracts	-	20	-	20	20
Hedging of exchange rate risk related to fleet financing	-	34		34	34
Hedging of interest rate risk	-	-	-	-	-

The carrying amounts and fair values of the Group's financial assets and liabilities at 31 December 2022 are set out below:

€ million	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Non-current financial assets	-	-	10	10	10
Hedging of fuel derivatives	-	34	-	34	34
Exchange rate risk hedging for future fuel purchases	-	24	-	24	24
Hedging of forward foreign exchange contracts	-	31	-	31	31
Hedging of exchange rate risk related to fleet financing		21	-	21	21
Hedging of interest rate risk	-	24	-	24	24
Financial liabilities					
Bank borrowings	-	784	-	784	821
Lease liabilities	-	1,248	-	1,248	1,438
Bonds	55	-	-	55	55
Hedging of fuel derivatives	-	25	-	25	25
Exchange rate risk hedging for future fuel purchases	-	8	-	8	8
Hedging of forward foreign exchange contracts	-	28	-	28	28
Hedging of exchange rate risk related to fleet financing	-	57		57	57
Hedging of interest rate risk	-	-	-	-	-

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

Of the financial instruments listed in the table above, only derivative financial instruments are measured at fair value on a recurring basis.

15. TAX SITUATION

15.1 Tax receivables and payables

Details of tax receivables at 31 December 2023 and 2022 are as follows:

€ million	2023	2022
Non-current:		
Deferred tax assets	802	681
	802	681
Current:		
Income tax	65	15
Value added tax	21	45
Foreign tax payables	9	5
Other tax receivables	1	-
	96	65

Meanwhile, details of tax payables at 31 December 2023 and 2022 are as follows:

€ million	2023	2022
Non-current:		
Deferred tax liabilities	24	84
	24	84
Current:		
Take-off and security charges at airports	242	254
Foreign tax receivables	4	
Social Security taxes payable	29	26
Personal income tax withholdings	32	25
	307	305

15.2 Reconciliation of accounting profit to taxable income for income tax

The reconciliation of accounting profit/(loss) for 2023 and 2022 with taxable profit for income tax purposes is as follows:

	Receivable/ (payable)	
€ million	2023	2022
Profit (loss) for the year	1.001	272
Income tax	19	(67)
Permanent differences:		
Increases (a)	155	44
Decrease (b)	(216)	(6)
Temporary differences		
Arising in the year:		
Increase (c)	136	100
Arising in prior years:		
Decrease (d)	(180)	(175)
Limitation 50% base to be included in the tax Group (e)	2	-
Tax loss carry forward	(229)	(42)
Tax loss	**688**	126
Tax charge at 25%	172	32
Tax credits	(43)	-
Net tax payable	**129**	32
Withholdings and split payments	**(164)**	(47)
Amount payable/refundable (f)	**(35)**	(15)

a) This amount includes the correction of the amortisation of consolidated goodwill and other permanent differences.

b) This amount includes the dividends received by la Company during the year, as well as the results of equity-accounted companies.

c) These amounts relate mainly to asset impairment, provisions for obligations to employees and provisions for contingencies and charges.

d) These amounts relate mainly to reversals of provisions for obligations to employees and other provisions for contingencies and charges, and reversal of the restriction that was in force in previous years, for a transitional period, on the deductibility of the amortisation of assets.

e) With effect for tax periods beginning in 2023, the taxable income of the tax Group shall be determined, where applicable, by considering only 50% of the individual tax losses of each of the entities comprising the tax Group. Such tax losses shall be included in the tax base of the Group, in tenths, in the following 10 tax periods.

f) The amount to be refunded is made up of €35 million of tax credit against the public administration.

Income tax legislation in force in previous years established various tax incentives to encourage investment, including the possibility of applying a deduction for reinvestment of extraordinary profits, subject to compliance with certain requirements. In application of the aforementioned regulations, the Group qualified for certain tax credits for the reinvestment of extraordinary profits over several tax years. The amounts reinvested and the corresponding credits pending application at 31 December 2023 amounted to €13 million, with a commitment to maintain the investment for those generated from 2014. The *"Reinvestment"* column details the amount of the income qualifying for the credit, while the *"Tax credit"* column details the tax credits for this item. Regarding the deductions from 2014 and subsequent years, in 2014 income was generated from the transfer of the shareholding in Amadeus IT Holding, S.A., which generated a capital gain of €570 million (after deduction of transaction costs).

€ million	Reinvestment	Tax credit
2016	111	13

The Group also has the following tax credits pending application:

€ million	2023	2022
Tax credit for research and development		
2008	-	1
2016	1	1
2017	1	1
2018	2	2
2019	2	2
2022	3	-
Other tax credits		
2014	1	1

The Group also qualified for the tax credit for investment in the Canary Islands, with the following amounts reinvested and tax credits:

€ million	Reinvestment	Tax credit
2016	5	1
2017	4	1
2018	2	-

The reconciliation between accounting profit/(loss) result and expenditure for Income Tax is as follows:

€ million	**2023**	2022
Pre-tax profit /(loss)	1,020	205
Permanent differences:		
Increases (a)	155	44
Decrease (b)	(240)	(81)
Tax rate at 25%	**233**	42
Other items (c)	(214)	(109)
Tax (income)/expense recognised in the income statement	**19**	(67)

a) The increases related to permanent differences correspond mainly to the amortisation of consolidated goodwill.

b) The decreases in permanent differences correspond to dividends received by the Group during the year, as well as the results of associates accounted for using the equity method, and other adjustments which, although temporary for tax purposes, are considered permanent for accounting purposes.

c) The revenue under "Other" for 2023 includes the impact of the recognition of tax loss carry-forward assets amounted in negative €211 million and of the differences between the estimate of corporation tax for 2022 and the actual expense in the corporation tax return filed amounted in negative €4.

15.3 Taxes recognised equity

The detail of tax recognised directly in equity in 2023 and 2022 and the changes therein is as follows:

31 December 2023

€ million	Balance at 31-12-2022	Adjustments for changes in value	Amounts transferred to the consolidated income statement	**Balance at 31-12-2023**
Financial hedging instruments	(56)	16	64	**24**
British Airways Plc	(13)	-	-	**(13)**
Subsidies, donations and bequests received	-	-	15	**15**
From actuarial gains and losses and other adjustments	(9)	(10)	-	**(19)**
Total (Note 11.4)	(78)	**6**	**79**	**7**

31 December 2022

€ million	Balance at 31-12-2021	Adjustments for changes in value	Amounts transferred to the consolidated income statement	Balance at 31-12-2022
Financial hedging instruments	(27)	(92)	65	(56)
British Airways Plc	(13)	-	-	(13)
Subsidies, donations and bequests received	(2)	(16)	18	-
From actuarial gains and losses and other adjustments	8	(17)	-	(9)
Total	(34)	(125)	83	(78)

15.4 Details of income tax expense (or income)

The detail of income tax expense/(income) for 2023 and 2022 is as follows:

€ million	**2023**	2022
Current tax:		
From continuing operations (a)	115	32
Deferred tax:		
From continuing operations (b)	(96)	(99)
Total	**19**	(67)

a) This includes the impact of the differences between the estimate of income tax in 2022 and the final tax return filed, as well as the adjustment of the balance of the income tax asset arising from previous years.

b) The amount of deferred tax income is mainly due to the recognition of deferred tax assets recognised in the year.

15.5 Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under "Deferred tax assets" and "Deferred tax liabilities" respectively as follows:

€ million	31-12-2023		31-12-2022	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences (a)	265	24	255	84
Tax loss carry forwards	512	-	355	-
Unused tax credits	25	-	71	-
Total	**802**	**24**	681	84

(a) The temporary differences relating to financial year 2023 include a positive amount of €7 million relating to valuation adjustments recognised in la Companies' equity (2022: €78 million negative) and temporary differences relating to provisions for employees.

Deferred tax assets recognised

The changes in 2023 and 2022 in "Deferred tax assets" were as follows:

Year 2023

	Deferred tax assets			
€ million	Temporary differences	Tax loss carry forwards	Unused tax credits	Total
Balance at 31 December 2022	255	355	71	681
Additions	111	215	4	330
Disposals	(47)	(58)	(50)	(155)
Transfers	(54)	-	-	(54)
Balance at 31 December 2023	**265**	**512**	**25**	**802**

Year 2022

€ million	Deferred tax assets			
	Temporary differences	Tax loss carry forwards	Unused tax credits	Total
Balance at 31 December 2021	269	246	74	589
Additions	24	120	-	144
Disposals	(31)	(11)	(3)	(45)
Transfers	(7)	-	-	(7)
Balance at 31 December 2022	255	355	71	681

Deferred tax assets have been partially recognised in the consolidated statement of financial position as the Parent Company's directors consider that, based on the best estimate of the Group's future results, they are expected to be recovered within the terms and periods established by Spanish accounting regulations.

The deferred tax asset relating to tax credits increased mainly due to the confirmation of research and development tax credits for financial year 2022, which had not previously been confirmed.

The reductions in deferred tax assets relating to temporary differences resulted from the negative off-balance-sheet adjustments for the forecast income tax expense for 2023, and the differences between the calculation of the forecast for 2022 and the expense in the tax return filed. In addition, tax loss carry forwards have been derecognised.

In addition, the Group has not recognised deferred tax assets in relation to tax loss carry forwards and certain temporary differences as follows:

Check-in. Rates	€ million	
	Taxable profit	Non-capitalised amount
Tax loss carry forwards from prior years	684	171
Temporary differences from prior years	49	12
	733	**183**

Considering the estimated income tax expense for 2023, the tax loss carry forwards at the reporting date are as follows:

Year of origin	€ million	
	Taxable profit	Tax effect
2009	523	131
2010	15	4
2011	62	16
2013	95	24
2016	206	51
2020	1,126	281
2021	707	176
	2,734	**683**

Of the potential tax credit for tax loss carry forwards generated by the Group of €683 million, an amount of €512 million is recognised in the consolidated statement of financial position as it is considered that these assets will be recovered in the terms and periods set in Spanish accounting regulations, based on the best estimates of the tax group's future results.

Deferred tax liabilities

The changes in 2023 and 2022 in "Deferred tax liabilities" were as follows:

€ million	2023	2022
Opening balance	84	48
Additions	(6)	43
Transfers	(54)	(7)
Final balance	**24**	84

15.6 Tax procedures and inspections

As a result of disputing the outcome of tax audits on prior years, the Group is involved in tax proceedings through both administrative channels and judicial review.

In 2020, IB Opco, as the parent entity of the Tax Group of which it is a member, was notified by the Central Economic Administrative Tribunal (Tribunal Económico Administrativo Central) of the dismissal of its appeal against corporate income tax assessments for 2012 and 2013. In January 2021, IB Opco lodged an application for judicial review of the Tribunal's ruling. The application is pending a decision by the court.

In the 2019 financial year, IB Opco applied for a correction of the corporate income tax for the 2014 and 2015 financial years in order to adopt in these tax returns the criterion set by the Inspectorate for the 2011 to 2013 financial years. This adjustment request resulted in a claim for a tax overpayment of €4 million to be recovered by Iberia L.A.E. S.A. Operadora. In 2020, IB Opco received notice of the start of tax audits relating to corporate income tax for 2014 and 2015, limited solely to the review of this adjustment request. In financial year 2021, the scope of proceedings was extended to Iberia. In 2022, the tax audit actions were completed and Iberia received the return of €4 million plus €1 million in late payment interest.

In September 2023, IB Opco, as the parent company of the Tax Group to which it belongs, received notification of the commencement of inspection proceedings of a general scope in relation to financial years 2019 to 2022. At the end of the year, the inspection proceedings were still in progress and no assessment proposal had yet been received.

In January 2024, the ruling of the Constitutional Court was announced. The decision upheld the challenge to the unconstitutionality of several amendments to corporate income tax introduced by Royal Decree-Law 3/2016, of 2 December, adopting tax measures aimed at the reinforcement of public finances and other urgent measures in the social sphere. In this regard, prior to the ruling, in July 2021 the Group filed a request for rectification of corporate income tax for 2016 to 2019, requesting disapplication of the measures introduced by Royal Decree-Law 3/2016. The consequences of the declaration of unconstitutionality of these measures are explained in more detail in Events after the reporting period (Note 21).

The Directors and tax advisors of the parent Company consider that no tax liabilities additional to those recognised under "Non-current provisions - Other provisions" will arise from the resolution of the tax appeals and litigation described above.

15.7 Other information

In compliance with the provisions of Article 84 of the Revised Text of the Law on Corporate Income Tax (Royal Legislative Decree 4/2004 of 5 March, which was in force at the time, in 2009 Iberia, Líneas Aéreas de España, S.A. participated as a shareholder in the merger of Vueling Airlines, S.A. y Clickair, S.A., considering the gains obtained in the amount of €21 million non taxable, generating deferred tax of €6 million. Information concerning this transaction was set out in Note 8.1 to the 2009 financial statements of Iberia, Líneas Aéreas de España, S.A.

In addition, the full demerger of Iberia, Líneas Aéreas de España, S.A. in favour of the Company was executed on 20 January 2011, effective for accounting purposes from 1 January 2010, whereupon the Company joined the special tax scheme stipulated in Chapter VIII of Title VII of the Amended Income Tax Law. Notes 13 and 18 to this company's 2010 financial statements contain the information required by Article 93 of the Amended Income Tax Law (Royal Legislative Decree 4/2004 of 5 March).

Law 38/2022 of 27 December has recently been approved, which establishes, for tax years starting from 2023 onwards, that the taxable income of the tax group will not be determined by linearly aggregating the individual taxable income but that 100% of the positive taxable income and 50% of the negative taxable income will be considered. Likewise, as from 1 January 2024, and during the first ten subsequent tax periods, the amount of tax losses not included in the taxable income of the tax group will be included in the taxable income of the tax group in equal parts.

Pillar Two minimum effective tax rate reform

In 2021 the OECD released the Two Pillar solution to address the tax challenges arising from the digitalisation of the economy. This reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate.

On 15 December 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. On 22 December 2022, the EU Minimum Tax Directive was published.

On 11 July 2023, the UK enacted Finance (No. 2) Act 2023 which introduced the Multinational Top-up Tax and the Domestic Top-up Tax with effect for accounting periods beginning on or after 31 December 2023. These taxes are the UK's adoption of the income inclusion rule and domestic minimum top-up tax rule referenced in the OECD's Pillar Two reform.

On 18 December 2023, Ireland enacted Finance (No.2) Act 2023 which, pursuant to the EU Minimum Tax Directive, provided for the introduction of a new minimum effective rate of tax for certain businesses. These rules provide for a Qualified Domestic Top-Up Tax where an in-scope group's Irish operations have an effective rate of tax of less than 15%. They come into force for accounting periods beginning on or after 31 December 2023.

On 19 December 2023, Spain's Council of Ministers approved a draft law to implement the EU Minimum Tax Directive. This is to be subject to consultation, prior to being sent to Parliament. Under the legislation, the Group is liable to pay a top-up tax for the difference between the effective rate per jurisdiction and the 15 per cent minimum rate. Such legislation applies prospectively for accounting periods beginning on or after 31 December 2023.

On 23 May 2023, the IASB issued the amendments to IAS 12 – international tax reform: Pillar Two model reforms, effective for periods beginning on or after 1 January 2023. The amendments to IAS 12 provide temporary mandatory relief from the recognition of deferred tax balances arising from the implementation of the Pillar Two legislation. Accordingly, the Group has developed an accounting policy with regards to the recognition of deferred taxes arising from the Pillar Two model rules, where no adjustments to deferred tax assets and liabilities are recognised that arise from the introduction of the minimum 15 per cent effective tax rate.

16. CURRENCIES OTHER THAN THE EURO

The breakdown of major transactions in currencies other than the euro in 2023 and 2022, measured in euros, is as follows:

€ million	2023	2022
Revenue	2,942	2,398
Services provided	69	47
Purchases	1,376	1,011
Services received	1,361	1,176
Operating leases	395	336

The item"Purchases" includes transactions in Euros, mainly fuel, whose price is referenced to the dollar.

Major balances in currencies other than the euro primarily concern advance payments on aircraft, receivables for ticket sales and maintenance services provided, and payables for fuel purchases and spare parts for aircraft, usually denominated in dollars.

The exchange differences recognised in profit or loss for 2023, amounting to an income of €27 million, mostly relate to derivatives and non-current provisions, and adjustments to financial investments and bank borrowings. The balances referred to in Note 9.2 are also relevant.

17. INCOME AND EXPENSES

17.1 Revenue

The distribution of the Group's revenue in the 2023 and 2022 financial years is as follows:

€ million	2023	2022
Passenger revenue (a)	5,611	4,276
Cargo revenue	282	359
Handling (aircraft dispatching and services in airports)	319	296
Technical assistance to airlines	871	581
Other income	53	50
	7,136	5,562

(a) Includes other income (recovery of unused tickets, commercial agreements etc.) totalling €265 million (2022: €289 million).

The breakdown of passenger revenue excluding "Other income", by networks, is as follows:

€ million	2023	2022
Domestic	749	622
Medium-haul	1,248	928
Long haul	3,349	2,437
	5,346	3,987

The Group operates a number of routes along with other airlines, as follows:

Routes	Airlines
North Atlantic	American Airlines, British Airways, Finnair and Iberia
Madrid - London	British Airways and Iberia
Spain - Ecuador and Peru	LATAM and Iberia
Spain - Japan	Japan Airlines, British Airways, Finnair and Iberia
Madrid - Barcelona	Vueling and Iberia
Madrid-Doha	Iberia y Qatar Airways

These agreements, which do not entail joint operation of company assets, concern the distribution of income and margins generated on these routes on an agreed distribution basis, depending on the operations carried out by each airline.

The "Madrid-Doha" agreement with Qatar Airways entered into force in December 2023. The Madrid-Barcelona and Spain-Japan agreements are temporarily suspended pending activation and renegotiation of conditions.

17.2 Other operating income

The breakdown of this item on the accompanying consolidated income statement is as follows:

€ million	2023	2022
Sundry, subventions and other current operating income:		
Revenue from commission	43	25
Lease income	35	53
Other income	205	216
	283	294

Income from commissions chiefly consists of commissions on the sale of tickets for other airlines, commissions arising from the franchise agreement with Air Nostrum and sale of tickets for Vueling Airlines, S.A. under Iberia's code, and also commissions from in-flight product sales.

17.3 Supplies

The breakdown of "Procurements" on the accompanying consolidated statement of financial position is as follows:

€ million	2023	2022
Consumption of:		
Aircraft fuel	1,592	1,390
Spare parts for aircraft	629	455
Catering supplies	25	17
Other supplies	15	11
	2,261	1,873

The composition of this item in terms of purchases, changes in and write-down of inventories, is as follows:

€ million	2023	2022
Purchases	2,183	1,857
Changes in inventories	69	9
Impairment of inventories	9	7
Consumption	**2,261**	1,873

The Group's inventories are broken down as follows:

€ million	2023	2022
Spare parts for aircraft	277	210
Catering supplies	10	11
Other supplies	1	1
Provision for inventories	(20)	(15)
Emission allowances	165	134
Supplier advance payments	112	111
	545	452

The Group has recognised €62 million (2022: €64 million) in emission allowances received at no cost, measured at their market value.

The breakdown of Group purchases in 2023 and 2022 in terms of origins is as follows:

€ million	2023	2022
National	938	755
Intra-Community	366	287
Imports	879	815
	2,183	1,857

17.4 Workforce

In 2023 and 2022 the workforce distribution in terms of the average headcount, by professional category, was as follows:

	2023	2022
Directors and Management Committee	**13**	13
Senior management	**57**	48
Ground:		
Managers and other line staff	1,078	956
Administrative	3,797	3,504
Auxiliary services	3,820	3,440
Fleet maintenance technicians	2,420	2,267
Other	367	364
	11,482	10,531
Flight:		
Technical crew	1,609	1,504
Flight attendants	3,776	3,405
	5,385	4,909
	16,937	15,501

At 31 December 2023 and 2022 the workforce distribution, by gender and professional category, was as follows:

	31-12-2023		31-12-2022	
	Female	Male	Female	Male
Directors	3	6	2	7
Management Committee	-	4	-	4
Senior management	25	33	19	35
Ground:				
Managers and other line staff	572	574	532	501
Administrative	3,129	1,389	2,975	1,330
Auxiliary services	459	4,140	390	3,805
Fleet maintenance technicians	70	2,456	56	2,254
Other	159	204	156	231
	4,389	8,763	4,109	8,121
Flight:				
Technical crew	123	1,634	104	1,513
Flight attendants	3,054	1,341	2,782	1,161
	3,177	2,975	2,886	2,674
	7,594	**11,781**	7,016	10,841

The average number of people employed during the period with a disability of 33% or more, broken down by category, is as follows:

	2023	2022
Ground:		
Managers and other line staff	8	7
Administrative	38	36
Auxiliary services	86	85
Fleet maintenance technicians	14	14
Other	15	15
	161	157

In accordance with the provisions of the applicable regulations, the Group must employ a number of disabled workers of no less than 2% of its total workforce.

Given the complex nature of the company's work, it is difficult to hire a sufficient number of such employees to reach this percentage, and therefore, the legal requirement is met through acceptable alternative measures.

17.5 Other operating expenses

The composition of "Other operating costs" on the accompanying consolidated income statement is as follows:

€ million	2023	2022
Air traffic services	413	389
Aircraft lease payments		
Dry lease (crewless contract) (Note 7.1)	290	280
Cargo	12	12
Navigation charges	220	180
Aircraft maintenance	582	394
Selling costs	300	231
Booking system expenses	105	91
Other rent	56	45
In-flight services	120	100
Other types of maintenance	52	42
Stopover expenses	53	38
Indemnities for passengers, luggage and cargo	87	52
Royalties	11	27
Incident costs	15	11
Losses, impairment and variation of provisions for trade operations	3	5
Independent professional services	106	77
Emission allowances (Note 20)	87	91
Other operating expenses	316	305
	2,828	2,370

"Aircraft maintenance" includes expenditure on subcontracted maintenance work and provisions for major repairs of aircraft operated under operating leases (see Note 5.3).

In 2023 and 2022 the fees billed for audit and non-audit services provided by the Group's auditor, KPMG, or by a company forming part of the auditor's organisation through control, common ownership or management, were as follows:

	€ thousand	
Type of service	2023	2022
Auditing services and other audit-related services		
Audit and limited reviews	1,018	994
Other verification work	12	3
Total services	**1,030**	997

The "Other verification work" account in 2023 and 2022 includes fees for agreed procedures related to the certification of ratios in connection with ICO loans as well as compliance with certain clauses established in the terms and conditions for the provision of air services subject to public service obligations on the Menorca-Madrid route.

In addition, the heading "Audit and limited reviews" includes expenses for auditing services amounting to €44 thousand in 2023 (2022: €41 thousand) corresponding to the Mundiplan joint venture in which the subsidiary Iberia L.A.E. S.A. Operadora holds a 50% interest.

17.6 Financial income

The breakdown of this item on the accompanying consolidated income statement is as follows:

€ million	2023	2022
Dividends	3	-
Interest on loans	72	6
	75	6

During 2023, the Group received a dividend of €2.7 million from Servicios de Instrucción de Vuelo, S.L..

17.7 Finance costs

The breakdown of this item on the accompanying consolidated income statement is as follows:

€ million	2023	2022
Interest on finance leases (Note 13)	56	36
Interest on borrowing with Group companies and associates (Note 19.1)	37	15
Interest on updating provisions for contingencies and charges (Note 12)	40	12
Other	25	54
	158	117

18. BUSINESS AND GEOGRAPHIC SEGMENTS

Basis of segmentation

Segment reporting is structured primarily by business segments, according to the Group's lines of business, and secondly by geographic segments.

Primary business segments

The lines of business described below were established on the basis of the Group's organisational structure at the 2023 reporting date and take account of the nature of the services provided and also of the customer segments targeted by them.

In 2023, the Group engaged mainly in the following major lines of business, which provide the basis for the Group's primary segment reporting:

1. Transport activity (includes both passenger and freight transport)
2. Airport activity (including handling activities)
3. Maintenance and engineering activity
4. Other activities

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole – including expenses incurred in projects or activities affecting several lines of business, or income from strategic investments, income tax expenses, etc. – are attributed to a "Corporate Unit". Reconciling items arising from the comparison of consolidating the financial statements of the various lines of business (prepared using a management approach) with the Group's consolidated financial statements are also allocated to the same "Corporate Unit".

The costs incurred by the Corporate Unit are allocated among the various lines of business using an internal cost allocation system at market prices.

Secondary segments - geographic segments

The Group's activities are also classified into geographic segments: Domestic (Spain), Medium-Haul (Europe and Africa excluding South Africa, and the Middle East) and Long-Haul markets.

Basis and methodology for segment reporting

The segment reporting below is based on monthly reports prepared by the Group. These reports are generated on the basis of the Group's cost accounting system, which classifies transactions carried out by the Group by lines of business and geographic segments.

The ordinary income of each segment relates to the external and internal ordinary income directly attributable to the segment and excludes finance income, dividends or proceeds from disposals.

The expenses of each segment are determined by the directly allocable expenses incurred in the operating activities of the segment, plus the corresponding proportion of the corporate expenses which can be allocated to the segment using reasonable allocation bases. The expenses thus allocated do not include interest, losses from disposals or income tax expenses that are unrelated to the segments' operating activities and that, therefore, cannot be allocated using reasonable allocation bases.

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed to them using the bases for allocation mentioned above. Segment liabilities do not include income tax payables.

Segment information concerning these businesses in 2023 and 2022 is presented below:

	Transport		Airports		Maintenance and engineering		Corporate and other activities		Total Group	
€ million	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Operating income:										
External	6,126	4,894	321	298	924	626	106	85	7,477	5,903
Inter-segment	23	2	179	161	109	117	239	216	550	496
Operating expenses:										
External	(4,853)	(4,143)	(444)	(417)	(976)	(685)	(345)	(408)	(6,618)	(5,653)
Inter-segment	(506)	(449)	(17)	(23)	(27)	(24)	-	-	(550)	(496)
Operating profit (loss)	**790**	304	**39**	19	**30**	34	**-**	(107)	**859**	250
EBITDAR	1,402	725	49	116	43	48	11	(62)	1,505	827
Aircraft lease payments	(350)	(280)	-	-	-	-	-	-	(350)	(280)
EBITDA	1,052	445	49	116	43	48	11	(62)	1,155	547
Depreciation and amortisation	(263)	(141)	(9)	(97)	(14)	(14)	(10)	(45)	(296)	(297)
Financial profit (loss)	**(117)**	(138)	**1**	-	**-**	-	**74**	(7)	**(42)**	(145)
Share of profit (loss) of companies accounted for using the equity method	39	98	3	1	-	-	161	1	203	100
Profit (loss) before tax	**712**	264	**43**	20	**30**	34	**235**	(113)	**1,020**	205
Income tax	(29)	-	-	-	-	-	10	67	(19)	67
Net profit/(loss)	**683**	264	**43**	20	**30**	34	**245**	(46)	**1,001**	272
Average headcount (FTEs)	5,385	7,116	6,967	4,136	2,077	2,343	2,508	1,904	16,937	15,499
Property, plant and equipment	2,257	1,706	39	33	140	163	34	31	2,470	1,933
Inventories	267	189	1	1	233	212	44	50	545	452
Other assets	614	790	73	62	289	224	3,581	3,935	4,557	5,011
Total assets	**3,138**	2,685	**113**	96	**662**	599	**3,659**	4,016	**7,572**	7,396
Customer prepayments	1,467	1,232	-	-	-	-	-	-	1,467	1,232
Remuneration payable	72	87	25	34	16	18	32	37	145	176
Other liabilities	4,392	3,905	64	64	118	181	691	1,928	5,265	6,078

Practically all the Group's assets can be allocated to the domestic market with the exception of aircraft, which have no defined geographic location. The percentages of aircraft used in each geographic market, measured in terms of total block hours, are as follows:

Secondary segments	2023	2022
Domestic	19%	21%
International short-haul/medium-haul	33%	33%
Long-haul	48%	46%
	100%	100%

19. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

19.1 Operations with related parties

The following transactions took place with related parties in 2023 and 2022:

€ million	2023			2022		
Expense and revenue	Group companies or entities and associates	Other related companies or entities	**Total**	Group companies or entities and associates	Other related companies or entities	Total
Expenses:						
Finance cost	-	37	**37**	-	15	15
Receipt of services	54	109	**163**	49	119	168
	54	**146**	**200**	49	134	183
Income:						
Financial income	-	1	**1**	-	3	3
Management or cooperation contracts	-	12	**12**	-	4	4
Dividends	1	-	**1**	-	-	-
Provision of services	334	186	**520**	268	153	421
	335	**199**	**534**	268	160	428

€ million	2023			2022		
Other transactions	Director and senior management	Group companies or entities and associates	**Total**	Director and senior management	Group companies or entities and associates	Total
Other operations	4	-	**4**	4	-	4
	4	**-**	**4**	4	-	4

The main transactions with Group companies and associates are accounted for by the Group's core business, along with handling and maintenance activities. In addition, IAG provides various management services to the Group and passes on other costs, including the cost of the executive share option programme. The expense passed on in 2023 was €10 million (2022: €7 million).

The transactions with British Airways Plc relate mainly to the joint operating agreements mentioned in Note 17.1, commissions on passenger tickets collected from and paid to this company for tickets issued by one company and flown by the other, and collections and payments for handling and maintenance services.

In addition, the transactions with Avios Group (AGL) Ltd mainly relate to collections and payments under the loyalty programme.

19.2 Balances with related parties

The balances with related parties on the consolidated statement of financial position at 31 December 2023 and 2022 were as follows:

	2023			2022		
€ million	Group companies or entities and associates	Other related companies or entities	**Total**	Group companies or entities and associates	Other related companies or entities	Total
Non-current investments:						
Equity instruments (Note 8.2)	536	385	**921**	503	385	888
Current Investments:						
Loans to companies	-	-	**-**	-	101	101
Advances to suppliers	-	38	**38**	-	32	32
Trade receivables	168	42	**210**	132	45	177
Non-current borrowings	-	300	**300**	-	300	300
Trade creditors	19	-	**19**	131	-	131

In addition, at 31 December 2023, the Group has recognised the loan balance with Avios Group (AGL) Limited in relation to the loyalty programme of €162 million under "Deferred revenue" in "Trade and other payables" in the consolidated statement of financial position.

At 31 December 2023 the Group no longer has any receivables from IAG, as the remaining €100 million of the total amount of €300 million has been recovered during the year 2023. Interest has accrued until maturity at the market rate.

In addition, IAG as the Group's parent company agreed to strengthen its capital by entering into a €300 million equity loan as financial support during the financial year 2022. Interest accrues at market rates.

The non-current debt is also a loan of €75 million plus accrued interest at 31 December 2023, which was received during the year 2021 from IAG, one of the Parent Company's shareholders, in the context of the agreements with Globalia. This loan bears interest at market rates and has a term of 5 years.

At 31 December 2023, the Group had €238 million through a credit facility arranged by IAG Group for the Group to draw on and no longer available arranged and undrawn credit facilities for aircraft (2022: €246 million and €113 million respectively).

19.3 Remuneration and other benefits of Directors and Senior Management

The remuneration received in 2023 and 2022 by the Parent's Directors, classified by items, was as follows:

€ thousand	2023	2022
Fixed remuneration and other remuneration	**225**	225
Compensation in kind	13	3
	238	228

In both 2023 and 2022, IAG charged the Company expenses for the work of certain directors (see Note 19.1).

The table above does not include the remuneration of the executive directors who have also held a post on the management committee.

The table below details the remuneration of the three directors of the parent Company who held executive posts.

€ thousand	2023	2022
Fixed remuneration	953	917
Variable remuneration	779	644
Compensation in kind	65	63
Social security and other welfare benefits	52	47
	1,849	1,671

The table above does not include the remuneration of the executive directors of the parent Company who receive their remuneration from the parent IAG (International Consolidated Airlines Group, S.A.) with which they have a contractual relationship.

In 2023 premiums were paid in respect of an insurance policy for executive directors with an approximate total of €65 thousand (2022: €64 thousand), and no advances or loans have been granted to the directors.

In 2023 and 2022, the Directors of the parent Company did not enter into any transactions with the Company or any Group companies other than ordinary business transactions under normal market conditions.

Pursuant to article 229 of the Spanish Corporate Enterprises Act, the directors have stated that neither they nor the people linked to them have any conflicts of interest with the Group.

19.4 Remuneration of senior executives

The remuneration received by members of the subsidiary Iberia's management in 2023 and 2022 (excluding the CEO and those simultaneously exercising directorships, whose remuneration is set out above) is as follows for 40 managers at year-end 2023 (2022: 38 managers):

€ thousand	2023	2022
Fixed salaries	6,518	5,782
Variable remuneration	4,246	2,808
Compensation in kind	305	288
Social security and other welfare benefits	774	597
	11,843	9,475

In 2023, contributions were made to an insurance policy and pension plans in the amount of €72 thousand (2022: €71 thousand).

In 2023, no advances or loans were granted to members of Group management and no transactions have been carried out with Group management or Group companies outside the ordinary course of business or on other than arm's length terms.

As mentioned in note 19.1, IAG passes on the cost of the share option programme for executive directors and management in 2023 to the Group in the amount of €10 million (2022: €7 million).

20. ENVIRONMENTAL INFORMATION

As part of the environmental policy, various activities and projects were carried out in 2023 to guarantee the proper management of the main environmental impacts of the air transport business as a whole.

In 2023 and 2022 the breakdown of environmental expenses was as follows:

€ million	2023	2022
Environmental repair and maintenance	1	1
Employee costs relating to environmental management	1	1
Emission allowances	87	91
Environmental taxes and other	4	3
	93	96

The acquisition cost and accumulated depreciation of the Group's environmental assets, which include emission allowances, water-treatment plants, hazardous waste storage facilities, gas recharge and filter systems, and water recycling infrastructure, amounted to €74 million and €58 million, respectively, at 31 December 2023 (2022: €74 and €56 million respectively).

With respect to its aircraft, the Group has a renewal policy in which the environment (minimising the impact of noise and atmospheric emissions) is an important factor. Accordingly, the Group is continuing to add new aircraft models that reduce fuel consumption by approximately 20% compared to aircraft from earlier generations. A new EU CO_2 emissions-reduction regulation entered into force in 2012, under which airlines are required to deliver emission allowances for flights departing from or arriving at European airports (see Note 5.9).

In its ground operations, the Group holds certification under the ISO 14001/AENOR Environmental Management System, including the Group's aircraft maintenance facilities at Barajas airport in Madrid. As a result of this certification, along with existing certification for handling and the Group's other maintenance facilities, all the Group's major environmental issues are covered by external certification.

The Group is also involved in the European SESAR programme to reorganise air space with a view to reducing aircraft congestion and pollution of the environment.

The Group considers that any possible environmental contingencies that might arise are covered sufficiently by its civil liability insurance policies and by provisions relating to probable or certain liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount.

Finally, no investments of property, plant and equipment were made for environmental reasons during the financial year 2023 (2022: €1 million).

21. EVENTS AFTER THE REPORTING PERIOD

Airport handling services

In February 2024, the Board of Directors of the subsidiary Iberia Líneas Aéreas de España S.A. Operadora approved the plan to spin off the activity of ground handling services to aircraft, passengers and cargo at airports (handling) to a new company. This segregation will take effect for accounting purposes as from 1 January 2024, the date on which the assets and liabilities of the segregated branch of activity will be contributed.

Revocation of Royal Decree-Law 3/2016 in Spain

On 18 January 2024 the *Tribunal Constitucional* (Constitutional Court) in Spain, issued a ruling stating that a number of amendments to corporate income tax arising from the introduction of Royal Decree-Law 3/2016 were unconstitutional and accordingly revoked. The revocation of Royal Decree-Law 3/2016 impacts the Tax Group operations as follows:

- Limitation of the use of historic tax losses

Prior to the introduction of Royal Decree-Law 3/2016, the Spanish subsidiaries of the Group were permitted to offset up to 70 per cent of their taxable profit with historical accumulated tax losses (to the extent there were sufficient tax losses to do so). With the introduction of the Royal Decree-Law 3/2016, this limitation of tax losses applied to taxable profit was reduced to 25 per cent.

- Tax deductibility of impairments of investment in subsidiary undertakings

Where companies had impaired investments in subsidiaries prior to 2013 and deducted those impairments for tax purposes, Royal Decree-Law 3/2016 retrospectively required companies to reverse those impairment charges, for tax purposes, with the effect recognised equally over the five years commencing 1 January 2016.

In accordance with IFRS, the Tax Group has considered the ruling issued by the Tribunal Constitucional as a post closing event and, therefore, it has not reflected the impact of the changes derived from such ruling in the financial statements. As at the date of these financial statements, there remains uncertainty as to how the revocation of Royal Decree-Law 3/2016 will be applied and accordingly the methodology by which the Group, with its external tax advisors, quantifies the impacts of this revocation. Had the Group reflected the impact of ruling into the financial statements as of 31 December 2023, the impact would have been as follows:

- Current tax impact of historic loss limitation and deductibility of historic impairments of investments for fiscal years 2016 through 2022

The Tax Group's tax losses in Spain were limited to 25 per cent loss offset. In addition, prior to 2013, Iberia LAE impaired its subsidiary undertakings in Venezuela. Had the loss limitation been 70 per cent and the historic impairment been tax deductible, the taxable profits, and as a result the tax paid to the Spanish tax authorities, would have been lower. The Tax Group expects to record an associated current tax credit up to approximately €57 million, with a corresponding receivable from the Spanish tax authorities.

- Current tax impact of loss limitation to fiscal year 2023

The Tax Group measures current tax expense based on the regulations in effect as of the date when corporate income taxes are accrued. With the change in loss limitation, the Tax Group anticipates the ability to offset up to 70 per cent of their Spanish taxable profits with prior-year losses for their 2023 Spanish taxes. If this limit had been applied at 31 December 2023, the Tax Group foresees a reduction of the 2023 current tax expense of approximately €77 million.

- Deferred tax impact of future loss limitation

The Tax Group measures deferred tax assets at the tax rates that are expected to apply when the related asset is realised. As detailed in note 2, the Tax Group uses future cash flow projections over periods of up to ten years to determine the recoverability of deferred tax assets. With the change in loss limitation, the Tax Group expects to be able to utilise more of its historical tax losses within this ten-year period. Had the Royal Decree-Law 3/2016 not applied at 31 December 2023, the Tax Group expects that the deferred tax assets associated with tax losses and tax credits would have decreased by approximately €20 million, with the corresponding deferred tax expense in the income statement.

22. EXPLANATIONS ADDED FOR TRANSLATION TO ENGLISH

The attached Consolidated Financial Statements have been translated into English for the convenience of the reader from the statutory Financial Statements prepared in Spanish language in accordance with generally accepted accounting principles established in Spain. In the event of discrepancy, the Spanish-language version prevails.

Appendix I - Subsidiaries

31 December 2023

Name *Registered office* Corporate purpose	Interest of the Parent company (%)		€ million				
				Profits/(Losses)			
	Direct	Indirect	Capital	Operating profit/(loss)	Net profit/(loss)	Other Net equity	Total equity
Companies of the Group:							
Iberia Líneas Aéreas de España, S.A. Operadora *Martínez Villergas, 49; Madrid* Air transport of passengers and cargo	100.00	-	67	778	804	(97)	774
Cargosur, S.A. *Martínez Villergas, 49; Madrid* Air transport of goods	-	100.00	6.1	-	0.4	7.5	14.0
Iberia Tecnología, S.A. *Martínez Villergas, 49; Madrid* Aircraft maintenance services	-	100.00	1.4	-	0.2	6.1	7.7
Compañía operadora de corto y medio radio Iberia Express, S.A. *Alcañiz, 23; Madrid* Air transport of passengers and cargo	-	100.00	20.1	184.5	156.2	45.2	221.5
Iberia Operadora UK, Ltd *Waterside (Haa2) P O Box 365, Harmondsworth, Speedbird Way, West Drayton, United Kingdom, UB7 0GB* Holding of ownership interests	-	100.00	-	-	-	327.0	327.0
Iberia Desarrollo Barcelona, S.L.R. *Avda. de Les Garrigues 38-44 Edificio B; Barcelona* Promotion and development of airport infrastructure	-	75.00	6.0	0.2	-	4.0	10.0
Iberia Líneas Aéreas de México, S.A.C.V. *Xochicalco 174, Col. Narvarte, Alcaldía Benito Juárez; Ciudad de México* Merchandise storage, security and custody services	-	100.00	0.2	(0.2)	(0.2)	-	-

Name *Registered office* Corporate purpose	Interest of the Parent company (%) Direct	 Indirect	€ million Capital	Profits/(Losses) Operating profit/(loss)	 Net profit/(loss)	 Other Net equity	 Total equity
Companies of the Group:							
Iberia Líneas Aéreas de España, S.A. Operadora *Martínez Villergas, 49; Madrid* Air transport of passengers and cargo	100.00	-	67	257	216	158	125
Cargosur, S.A. *Martínez Villergas, 49; Madrid* Air transport of goods	-	100.00	6.1	-	-	7.4	13.5
Iberia Tecnología, S.A. *Martínez Villergas, 49; Madrid* Aircraft maintenance services	-	100.00	1.4	-	0.3	5.8	7.5
Iberia México, S.A. *Montes Urales 424, Colonia Lomas de Chapultepec V, Ciudad de Mexico* Merchandise storage, security and custody services	-	100.00	0.1	1.0	0.7	(0.1)	0.7
Compañía operadora de corto y medio radio Iberia Express, S.A. *Alcañiz, 23; Madrid* Air transport of passengers and cargo	-	100.00	20.1	94.8	71.1	63.8	155.0
Iberia Operadora UK, Ltd *Waterside (Haa2) P O Box 365, Harmondsworth, Speedbird Way, West Drayton, United Kingdom, UB7 0GB* Holding of ownership interests	-	100.00	-	-	-	327.0	327.0
Iberia Desarrollo Barcelona, S.L.R. *Avda. de Les Garrigues 38-44 Edificio B; Barcelona* Promotion and development of airport infrastructure	-	75.00	6.0	0.2	0.1	3.9	10.0
Iberia Líneas Aéreas de México, S.A.C.V. *Xochicalco 174, Col. Narvarte, Alcaldía Benito Juárez; Ciudad de México* Merchandise storage, security and custody services	-	100.00	0.0	-	-	-	0.0

The voting rights held by the Parent arise from direct or indirect interests in each of the companies.

Appendix II - Associates

31 December 2023

Name *Registered office* Corporate purpose	Interest of the Parent company (%)		€ million				
				Profits/(Losses)			
	Direct	Indirect	Capital	Operating profit/(loss)	Net profit/(loss)	Other Net equity	Total equity
Associates:							
Serpista, S.A. *Marcelo Espínola, 10. Madrid* Maintenance of airport equipment	-	39.00	1.2	2.7	2.0	3.6	6.8
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. *O´Donnell, 12; Madrid* Issue and management of payment cards	-	43.50	6.0	1.3	1.1	29.0	36.1
Air Miles España, S.A. *Avda. Bruselas 20, Alcobendas, Madrid* Multi-sector loyalty scheme	-	26.67	0.1	0.2	6.0	13.4	19.5
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras, 46; Madrid Auxiliary airport services	-	49.00	0.1	5.7	3.9	10.2	14.2
Empresa Logística de Carga Aérea, S.A. (ELCA) *Aeropuerto Jose Martí. (La Habana)* Cargo terminal operator	-	50.00	0.4	-	-	1.3	1.7
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. *Aeropuerto Jose Martí. (La Habana)* Aircraft maintenance	-	50.00	0.1	1.2	1.1	0.9	2.1
Vueling Airlines, S.A. *Viladecans Business Park, Edif Brasil* *Carrer de Catalunya 83, Viladecans; Barcelona* Passenger and cargo transport	-	50.10	29.9	300.7	315.7	(687.6)	(342)
Yellow Handling, S.L.U. *Carrer de Catalunya 83, Viladecans; Barcelona* Auxiliary ground airport services	-	50.10	0.1	0.1	0.1	0.7	0.9
Avios Group (AGL) Limited *Astral Towers, Betts Way, London Road, Crawley West Sussex, RH10 9XY UK* Management of loyalty programmes	-	14.00	2,206.3	324.0	279.0	(1,858.4)	671.9
Mundiplan Turismo y Ocio, S.L *Str. Hermanos Garcia Noblejas, 41; Madrid* Travel agency and development of activities in tourist destinations	-	50.00	50.00	-	-	-	-

31 December 2022

Name *Registered office* Corporate purpose	€ million Interest of the Parent company (%) Direct	 Indirect	 Capital	 Profits/(Losses) Operating profit/(loss)	 Net profit/(loss)	 Other Net equity	 Total equity
Associates:							
Serpista, S.A. *Marcelo Espínola, 10. Madrid* Maintenance of airport equipment	-	39.00	1.2	2.4	1.8	3.5	6.5
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. *O´Donnell, 12; Madrid* Issue and management of payment cards	-	43.50	6.0	1.2	0.6	28.4	35.0
Air Miles España, S.A. *Avda. Bruselas 20, Alcobendas, Madrid* Multi-sector loyalty scheme	-	26.67	0.1	-	0.8	13.1	14.0
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras, 46; Madrid Auxiliary airport services	-	49.00	0.1	1.8	1.0	9.2	10.3
Empresa Logística de Carga Aérea, S.A. (ELCA) *Aeropuerto Jose Martí. (La Habana)* Cargo terminal operator	-	50.00	0.4	-	-	1.4	1.8
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. *Aeropuerto Jose Martí. (La Habana)* Aircraft maintenance	-	50.00	0.1	1.1	1.0	0.8	1.9
Vueling Airlines, S.A. *Viladecans Business Park, Edif Brasil* *Carrer de Catalunya 83, Viladecans; Barcelona* Passenger and cargo transport	-	50.10	29.9	88.9	130.9	(796.6)	(635.8)
Yellow Handling, S.L.U. *Carrer de Catalunya 83, Viladecans; Barcelona* Auxiliary ground airport services	-	50.10	0.1	0.0	0.0	0.7	0.8
Avios Group (AGL) Limited *Astral Towers, Betts Way, London Road, Crawley West Sussex, RH10 9XY UK* Management of loyalty programmes	-	14.00	2,177.2	274.1	215.1	(2,005.6)	386.7

The voting rights held by the Parent arise from direct or indirect interests in each of the companies.

DESCRIPTION OF GROUP

The Iberia Group is an international air transport group with 96 years of experience, the largest in Spain and leader between Europe and Latin America; it belongs to the IAG airline group and is part of the **One**World Alliance, which offers more than 12,600 daily flights to nearly 1,000 airports in more than 170 countries. Iberia, together with Iberia Express and Iberia Regional Air Nostrum, offers flights to fifty countries around the world from Madrid airport, where it has developed its hub and consolidated Madrid as a gateway between Europe and Latin America.

In addition to passenger transport, the Group has diversified its business with cargo, aircraft maintenance and airport assistance.

Iberia Maintenance has become a widebodies centre of excellence for the airlines of the IAG group, and Iberia Airport Services provides handling services at 29 Spanish airports for 200 customer airlines.

By 2023, the subsidiary Iberia had not only recovered its network of destinations, but also increased the number of routes and frequencies in virtually all markets. The Spanish airline has started flights to Doha (Qatar) and Rovaniemi (Finland) and has announced that in 2024 it will launch flights to Tokyo (Japan), Tirana (Albania) and Ljubljana (Slovenia). In total, the airline has a network of 140 destinations with direct flights to 48 countries.

In addition, in 2023 Iberia increased its capacity between Spain and Latin America by 21% compared to the previous year.

Also in 2023, the Group continued its fleet replacement plan, adding nine new aircraft: six A350 and three A320neo for short and medium-haul routes.

Furthermore, Iberia was ranked as the second most on-time airline in Europe in 2023 and the fifth most punctual in the world.

The following table shows the breakdown of Iberia Group revenues from each of these services in 2023 and 2022:

	2023		2022	
	(€ million)	(%.)	(€ million)	(%.)
Passenger revenue	5,611	79%	4,276	77%
Aircraft maintenance	871	12%	581	10%
Handling	319	4%	296	5%
Cargo revenue	282	4%	359	7%
Other income	53	1%	50	1%
Total revenue	**7,136**	**100%**	5,562	100%

The Group's loyalty programmes as well as its strategic alliance and cooperation agreements are also critical to its business success and are described below.

Iberia's hub is located at Adolfo Suárez Madrid-Barajas International Airport, the main airport of Madrid and Spain. Located within the city, Adolfo Suárez Madrid-Barajas airport welcomed 60.2 million passengers in 2023, representing an increase of 18.9% compared to 2022. Iberia is the leading airline operating at the airport in terms of both capacity and passengers. Adolfo Suárez Madrid-Barajas airport has established itself as a hub airport where airlines can increase their connectivity between the Latin American, domestic and European markets. The Group operates at Adolfo Suárez Madrid-Barajas airport in Terminal 4, the airport's newest terminal and one of the largest in the world.

Iberia's subsidiary Iberia Express, which started operations in March 2012, operates short and medium-haul routes. This airline has a pioneering hybrid business model, offering point-to-point air transport while feeding Iberia's long-haul network to/from its Madrid hub with the same customer benefits and service quality as Iberia. Iberia Express, which is based in Madrid, started operating with four Airbus A-320 aircraft and by 31 December 2023, has a fleet of 28 aircraft, 13 A-320, 3 A-321 and 12 A-321 NEO, which operationally is reduced to 25 taking into account that 2 A-321 are in the process of being transferred to Iberia and 1 A-321 NEO is preserved. With this fleet, the company covers 30 domestic and international routes, basing its success as a "low cost" airline on efficiency and simplicity.

Iberia Express has set ambitious targets to reduce its environmental footprint and, during the year, increased its fleet of A-321 NEO aircraft by 6 aircraft, the most efficient Airbus model for short and medium haul, taking a further step in its fleet renewal plan and reinforcing its roadmap towards zero net emissions by 2050. In addition, in November 2023, Iberia Express received certification in IATA's IENVA environmental management programme.

Another of the year's major milestones was that Iberia Express was recognised by Cirium, the world's leading international aviation analysis consultancy, as the most punctual airline in Europe in 2023 and the fifth most punctual in the world. This recognition is the result of the commitment of everyone at Iberia Express to its customers, who value punctuality particularly positively.

In 2017 it began operating under the LEVEL brand, with its hub at Barcelona-El Prat Airport, offering routes to the Americas.

Passenger transport

The Group's core business is passenger transport, which it operates through an extensive network of scheduled flights, most of which connect with Adolfo Suárez Madrid-Barajas airport. The Group's main networks are the domestic network, the medium-haul network (mainly flights to Europe and some destinations in Africa and the Middle East) and the long-haul network focusing mainly on Latin America, the United States and Asia.

The Group distributes its products to customers through four principal channels:

- Travel agencies
- Websites
- Ticket sales offices in the city or at the airport; and
- Call centres

In addition, the Group negotiates contracts with corporate customers, usually through a travel agency. Travel agencies act as intermediaries between Iberia Group and its end customers, for which they receive a commission. Travel agencies are Iberia Group's most important channel.

The Group's websites (Iberia, Iberia Express and LEVEL), city/airport sales offices and call centres are considered "direct" channels, as the end customer interacts directly with the airline to book tickets or pay for ancillary services, rather than going through an intermediary. The website includes sales made through the Iberia.com website. City or airport sales offices are ticket sales offices in city centres or airports that airlines use to sell tickets directly to customers. Call centres are also used by Group to sell tickets directly to customers over the telephone.

Other smaller distribution channels include General Sales Agents (GSAs), staff travel bookings and frequent flyer programme redemptions. GSAs are mainly sales representatives who charge a commission on airline ticket sales.

The following table shows the performance of Iberia Group's passenger transport business in 2023 and 2022 (including Iberia, Iberia Express and LEVEL, but excluding Vueling and Air Nostrum - a regional franchise).

Operating statistics of the Transport business

	2023	2022	% (*)
PASSENG.			
ASK (million)	**82,137**	68,753	**19,5**
Domestic	8,448	7,760	8,9
Medium-haul	16,432	14,419	14,0
Europe	14,657	12,795	14,6
Africa and Middle East (a)	1,775	1,624	9,3
Long-haul	57,257	46,574	22,9
RPK (million)	**71,744**	57,822	**24,1**
Domestic	7,459	6,482	15,1
Medium-haul	14,232	11,607	22,6
Europe	12,752	10,334	23,4
Africa and Middle East (a)	1,478	1,273	16,1
Long-haul	50,053	39,733	26,0
Load factor (%)	**87,3**	84,1	**3,2p.**
Domestic	88,3	83,5	4,8p.
Medium-haul	86,6	80,5	6,1p.
Europe	87,0	80,8	6,2p.
Africa and Middle East (a)	83,2	78,4	4,8p.
Long-haul	87,4	85,3	2,1p.
CHARGE			
ATK (million)	1,964	1,456	34,9
RTK (million)	1,081	918	17,8
Load factor (%)	55,1	63,1	-8,0p.
PASSENGER REVENUE			
Revenues (€ million)	5,394	3,997	35,0
Revenue/ASK (€) €)	6,57	5,81	13,1
Revenue/PKT (€) €)	7,52	6,91	8,8

(*) Year-on-year variations calculated with exact figures in euros.

(a) Passenger revenues include only those revenues generated on flights operated during the period. Therefore, revenues from the cancellation of customer advances and other minor accounting adjustments

ASK: Available Seat Kilometre RPK: Revenue Passenger-Kilometres.
ATK: Available Tonne Kilometre RTK: Revenue Tonne-Kilometres.

Variations in load factor expressed in percentage points.

Iberia Group traffic statistics

The three airlines that make up the Group have experienced a strong increase in supply in 2023, 19.5% more than in 2022, which already almost exceeded the pre-pandemic supply. For their part, Iberia and Iberia Express have recovered the network of destinations they had in 2019, and have added new routes, such as Doha.

The long-haul sector saw supply rise by 22.9% and occupancy climb 2.1 points to 87.4%. Supply to North America increased by 24.0% with an improvement in the occupancy rate of 2.4 percentage points. In Latin

America and the Caribbean, ASK grew by 23.2% and the occupancy rate by 1.9 percentage points, Asia saw capacity fall by 96.5% and occupancy declined by 11 percentage points.

Capacity in the medium-haul sector increased by 14.0% and the occupancy rate climbed 6.1 points to 86.6%. Supply in Europe grew by 14.6%, and in another international medium haul, Africa and the Middle East, AKOs increased by 9.3%.

In the domestic sector, supply grew by 8.9% and PKT by 15.1%, with occupancy climbing 4.8 points above the 2022 rate to 88.3%.

Status of global air transport

Despite the swift recovery in passenger demand and the substantial reduction in Covid-19 travel restrictions, the aviation industry is still grappling with the aftermath of the pandemic, during which it incurred a historic loss of nearly USD 140 billion. Moreover, other challenges such as wars in different regions of the world, volatile oil prices, high interest rates and a shortage of qualified personnel impacted their financial performance. However, 2023 is the year in which the industry returned to profits.

At the industry level, capacity measured in available seat kilometres (ASK) remained slightly below pre-pandemic levels (-4%), while demand recovered at a slower pace in all regions.

Revenue passenger kilometres (RPK) remained below the 2019 level (-5%) in 2023 but recovered +38% compared with the previous year. Expected passenger revenues amount to USD 642 trillion, This figure was around +47% higher than last year and +6% higher than in 2019. The numbers demonstrate the strength of average revenue during the year and passengers' increased willingness to pay. This favourable context was further enhanced by continued capacity constraints in the market, especially in the long-haul segment.

Global economic growth in 2023 is expected to decelerate by -0.5 pp to +3% y-o-y growth. This figure is well below the historical average growth rate. Headline inflation continues to decelerate from +9.2% in 2022, year-on-year, to +5.9% in 2023. Core inflation, which strips out food and energy prices, is also projected to decline, albeit more gradually than headline inflation. This picture emerges differently in different geographical areas. The slowdown is more pronounced in advanced economies than in emerging markets and developing countries. Among the advanced economies, the United States delivered a positive surprise, with consumption and investment resilience, while Eurozone activity was revised downwards.

In 2023, the industry's estimated net profit amounts to $23.3 billion. This is a substantial improvement over the previous year and means the sector is now out of the red. The net margin is estimated at 2.6%, +3 pp better than in 2022. The operating margin is estimated at 4.5%.

In 2023, the industry's financial performance is expected to outperform the previous year in all regions. However, different geographical areas have recovered at different rates due to the way governments have dealt with the aftermath of Covid-19.

North America remains the best performing market financially. It was the first market to return to profit in 2022 and operators in the region are expected to build on this in subsequent years. Projected net income at year-end 2023 is USD 14.3 trillion, underpinned by high occupancy levels and robust average revenues.

In Europe, earnings are set to be better than expected, with a net profit of USD 7.7 trillion. These results are backed by robust demand sustained over time.

Meanwhile, Latin American airlines have seen a steady improvement in performance since 2020 but would still be in the red by 2023, with losses of USD 0.6 trillion.

Finally, Asia-Pacific carriers posted fairly solid revenue growth and contributed to more than half of the industry's traffic increase over the past year. Despite the positive trend, the Asian market is expected to make a loss of USD 0.1 trillion.

Other services

Iberia Maintenance

Iberia offers maintenance, repair and overhaul services for engines, aircraft and components of the Iberia fleet and other airlines. These services are offered through the General Maintenance and Engineering Department **Iberia Maintenance**, which carries out scheduled and unscheduled maintenance work (ad hoc repairs). As at 31 December 2023, the maintenance division had approximately 2,100 employees.

In 2023, external and internal revenues from maintenance and engineering amounted to €953 million and €80 million, respectively (2022: €626 million and €117 million)

The objective of scheduled maintenance is to ensure that the aircraft is fully airworthy and/or to restore specified levels of reliability. Scheduled maintenance is divided into three categories: (i) on-wing maintenance (outside the perimeter of Iberia Maintenance since 2022, which was transferred to the operator), (ii) minor maintenance and (iii) major overhaul. Each of these categories covers specific inspections, the frequency and depth of which are gradually increased and tailored to the characteristics and age of the fleet.

Minor maintenance comprises A, B and C checks, the frequency and depth of which is gradually increased up to C inspections, which consist of a comprehensive review of all exterior and internal areas of the aircraft, including systems, installations and visible structure.

Major overhaul (D inspections) covers the "Structural Inspection Programme") in its entirety This programme covers the inspection of all structural elements, carried out periodically (between four and seven years) as part of the major overhaul, which involves the stripping of all exterior paintwork; change of engine, landing gear, flight controls and other components; the dismantling, inspection, repair and subsequent reassembly of a large number of aircraft parts; fresh paintwork; and functional tests including a flight test.

Iberia Maintenance is certified by civil aviation authorities, including (i) the Spanish Civil Aviation Agency; (ii) the European Air Safety Agency (EASA); and (iii) the Federal Aviation Administration of the United States. Iberia Maintenance is also accredited by Spain's AENOR standards bureau for Environmental Management (ISO 14001:2004).

Maintenance and repair activities are carried out in seven hangars and numerous workshops and bench-testing facilities on a 2.5 million square meter site at Adolfo Suárez Madrid-Barajas Airport. In addition, services are provided in a hangar at Barcelona's El Prat airport.

Iberia Handling

Iberia is Spain's largest airport handling operator, providing passenger, baggage, aircraft and cargo services at airports. It operates in 29 airports in Spain and is the country's only full-service airport handling company. At 31 December 2023, the handling division had approximately 8,018 employees and Spain's largest fleet of GSE (Ground Support Equipment).

Iberia's handling division provides the following ground services at Spanish airports to both third-party companies as well as to Iberia itself:

- Passenger services including check-in and boarding, baggage handling including tracing of lost baggage, seat assignments, special assistance and security services.
- Runway and ramp services, including loading and unloading and transport of cargo, pushback and towing, aircraft cleaning, heating and cooling, drinking and waste water, tyres and electronic systems, de-icing and passenger and crew transport.
- Coordination, including cabin-ramp communication, flight documentation, load sheet and weight balance, weather reports, aeronautics and operating reports.
- Cargo assistance, including cargo transport, delivery of cargo at warehouses, stock control and handling of hazardous and perishable goods; and
- Flight services, including meteorological data, aeronautical data, flight documentation, operational summary and operational flight plans.

In 2023, the external and internal revenues of the airport business amounted to €369 and €131 million, respectively (2022: €298 million and €161 million).

Iberia's handling division is accredited by Spain's AENOR standards bureau for quality and environmental management (ISO 9001:2000 and ISO 14001:2004).

Iberia's systems unit provides IT and telecommunications services to the airline and external customers, in addition to technical assistance services as required. The quality of these services is accredited by AENOR in accordance with the ISO 9000:2000 standard, which covers (i) IT systems development processes; (ii) maintenance of IT systems and data processing centres; (iii) user care and assistance; and (iv) IT products and services procurement management.

In February 2024, the Board of Directors of the subsidiary Iberia Líneas Aéreas de España S.A. Operadora approved the spin-off of the airport handling services activity to a newly incorporated company (see section on subsequent events).

IAG Cargo

IAG Cargo Ltd (IAG Cargo) was established on 18 May 2012 within IAG Group following the integration of the commercial teams of British Airways World Cargo and Iberia Cargo, aimed at providing a single commercial platform for IAG Group.

It is a business unit of IAG Group and is responsible for optimising the profitability of the Group's cargo transport. Operations commenced on 1 December that same year with a newly created single commercial platform to manage and market the entire cargo capacity of the IAG airlines through a single set of distribution channels under the IAG Cargo brand.

In 2016, Aer Lingus was merged into IAG Group and Aer Lingus cargo into IAG Cargo.

IAG Cargo is also responsible for Vueling and LEVEL sales.

IAG Cargo currently services more than 350 destinations with approximately 15,000 weekly flights focused on "Constant Climate" and "Critical" products. Cargo revenues are distributed between the companies that make up IAG Cargo Ltd, based on what each of them carries.

Cargo capacity for more than 500 wide-body and narrow-body aircraft is managed with the extensive network offered by the Group's airlines.

IAG Cargo is also one of the leading players in global cargo handling operations, with Madrid providing the main hub for Iberia, London Heathrow for British Airways and Dublin for Aer Lingus.

It currently operates a wide-body "air bridge" between London and Madrid, allowing cargo to be sent anywhere in the world.

In 2023, Iberia's cargo revenue fared worse than in 2022, especially in the last quarter of the year, due to the overall increase in competition in the markets, which resulted in lower yields, and also because of the drop in supply in key markets.

Iberia loyalty programme

From 28 January 2015, IAG Group's loyalty programmes (Iberia Plus and BA Executive Club), which aligned their customer proposition in November 2011, were run by Avios Group Limited. (now IAGL) and as part of this transaction, the assets and certain contracts with Iberia partners were transferred to the IAGL Spanish subsidiary. This was regulated through the ASR (Avios Shareholding Restructuring), which defined the contracts on which this relationship is based. These contracts were reviewed and updated in 2021. This management model allows customers to obtain more benefits from both airlines. IAGL also manages the loyalty programmes of Vueling and Air Lingus, also part of the IAG Group.

Avios are the currency of both frequent flyer programmes. Customers can accumulate Avios when flying with Iberia partner airlines (including **one**world partners and other companies with bilateral agreements) They can also accumulate Avios in other services in diverse sectors, such as hotel stays, rental cars, and even when they make purchases through agreements with a wide range of partners. These Avios can be redeemed in different services in Iberia, such as flights, "upgrades", ancillaries and discounts on commercial tickets. They can also be used in the associated companies of the different sectors mentioned above.

ALLIANCES

Oneworld

The **one**world alliance was created in 1999 and currently comprises Iberia, British Airways, American Airlines, Alaska Airlines, Cathay Pacific, Finnair, Japan Airlines, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, Royal Air Maroc, SriLankan Airlines, and up to 24 affiliated airlines. In 2022 the oneworld alliance initiated a procedure to incorporate Oman Air, likely to reach completion in 2024.

The oneworld alliance is designed to provide customers with a seamless travel experience of the highest quality standards, access to a worldwide network of destinations and a package of exclusive benefits and services. Through the alliance, customers have access to more choices in terms of destinations, combined itineraries and fare types, smoother transfers, greater access to airport lounges and the opportunity to earn and redeem Avios across the alliance's entire flight network. For airlines, the key benefits are access to a larger customer base and the consequent improvement in flight occupancy and revenue from this additional traffic.

The **one**world airlines operate approximately 12,000 daily flights, with connections to around 900 destinations in more than 170 countries.

Joint Business for the North Atlantic

Under the Joint Business Agreement to operate North Atlantic routes, Iberia, Aer Lingus, British Airways, American Airlines and Finnair cooperate very closely to maximise the customer value proposition and the profitability of their joint network between North America (Canada, the US and Mexico), Europe (the EU, Switzerland and Norway) and Israel, sharing revenues and certain expenses.

The joint business offers connections between more than 160 cities in Europe and more than 240 North American cities, with strategic hubs in Madrid, London and Helsinki in Europe and New York, Miami, Dallas, Chicago, Philadelphia, Charlotte, Los Angeles and Phoenix in the US. The Group and its partners strive to make travelling simple and rewarding, with unbeatable fares across the five airlines, flights at different times to meet customers' needs, smoother connections, more integrated customer service and the opportunity to earn more Avios with all five airlines.

Other affiliations

Iberia, LATAM Peru and LATAM Ecuador are part of a joint business agreement between Europe, Peru and Ecuador to operate Madrid-Lima and Madrid-Quito/Guayaquil routes. The arrangement enables the companies to plan and manage the flights operating these routes jointly, and to share the profits. Customers enjoy greater choice and flexibility with schedules and services, as well as better connections and fares at those airports to a larger number of destinations.

In October 2016, with the start of flights between Madrid and Tokyo, the subsidiary Iberia joined the joint business agreement between Japan Airlines, British Airways and Finnair for routes between Europe and Japan (Siberian Joint Business) which continues, although there were no direct flights between Madrid and Tokyo in 2023. The benefit of this participation is reciprocal, as Iberia's contribution to this market is important for the alliance, as it links Spain and Japan with a direct flight, and for Iberia it has been critical, especially with the support of Japan Airlines as a local partner in Japan. All this allows us to offer our customers a very competitive product with greater advantages and benefits, such as a greater and better offer of itineraries to make their trip using the network of all partners and in the best conditions, since they can choose between the rates offered for this itinerary by all the partners, the ones that best adapt to their needs (combinable rates).

In 2023, the subsidiary Iberia joined the world's largest joint venture, alongside Qatar Airways and British Airways, with the opening of the Madrid-Doha route, adding more frequencies to Qatar Airways' operation. Operating across Madrid, London and Doha, the three strategic partners offer unrivalled connectivity between Spain and more than 200 destinations in Asia, Australasia, the Middle East and Africa, with the most efficient connections. This joint venture opens the door to and from Asia, which will provide a wide range of options to increase and diversify connectivity and, thereby, tourism and business.

The subsidiary Iberia also has a franchise agreement with Air Nostrum, a company incorporated on 23 May 1994. It was the first private project for regional aviation in Spain. In May 1997, it became Iberia's franchise partner as Iberia Regional-Air Nostrum. It currently operates around 220 routes in Spain, Europe and North Africa. Air Nostrum is also a member of the **One**World Alliance as an Iberia affiliate.

The Group also has bilateral agreements, including code share agreements, with 30 airlines, some of which are also members of the **One**World Alliance. Through the bilateral cooperation between Iberia and British Airways, passengers benefit from greater flexibility in the form of combined fares and cross-selling through the two carriers' channels, which cover most long-haul destinations in the America, Africa, the Middle East and South Asia.

FLEET AND AIRCRAFT

Acquisition of aircraft

The year 2023 was the year of recovery of pre-pandemic fleet levels.

The Group continues to invest in new fleet, with the addition of the latest generation A350 and A320 NEO family aircraft. The new fleet is characterised by lower operating costs, such as fuel consumption and maintenance, and also superior levels of comfort for passengers due to the incorporation of new technologies in the cabin. Throughout 2024, next-generation fleet entries will continue for long-haul operations.

Financing of aircraft

The Group's existing fleet has principally been financed by a mix of finance and operating leases

Since the merger, new aircraft purchases have been negotiated on an IAG Group-wide basis by IAG with a view to maximising discounts to list prices based on the size and scale of the IAG Group, although subsequent purchases are made and financed for each airline. The Group's financial strategy for financing new aircraft will continue to be based on finance or operating leases, with possible additional sources of financing:

- Loans secured by assets of financial banking institutions
- Manufacturers' credits
- Capital markets and, potentially, the *Enhanced Equipment Trust Certificate (EETC)* market

MAIN RISKS, UNCERTAINTIES AND OUTLOOKS FOR THE GROUP

The performance of the airline industry is related to economic growth. One of the main risks for the Group is therefore linked to the consolidation of the recovery of air demand in its core markets, which is dependent on the state of the economy in the different geographical areas. In turn, this will be influenced by the performance of employment levels, consumer and business confidence, credit availability and the growth of trade. Business traffic is especially sensitive to the performance of economic conditions and is currently constrained by the inflationary environment and more restrictive travel policies.

As mentioned previously, economic growth is expected to slow down to +3% in 2024. The global economy continues its slow recovery from the blows of the pandemic, the Russian invasion of Ukraine and the cost-of-living crisis. In retrospect, resilience has been remarkable. Despite the disruption wrought by the war on energy and food markets and the unprecedented tightening of international monetary conditions to fight off a surge in inflation not seen in decades, the global economy has slowed, but not stagnated. Even so, growth is slow and uneven, with increasing global divergences. The world economy is advancing, but at a slow, leisurely pace.

Certain risks lie ahead. First, the housing crisis could worsen further in China, which is a major risk for the global economy. Secondly, commodity price volatility could intensify in a context of heightened geopolitical tensions and climate change-related shocks. And thirdly, while they have declined, headline and core inflation are still too high. Short-term inflation expectations have risen above their target level, although this trend appears to be turning around.

Given the economic challenges in store, IATA forecasts that the industry will still be generating value in 2024, with USD 25.7 trillion of net profit.

Operating margin is expected to improve +0.6 pp to 5.1%.

In 2024, the change in capacity (available seat kilometres, or ASKs) is expected to be +5% versus 2019, with year-on-year growth more pronounced in Asia due to its delayed post-pandemic return to normal.

Moreover, all markets are expected to turn a profit except for Latin America and Africa, which are likely to be close to break-even.

Future strategy

In 2023, we have seen a strong financial performance that has allowed us an early repayment of our debt guaranteed by Spain's Instituto de Crédito Oficial (ICO). These results have been possible due to a favourable macroeconomic environment and improvement of Spanish inbound tourism both in terms of number of tourists and spending.

Iberia has continued to be ahead of its competitors during 2023 in terms of capacity redeployment which, along with the supply-demand imbalance we are seeing in the industry, has been a key driver for our remarkable results.

We added four Airbus A350-900 and nine A320neo aircraft to Iberia and Iberia Express fleet, which are at the core of our transition towards a more sustainable aviation industry. We have expanded our network by opening new routes as Doha and El Cairo and increased frequencies to important destinations such as Bogotá and Lima.

As part of our commitment with developing the connectivity and competitiveness of the Madrid hub, we continue to make progress on our proposed acquisition of Air Europa. The acquisition remains subject to

securing the required approvals and is expected to take place between 18 to 24 months since our announcement of the transaction in February 2023.

In September, we lost the handling licenses at eight Spanish airports, such as Barcelona and Palma de Mallorca however, we won at other major airports such as Madrid Barajas.

Our People

In 2023 we reaffirmed our unwavering commitment to create and maintain stable and high-quality employment and to do so we improved the working conditions and salaries of our entire workforce. In Iberia we have improved the conditions of 2,500 contracts in our airport workforce.

We also improved 1,000 cabin crew contracts demonstrating our commitment to the wellbeing and professional development of our team.

In Iberia Express, we reached collective bargaining agreements with staff, pilots and cabin crew until 2025.

In addition, 164 pilots, 512 cabin crew and 222 maintenance staff joined Iberia's workforce.

Once again, this year, our employees have shown they are the strength the company has to face its challenges. Their daily work makes Iberia a referent in punctuality and is positively valued by its customers.

Our customers

Operational excellence and punctuality are key factors for our customers. Iberia and Iberia Express have been the most punctual airlines in Europe and Iberia the 5th globally in 2023, according to Cirium 2023 Report. Throughout the year, Iberia and Iberia Express have been one of the most punctual airlines in Europe and the world. Also, we have reached historical levels in both NPS and customer satisfaction by improving our engagement culture and all customer communications.

In 2023 we continued implementing our new business cabin, thanks to the arrival of four new latest-generation Airbus A350-900s, which provided not only operational improvements, but also greater comfort in all cabins, with greater privacy, spaciousness and new lighting environments. These aircraft offer state-of-the-art connectivity and in-flight entertainment so passengers can enjoy their flight experience to the fullest.

We redesigned the in-flight meals throughout our network. We renewed our offer in economy and premium economy cabins on long-haul flights by introducing a between-meals service, while business cabin now includes healthy products, such as fresh fruit, as part of the on-board meals.

All these improvements have allowed us to renew our 4 Skytrax stars this year.

Our planet

In 2023, we continued working on the development of our sustainability strategy, in order to drive forward the transition of the industry. Iberia and Repsol joined forces in March to offer the purchase of Sustainable Aviation Fuels (SAF) to our corporate clients, allowing them to decarbonise their business trips.

In September we presented All4Zero, a unique industrial innovation hub formed alongside ArcelorMittal, Holcim and Repsol, created to promote disruptive technologies around sustainable fuels. In November, Iberia Express obtained IATA's IenVA environmental certification on airline's commitment to sustainability and in December, Iberia implemented the IAGOS system on an Airbus A330-200 to obtain the composition of the atmosphere for the subsequent development of more accurate weather and climate models.

As an overall milestone, this year we reduced our CO2 emissions by 13% compared to 2019, bringing us ahead of our 2025 target.

Looking to the future

Our operational excellence, our improved revenue performance and our cost model will allow Iberia to face 2024 with optimism, even if the current macroeconomic and supply-demand imbalance tailwinds slow down.

RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

The Group has procedures and systems in place to identify and mitigate the main risks affecting its various business lines.

Risk actions extend to the Group's key management parameters and measures, such as: the income statement, gearing levels, investments and disposals. This approach allows the Group to optimise earnings and gearing and take balanced decisions in terms of risk/return offered by new investments.

The Group carries out a broad range of actions to control and manage risks, putting in place systems that allow it to identify, measure, manage and mitigate the main risks affecting its various business lines. In terms of financial risks, the Group has a management programme to control and reduce the potential impact of fluctuations in fuel prices, exchange rates and interest rates on its earnings and to maintain sufficient liquidity for its operating and cash-related requirements.

In accordance with this risk management policy, the Group arranges mainly exchange rate, interest rate and aviation fuel derivatives.

The most-used exchange rate derivatives are forwards, options and cross currency swaps. Fuel price derivatives used are mainly swaps and options. The most commonly used interest rate derivatives are interest rate swaps and interest rate options.

COMMITMENT TO SUSTAINABILITY

Iberia has been flying from Spain or more than 95 years with the same purpose: to generate prosperity by connecting people with the world. While maintaining this rationale, the airline has gradually adapted its strategy to give flying a new meaning and demonstrate that connectivity is key for society: repatriation flights, collaboration with the national transplant organisation, transporting humanitarian supplies and vaccines, supporting Spanish talent and contributing to historic cultural events are some examples of Iberia's commitment to the communities in which it operates. Contributing to environmental, social and economic sustainability represents a cross-cutting strategy for the Group and the entire IAG. The Group's sustainability strategy is built around four key pillars focused on the ecological transition of its operations through measures to enhance efficiency and decarbonise its activities, procure a more sustainable travel experience for customers, encourage the commitment to sustainability of Group employees, and ensure the future of the entire Group by supporting research and reinforcing and raising public awareness of the contribution of its activities to society as a whole.

Furthermore, mindful of its environmental impact, Iberia is committed to decarbonization and improved waste management. The decarbonization of aviation is complex but the industry has solutions that can deliver an almost immediate impact on the path to ecological transition. In addition to fleet renewal, increased efficiency in operations and use of sustainably sourced aviation fuels are other initiatives that Iberia is implementing as part of its goal of achieving net zero emissions by 2050. On the waste management side, Iberia is working with the entire industry to find the most efficient solutions to reduce, reuse and recycle waste generated on board.

In relation to its flight operations, the Group seeks to factor environmental variables into its fleet renewal processes, adopt best practices in its aircraft operations, bring its flight schedules into line with changes in demand, and allocate aircraft and optimise load factors to reduce emissions, especially the greenhouse gas emissions associated with climate change and the noise footprint. Group's activities are underpinned by measures designed to implement continuous improvement through AENOR certification: the Group's management of environmental, social and governance matters is certified by the IQNet SR10-Social Responsibility standard, and its airport division has a certified environmental management system (ISO 14001 / AENOR).

The Group also collaborates on various national and international taskforces that analyse, promote and disseminate best environmental practices in the airline industry For example, Iberia participates in the pan-European SESAR programme for the development and implementation of the Single European Sky, with a view to easing air traffic congestion and making flying more environmentally friendly In addition, Iberia collaborates closely with the scientific community through 'La Cátedra Iberia' from UPM (Politecnica University of Madrid), whose main objective is none other than to seek alternatives to effectively and efficiently decarbonise the air transport industry

Iberia's commitment in this area has led it to support best ethical practices and to participate in the following national and international initiatives:

- United Nations Global Compact
- Sustainable Development Goals (SDGs) adopted by the United Nations in 2015
- Spanish Green Growth Group
- The International Labour Organization's fundamental conventions
- Companies for a society free of gender violence of the Ministry of Health, Social Services and Equality
- Principles of Good Corporate Governance of the OECD
- Global Code of Ethics for Tourism of the World Tourism Organisation

The Annual Sustainability Report includes social projects in addition to environmental projects and indicators within the framework of Group's sustainability strategy.

Sustainable and responsible management

The implementation and maintenance of environmental management systems enables the company to build on its environmental policy and meet the management objectives it has set itself to achieve climate neutrality by 2050. This past year we have implemented the IEnvA environmental management system, equivalent to the ISO 14001 standard, across all of the company's businesses (airline, MRO and airports). The system is developed and audited by IATA with a focus on airlines.

Other environmental management systems in place at Iberia are described below.

In 2023 the Group's CO2 emissions monitoring and information system for flights affected by emission schemes (market-based measures) and the company's ground operations (industrial zones) were audited by SGS and TÜV SÜD, respectively, in accordance with the European emissions trading system (EU ETS) as well as the Swiss (CH ETS) and British (UK ETS) schemes applicable to flight emissions. In the area of international flights, Group's CO2 emissions monitoring and information system for international flights was also verified externally by SGS and reported in accordance with the international emissions scheme of the International Civil Aviation Organisation (ICAO), CORSIA.

In 2023 Group's fleet also complied with international environmental standards set by ICAO on noise emissions and air quality below an altitude of 900 metres in the vicinity of airports.

The integrated quality and environmental system of Group's airport services is AENOR certified according to the ISO 9001 and ISO 14001 standards. This is unique in that it encompasses in a single integrated system the operations of over 29 stations throughout the national airport network. These certificates require enormous human and material efforts in the following areas: environmental analysis, proper documentation, training, awareness raising and preparation of facilities, and internal and external audits, among other aspects.

In 2022 the Group also certified its processes under the international management and improvement standard IQNet SR10, which certifies that the Group has implemented the best international practices and recommendations regarding social responsibility. This milestone represents a substantial consolidation of Group's sustainability strategy, positioning it at the top of the international league as the first to achieve this certification. In 2023, the company's sustainability strategy will be certified by AENOR for its contribution to the Sustainable Development Goals (SDGs).

The Group works jointly with its main service providers to reduce environmental impacts in the supply chain. All suppliers are included in the IAG Group responsible sourcing strategy, led by IAG GBS. Through this strategy, the Group evaluates the real and potential environmental aspects of suppliers and establishes controls to mitigate them. IAG also creates collaborative environments to strengthen its sustainability strategy. In addition, every year Iberia completes the EcoVadis Questionnaire, having scored 65, putting the Company in the 86th percentile for environmental performance.

The Annual Sustainability Report details the results of Group's sustainable policies and corporate responsibility of Iberia.

TECHNOLOGY INFORMATION

The Group makes extensive use of IT systems and works together with third-party providers of information technology and similar services, and also uses some internally developed software. Group's systems are mainly used for its business and the management of revenues and sales activities.

The IAG Group has launched the GBS Transformation Programme for finance, decision support and IT, with the ambitious goal of providing world class services to the operating companies in a single, efficient process. So far, a significant number of transactional financial processes have been consolidated through an outsourcing business partner, which has enabled Iberia to manage these services in a more cost-effective manner. In addition, it has moved current local processes to an integrated GBS approach with standardised information.

The next phase for Group is to analyse the technology used and find ways to further integrate the Group's systems and processes.

RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

Iberia continues to invest in R&D&I as one of its core strategic values. Highlights include projects with a strong technological component that help to improve our business. These include initiatives aimed at

upgrading the passenger experience through innovative solutions related to digitalisation, virtual reality and artificial intelligence.

From the point of view of tax incentives for R&D&I activities, in 2023 the company claimed a tax deduction of EUR 3.5 million for corporate income tax to be applied in the 2022 tax year.

In terms of public funding for R&D&I activities, the Spanish centre for technological and industrial development (CDTI), which is part of the Ministry of Science and Innovation, approved the following projects:

- **TOLERANCIAS**. Design of calibration testing systems for the new latest-generation GTF engines.

- **IRIS-TAM**. Digital management system for all processes and activities that occur from the moment a plane lands at an airport until it takes off again (turnaround).

Energy efficiency

The company is committed to caring for the environment, and therefore undertakes initiatives to reduce its environmental footprint. As part of our projects for the electrification of airport systems and equipment, together with vehicles and the installation of the necessary infrastructure for recharging them, we secured funding for the programmes from the Instituto para la Diversificación y Ahorro de la Energía (IDAE) of the Ministry of Ecological Transition:

- Moves Flotas II: Electric vehicle fleets.
- Moves Singular: Airport ground equipment.

The two projects amount to a combined investment of EUR 40 million, with grant funding of EUR 15 million having been secured.

Similarly, the project Moves Flotas III: Electric Vehicles Fleets with a budget of EUR 5.7 million, is currently being evaluated by the same organisation, and is eligible for a subsidy of EUR 0.5 million.

Strategic investments

In addition, the Company is seeking the best possible funding for its strategic investments, such as the modernisation of IBERIA's MRO facilities to create a new production line for the maintenance and repair of the new-generation GTF engines. It will also improve the current engine repair lines at Iberia.

These investments are backed by several public bodies such as CDTI (Centro para el Desarrollo Tecnológico y la Innovación), which belongs to the Ministry of Science and Innovation, and by SEPI Desarrollo Empresarial, S.A., S.M.E. (SEPIDES), which is owned by the Sociedad de Participaciones Industriales (SEPI), a public institution under the Ministry of Finance, and the IDAE (Instituto para la Diversificación y Ahorro de la Energía) under the Ministry of Ecological Transition and Demographic Challenge.

ACQUISITION OF TREASURY SHARES

No operations.

COMPLIANCE WITH ARTICLE 262.1 OF THE SPANISH COMPANIES LAW FOR THE AVERAGE PAYMENT PERIOD FOR SUPPLIERS

As described in note 10.1 to the consolidated financial statements, the Group's average payment period to suppliers in 2023 was 24 days.

EXEMPTION FROM THE OBLIGATION TO SUBMIT A STATEMENT OR REPORT OF NON-FINANCIAL INFORMATION

As set out in the new Law 11/2018, of 28 December 2018, which amends the Commercial Code, the revised text of the Spanish Companies Law approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Audit , in matters of non-financial information and diversity, the IB Opco Holding Group is exempt from presenting a statement or report on non-financial information as it belongs to the IAG Group, which discloses the information required in its statement of non-financial information, which will be

available at the Commercial Registry, on the website of the National Securities Market Commission and on the Group's website.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Airport handling services

In February 2024, the Board of Directors of the subsidiary Iberia Líneas Aéreas de España S.A. Operadora approved the plan to spin off the activity of ground handling services to aircraft, passengers and cargo at airports (handling) to a new company. This segregation will take effect for accounting purposes as from 1 January 2024, the date on which the assets and liabilities of the segregated branch of activity will be contributed.

Revocation of Royal Decree-Law 3/2016 in Spain

On 18 January 2024 the *Tribunal Constitucional* (Constitutional Court) in Spain, issued a ruling stating that a number of amendments to corporate income tax arising from the introduction of Royal Decree-Law 3/2016 were unconstitutional and accordingly revoked. The revocation of Royal Decree-Law 3/2016 impacts the Tax Group operations as follows:

- Limitation of the use of historic tax losses

Prior to the introduction of Royal Decree-Law 3/2016, the Spanish subsidiaries of the Group were permitted to offset up to 70 per cent of their taxable profit with historical accumulated tax losses (to the extent there were sufficient tax losses to do so). With the introduction of the Royal Decree-Law 3/2016, this limitation of tax losses applied to taxable profit was reduced to 25 per cent.

- Tax deductibility of impairments of investment in subsidiary undertakings

Where companies had impaired investments in subsidiaries prior to 2013 and deducted those impairments for tax purposes, Royal Decree-Law 3/2016 retrospectively required companies to reverse those impairment charges, for tax purposes, with the effect recognised equally over the five years commencing 1 January 2016.

In accordance with IFRS, the Tax Group has considered the ruling issued by the Tribunal Constitucional as a post closing event and, therefore, it has not reflected the impact of the changes derived from such ruling in the financial statements. As at the date of these financial statements, there remains uncertainty as to how the revocation of Royal Decree-Law 3/2016 will be applied and accordingly the methodology by which the Group, with its external tax advisors, quantifies the impacts of this revocation. Had the Group reflected the impact of ruling into the financial statements as of 31 December 2023, the impact would have been as follows:

- Current tax impact of historic loss limitation and deductibility of historic impairments of investments for fiscal years 2016 through 2022

The Tax Group's tax losses in Spain were limited to 25 per cent loss offset. In addition, prior to 2013, Iberia LAE impaired its subsidiary undertakings in Venezuela. Had the loss limitation been 70 per cent and the historic impairment been tax deductible, the taxable profits, and as a result the tax paid to the Spanish tax authorities, would have been lower. The Tax Group expects to record an associated current tax credit up to approximately €57 million, with a corresponding receivable from the Spanish tax authorities.

- Current tax impact of loss limitation to fiscal year 2023

The Tax Group measures current tax expense based on the regulations in effect as of the date when corporate income taxes are accrued. With the change in loss limitation, the Tax Group anticipates the ability to offset up to 70 per cent of their Spanish taxable profits with prior-year losses for their 2023 Spanish taxes. If this limit had been applied at 31 December 2023, the Tax Group foresees a reduction of the 2023 current tax expense of approximately €77 million.

- Deferred tax impact of future loss limitation

The Tax Group measures deferred tax assets at the tax rates that are expected to apply when the related asset is realised. As detailed in note 2, the Tax Group uses future cash flow projections over periods of up to ten years to determine the recoverability of deferred tax assets. With the change in loss limitation, the Tax Group expects to be able to utilise more of its historical tax losses within this ten-year period. Had the Royal Decree-Law 3/2016 not applied at 31 December 2023, the Tax Group expects that the deferred tax assets associated with tax losses and tax credits would have decreased by approximately €20 million, with the corresponding deferred tax expense in the income statement.

IB Opco Holding, S.L. and subsidiaries

Consolidated financial statements and management report for 2023

D. FERNANDO CANDELA PÉREZ

D. SANTIAGO BAU ARRECHEA

D. RAFAEL DÍAZ YEREGUI

Dª. Mª JESÚS LÓPEZ SOLÁS

D. RAFAEL JIMÉNEZ HOYOS

D. JUAN CIERCO JIMÉNEZ DE PARGA

D. ELENA BAILLO DE SARO

Dª. CAROLINA MARTINOLI CÓRDOVA

D. RICARDO GOIZUETA SAGUES

Madrid, February 27, 2024