Registered number: 2260073

Avios Group (AGL) Limited

(trading as IAG Loyalty)

Annual report and financial statements for the year ended 31 December 2020

Avios Group (AGL) Limited
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Avios Group (AGL) Limited
Company information

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Avios Group (AGL) Limited
Strategic report

Objective

The objective for Avios Group (AGL) Limited (the "Company" or "AGL") is to be the loyalty partner of choice in travel. The Company, operating as IAG Loyalty, is International Consolidated Airlines Group S.A.'s ("IAG") centre of excellence for loyalty. The IAG Loyalty brand was launched to reflect the more comprehensive loyalty services that are provided to the airlines and commercial partners, beyond the management of the Avios currency.

IAG Loyalty offers a wide range of loyalty services: these include access to the Avios currency, operating customer programmes and providing loyalty management tools, technology solutions and data and customer insights. Customers remain at the heart of IAG Loyalty. Through loyalty services, the Company offers commercial and airline partners ways to attract, acquire and retain customers, through using the Avios rewards currency and other data services.

Principal activity

During the year the principal activity of the Company continued to be the management of travel and leisure reward programmes. The Company is ultimately owned by IAG.

The Company manages the Avios reward currency across the different loyalty programmes within IAG, including the British Airways' Executive Club, Iberia Plus, Aer Lingus' AerClub and the Vueling Club programme. The Company's loyalty schemes allow members to collect Avios from participating partner companies for future redemption against travel and leisure products.

Business review

The Company achieved revenue for the year of £289,837,000 (2019: £811,425,000) and a profit before taxation of £60,173,000 (2019: £179,993,000).

The levels of Avios issued and redeemed significantly reduced during 2020 due to the impact of COVID-19 restricting travel and the ability to earn and redeem. This has had a negative impact on financial performance.

Management actions have been effective to reduce overheads by over 25 per cent through recruitment freezes, senior leader salary reductions and closure of the Central London office space. Capital expenditure reduced by 50 per cent through programme deferrals. The workforce adapted to new ways of working, leveraging on the progress made as a business with collaborative tools well before the pandemic arrived.

The Company successfully converted the loyalty contact centre colleagues to homeworking by mid-March 2020, enabling the business to continue to serve customers through the prolonged period of travel uncertainty. The completion of a restructure has ensured that the organisation is fit for the challenge ahead, continuing the role of driving revenue and cash into the Group and enhancing the customer proposition.

Despite the effects of the pandemic, IAG Loyalty's business model continued to generate significant levels of cash, in particular the renegotiation of key finance partner contracts. The renewal of the longstanding relationship with American Express generated a £750 million cash injection in the third quarter of 2020, highlighting significant confidence and value in the loyalty business model.

New products have been rolled out to customers. The Company witnessed strong redemption demand from customers where pockets of demand have arisen, particularly in the UK during the summer when travel corridors opened. The lowest cash redemption options are proving exceptionally popular with customers and the concept is now available on British Airways long-haul flights.

During the period, management invested in the development of employee engagement products to support the wellbeing and engagement of the workforce during the pandemic, such as 'Get Active with Avios'. The success of the initiative led to exploring new opportunities for these products with partners. The investment in the development of our Global Loyalty Platform (GLP) slowed during the pandemic and Iberia and British Airways are now expected to migrate during 2021. Capital investment plans have reformed and will continue to increase the investment in platform capability as the air issuance side of the business recovers.

Key Performance Indicators (KPIs)

Robust processes are in place for the Company to continually identify operational and financial risks and opportunities and these are built into the monthly management accounts and forecasting processes, together with a detailed review of quantitative and qualitative performance indicators, which include financial and non-financial measures:

- ***Avios issued and redeemed: volume***
  The Company's performance is driven by the volume of Avios issued and redeemed. In 2020 51 billion Avios were issued (2019: 119 billion) and 27 billion were redeemed (2019: 94 billion).

- ***Non-Air Partners***
  The Company has clear targets to maximise engagement from commercial partners, aiming to recruit and manage a wide mix of committed Avios issuing partners. These partners provide members with compelling incentives to collect via their everyday expenditure, so that partners grow member value, commitment and advocacy. The total number of Avios issued to non-air partners for 2020 was 36 billion (2019: 58 billion).

- ***Active membership***
  Increasing the number of customers earning Avios and enhancing the engagement of the existing base are an important element to achieving the Company's vision. Active membership, measured as customers who have earned or redeemed Avios in the last 12 months, has declined to 5.5 million (2019: 8.7 million).

The pandemic has caused a decline across all of these KPIs which is aligned to management expectations. When travel restrictions are lifted the demand from customers will increase and these KPIs will begin to recover. Future growth is also expected from a focus on deeper customer relationships with new and existing partners and through enhanced data usage.

Principal risks and uncertainties

The Company is subject to the operational and security risks affecting the whole travel industry as well as the impacts of any government restrictions, fiscal policy and the economic cycle affecting consumer spend and confidence.

- ***Avios loyalty competitive landscape***
  Loyalty programmes and rewards continue to be an important differentiator and key tool for customer retention across target customer bases. If a new or existing scheme introduces a currency that can be used for exchange with our partners, the currency might have greater appeal in the market, eroding the price per Avios. The Company maintains a position of strength by owning and managing a single currency that is specific to loyalty and travel products which can be redeemed for a reward flight inventory or discounts with British Airways, Iberia, Aer Lingus and Vueling. The Company strives to continuously improve the proposition and its relevance in the market and to become leaders in loyalty for the IAG Group.

- ***Critical third parties and partners***
  The Company is dependent on critical third parties and partnerships to enhance the attractiveness of Avios to our customers. In this competitive environment, it is essential that Avios builds and maintains partnerships, to offer a range of opportunities to earn and redeem Avios. The Company pro-actively works with its partners to ensure that any customer impacts around change are carefully managed.

- ***Cyber attack and data security***
  The Company could face financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, foreign governments or hacktivists. If the Company does not adequately protect its customer and employee data, it could breach regulation and face penalties and loss of customer trust. Changes in working practices and environments for the Company's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment. The Company follows the IAG Group Board approved Cyber Strategy that drives investment and operational planning. There is oversight of critical systems and suppliers to ensure that our data is secure, we adhere to regulations and we understand the data that we hold. The Directors use a cyber risk management framework to review the risks across the Company. The Company's Cyber Governance Board assesses the portfolio of cyber projects monthly. New working practices have been reviewed to ensure the integrity of the cyber and data security environment and controls with additional oversight measures being implemented as required. The fast-moving nature of this risk means that the Company will always retain a level of vulnerability.

- ***Event causing significant network disruption to aviation***
  An event causing significant network disruption of IAG airlines' operations may result in lost revenue and additional costs if customers or employees are unable to travel. The pandemic is likely to continue to have an adverse effect on airlines, as would any future pandemic outbreak or other material event that results in the imposition of governments' restrictions on travel and the movement of their populations. Many events remain outside of the Company's control such as terrorism, adverse weather or pandemics and the Company has business continuity plans to mitigate this risk to the extent feasible with focus on resilience, recovery and colleague safety.

- ***Foreign currency exchange rates***
  The Company is exposed to currency risk on revenue and purchases in currencies other than pounds sterling. The Company works closely with IAG Treasury who seek to reduce foreign currency exposures to ensure that IAG optimises hedging at a Company and Group level for currency positions.

- ***IT systems and IT infrastructure***
  The failure of a critical system may cause significant disruption to the Company and lost revenue. Obsolescence within the IAG Tech (IAG Group's centre of excellence for technology) landscape could result in service outages or delays in implementation of the Company's transformation, particularly if the Company needs to defer investment to preserve cash. IAG Tech works with the Company to deliver digital and IT change initiatives to enhance security and stability. The Company's IT Board reviews delivery timelines. Plans to reinstate the developed for migrations on critical IT infrastructure. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

- ***People***
  If our people are not engaged, they may not display the required leadership behaviours. The Company could fail to attract, motivate, retain or develop our people and digital and agile skillsets may not be in place to execute the required transformation and drive the business forward. The Company recognises the critical role that its employees play in delivering transformation and the Company is focusing on improving organisational health and employee engagement.

- ***Political and economic conditions***
  The Avios loyalty scheme is sensitive to changes in political and economic conditions that impact the travel sector and consumer confidence. Political decisions to respond to the pandemic may impact economies across all markets and cause longer-term economic stress. Wider macro-economic trends are monitored and considered within the Company's strategic business plan.

- ***Sustainable aviation***
  Increasing global concern about climate change and the impact of carbon could affect IAG airlines' performance and the attractiveness of Avios as a currency. IAG's climate change strategy has targets to meet net zero carbon emissions by 2050. Environmental considerations are integrated into the Company's business strategy. Management incentives are also aligned to IAG's targets.

Future developments

Looking ahead we will accelerate our transition into a data-led organisation, applying our agile ways of working to develop new products for customers and airlines. We have recently restructured our management team, with the creation of a new position of Chief Data Officer and the appointment of a new Chief People Officer with experience of digital transformations in the retail sector.

We have a number of new high-profile partnerships launching in 2021. The recently announced UK partnership with Nectar will give us a greater level of traction with customers on their grocery spend, supported by the provision of in-store brand presence. We are also due to release new partnerships and technology for customers' banking requirements, both at home and abroad.

Section 172 statement

During 2020, the Board and the Leadership Team acted in a way, they consider in good faith, would most likely promote the success of the Company for the benefit of its members as a whole based on information available to them at the time. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Loyalty scheme members	
Why it is important to engage members and what matters to them?	The Company provides loyalty schemes to members and they value the variety of ways to collect and redeem Avios. Members continue to value a seamless and unique customer experience throughout their collection and redemption journeys.
How management and/or Directors engaged and what was the impact of the engagement?	Through our loyalty schemes we develop strong, long term relationships with our customers. This helps us to deliver an experience tailored to individual member's needs and engage in a way that suits them. The Company's leadership team receive regular updates on member engagement through results from customer feedback surveys and complaints data. Improving the members collection and redemption journey through investment in IT technology continues to be a major focus. The initial launch of the GLP in the prior year was a key milestone reached to support the improvement of the members experience. Although COVID-19 has paused the further role out, management are fully engaged to complete the delivery of GLP in 2021. During the year new collection partners were launched and a variety of new redemption options were made available including the popular low cash redemption option now available on some long-haul flights.

Collection partners	
Why it is important to engage collection partners and what matters to them?	The Company's relationships with collection partners are essential to the IAG Loyalty business model to give members a variety of options to collect Avios and engage in the programmes. Partners value the relationship with the IAG brands which enables them to reward their own customers. Partners within the IAG Group value the loyalty rewards for their customers to collect and then redeem with the Group's airlines.
How management and/or Directors engaged and what was the impact of the engagement?	The Company is structured in business sectors and for issuance this includes Financial Services, Travel, Retail and Air. The Company's leadership team receives regular updates on the performance in each Partner sector. During the year, new collection partnerships were signed and some were launched across the sectors. These included Barclays, Santander, Mastercard and Spectator.
Employees	
Why it is important to engage employees and what matters to them?	The Company's long-term success is predicated on the commitment of the workforce to the Company's purpose and demonstrating AGL's values on a daily basis. To maintain a competitive advantage and meet the growing demands of the commercial loyalty environment, the workforce needs to be adaptive and have a constantly evolving skill base. Engagement with the workforce is essential to ensure AGL fosters an environment that the workforce is motivated to work in and that best supports their wellbeing. Colleagues are concerned with opportunities for personal development and career progression, a culture of inclusion and diversity, compensation and benefits, and the ability to make a difference within AGL.
How management and/or Directors engaged and what was the impact of the engagement?	Colleagues are provided information that is of concern to them, including business and financial performance updates which are provided in person by a member of the Leadership Team on a monthly basis and on the Company intranet and other communication streams. Colleagues are encouraged to share their views on all matters with senior management. The Company places significant emphasis on open channels of communication and two-way dialogue between colleagues and management. The "OpenBlend" tool supports the Company by upskilling managers in coaching capability. As a result of the pandemic the workforce have adapted to a working from home culture. Employees were invited to take part in a 'Future Ways of Working' questionnaire to ensure staff views were part of the solution to post pandemic ways of working. Management used Microsoft Teams as a key tool for communication across the business to generate open channel discussions including inclusion and diversity, Black History month and mental wellbeing.

Parent Company	
Why it is important to engage the Parent Company and what matters to them?	For IAG, return on invested capital, operating margins and free cash generated are important as value is created by generating strong and sustainable results that translate into dividends and share price appreciation. In addition to these financial measures, operating within the IAG Group's policies and maintaining and enhancing brand and reputation are also important.
How management and/or Directors engaged and what was the impact of the engagement?	The Chief Executive Officer (CEO) is a member of the IAG Management Committee and attends weekly meetings for regular engagement with IAG management as well as the monthly IAG Management Committee meetings where the Group's operational and financial performance, strategic plans, risks and opportunities are reviewed. Challenges are raised and addressed by management ahead of approval. The Company's leadership team provides to IAG regular operational and financial performance communications such as quarterly trading results. The Chief Financial Officer (CFO) attends monthly IAG operating company CFO meetings with the IAG Group CFO and CFOs from the other operating companies within the IAG Group. The pandemic has increased the visibility of cash generation which has meant additional regular cash forecasts and aged debt reporting has been required to IAG Group.

Principal decisions

Principal decisions are those that are material to the Company and significant to any of the key stakeholder groups. In making the principal decisions outlined in the section 172 statement above, the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company. Principal decisions taken during the year include:

Partnerships

During 2020, the Company entered into new partnerships negotiations and extended existing partnership agreements as mentioned within the Business Review section above. This included:

- The existing partnership with American Express was renewed and generated an upfront cash injection of £750 million.
- The existing JPMorgan Chase contract was renewed during 2019.
- A new contract with Barclays was signed in 2019. This deal includes Avios earning on private banking, mortgages, loans and other key financial products.
- A new relationship with Santander in Spain was launched in 2020 allowing members to earn Avios through their salary, bills and credit card use, as well as accessing unique benefits with Iberia.
- The Nectar contract was agreed in the year and launched in January 2021 replacing the previous supermarket relationship with Tesco.

Product investment

During 2020, the Company slowed the investment in new and existing products in order to preserve cash in response to the impact of the pandemic. This meant a delay in the next phase of GLP, as described in the Business Review section above.

Investment in the workforce

During 2020, the Company continued to invest in its people despite the pressures from the pandemic. A further investment in technology to enable the workforce to work from home resulted in only a small proportion of employees being furloughed. The decision was also made to terminate the current London office lease agreement with the view to open a London base in the future.

Loan to operating company within the Group

On 28 September 2020, the Company issued a loan of £250,000,000 to British Airways plc, which was repaid in full on 11 December 2020.

On behalf of the Board of Directors

Adam Daniels (Chief Executive Officer)

30 April 2021

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

Directors

The Directors who held office during the year and through to the date of this report and who have been appointed or resigned thereafter are listed below:

Darryl Cartmell	Appointed 30 July 2020
Andrew Crawley	Resigned 1 March 2020
Adam Daniels (Chairman and CEO)	Appointed 1 March 2020
Elizabeth Haun	
Christopher Haynes	Resigned 3 January 2021
Simon Hickey	
Carolina Martinoli	Resigned 28 April 2021
Jeremy Moreton	Appointed 3 January 2021
Rebecca Napier	
Maria Jesus Lopez Solas	
Thomas Stevens	Appointed 28 April 2021
José Antonio Barrionuevo Urgel	

Results and dividends

The statement of comprehensive income, set out on page 17 shows a profit after taxation for the year of £45,096,000 (2019: £145,216,000). The Company paid no dividends during the year (2019: Nil).

Going concern

The Company had cash and cash equivalents of £1,125 million at 31 December 2020 and £1,106 million at 31 March 2021, of which approximately £130 million is a minimum cash balance required to be maintained by certain partner agreements. In light of the COVID-19 pandemic, the Directors have prepared updated cash flow forecasts for the period to 30 June 2022.

Based on these forecasts the Directors have a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2020.

However, the Company's operations and financial position are significantly affected by the level of operating activity of British Airways, which is part of International Consolidated Airlines Group S.A. (the Group). The Directors note the publication on 2 March 2021 of the Group's consolidated financial statements for the year ended 31 December 2020 in which a material uncertainty in relation to going concern was disclosed.

As a consequence, the Directors of the Company consider this also represents a material uncertainty for the Company, in the event that short term funding to its parent companies was not able to be repaid and the Company could not settle its liabilities and this could cast significant doubt upon the Company's ability to continue as a going concern. Refer to note 2.1 for further information.

Corporate responsibility

The Company's corporate responsibility programmes are aligned with those of IAG and its other operating companies. The programmes support employees, communities, projects, charities and individuals in the areas they work in and places they fly to. Examples of this include employee wellbeing, which continues to be a focus with Avios providing advice and services to promote a healthy workplace and work-life balance. Employees are also encouraged to donate to local communities by using their two days of volunteering leave. The Company donated 41 working hours in 2020.

Employee development

The motivation and commitment of the Company's employees are major contributors to the Company's long-term prospects. Internal communications systematically provide employees with information on matters of concern to them. The Company seeks the ongoing involvement of staff through its staff consultation forum, Spotlight, and holds regular 'virtual meet up' briefings and senior leader forums. The Company is committed to employees' wellbeing, development and acceleration of their performance. To enable better conversations to take place between managers and their people, the Company use an online coaching tool OpenBlend which continues to help facilitate effective conversations focusing on key drivers which are important to our talent both inside and outside of work.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where such persons can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Foreign branches

The Company has three non-UK branches (2019: three branches).

Political donations

The Company made no political contributions during the year (2019: £Nil).

Financial instruments

The Company finances its activities with a combination of cash and short-term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. Financial instruments give rise to credit and liquidity risks which are not deemed to be principal risks to the business. Any foreign currency risk is managed by the Company and the wider group as part of the IAG risk management programme; full details of which are provided in the consolidated financial statements of IAG that can be found on the following website: www.iairgroup.com

Directors' and officers' liability insurance

The ultimate parent undertaking of the Company, IAG, purchases insurance against directors' and officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and officers of its subsidiary undertakings.

Auditor

In accordance with Section 485 of the Companies Act 2006, resolutions concerning the appointment of the auditor, KPMG LLP and authorising the Directors to set their remuneration will be proposed at the next Annual General Meeting.

Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and

- each Director has taken all steps a Director might reasonably be expected to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

On Behalf of the Board of Directors

Darryl Cartmell (Chief Finance Officer)

30 April 2021

Avios Group (AGL) Limited
Statement of directors' responsibilities

The Directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Avios Group (AGL) Limited

Opinion

We have audited the financial statements of Avios Group (AGL) Limited for the year ended 31 December 2020 which comprise the statement of other comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 25, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material uncertainty in respect of going concern

We draw attention to note 2.1 of the financial statements, which describes that the Company's financial position is significantly affected by the level of operating activity of British Airways, which is part of International Consolidated Airlines Group S.A. (the Group). The Group has disclosed it may require additional funds to those contractually committed should the impact of COVID-19 be more severe than the Group Directors' expectations. As set out in note 2.1, this condition indicates that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice) and the relevant tax compliance regulations, principally relating to those issued by HMRC. In addition, we concluded that there are certain significant laws and regulations which have an effect on the determination of the amounts and disclosures in the financial statements being the General Data Protection Regulation and those laws and regulations relating health and safety and employee matters.

- We understood how the Company is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and internal audit. We corroborated our enquiries through our review of board minutes and by understanding the entity level controls implemented by those charged with governance.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered where the significant estimates and judgements are in the financial statements. We assessed the programmes and controls that the Company has established to address the risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: enquiries of management, legal counsel and internal audit; and journal entry testing with a focus on manual journals or unusual transactions based on our understanding of the business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

J I Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

30 April 2021

Avios Group (AGL) Limited
Statement of comprehensive income for the year ended 31 December 2020

	Note	**2020** **£'000**	2019 £'000
Revenue	3	**289,837**	811,425
Cost of sales		**(169,030)**	(573,846)
Gross profit		**120,807**	237,579
Administrative expenses		**(53,883)**	(61,365)
Operating profit	4	**66,924**	176,214
Interest receivable and similar income	9	**6,608**	3,925
Interest payable	10	**(13,359)**	(146)
Profit on ordinary activities before taxation		**60,173**	179,993
Tax	11	**(15,077)**	(34,777)
Profit for the year		**45,096**	145,216
Other comprehensive income			
Other comprehensive income which may be reclassified subsequently to net profit			
Exchange differences on translation of foreign operations		**2,178**	(1,103)
Total comprehensive income for the year		**47,274**	144,113

The above results are all in respect of continuing operations.

Avios Group (AGL) Limited **Registered number: 2260073**
Balance sheet as at 31 December 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	12	**30,065**	28,145
Tangible assets	13	**3,659**	4,151
Investments	16	**1,627**	1,627
Total fixed assets		**35,351**	33,923
Current assets			
Debtors: *amounts falling due within one year*	17	**1,417,240**	1,231,536
Debtors: amounts falling due after one year	17	**-**	185,000
Cash and cash equivalents	18	**1,125,257**	262,879
Total current assets		**2,542,497**	1,679,415
Creditors: amounts falling due within one year	19	**(2,062,571)**	(1,678,170)
Net current assets		**479,926**	1,245
Creditors: amounts falling due after one year	20	**(436,178)**	(3,223)
Total assets less current liabilities		**79,099**	31,945
Provisions for liabilities and charges	21	**(2,215)**	(2,314)
Net assets		**76,884**	29,631
Capital and reserves			
Called up share capital	22	**1,904,100**	1,904,100
Profit and loss account		**66,985**	21,910
Currency translation reserve		**(797)**	(2,975)
Capital reserve		**(1,893,404)**	(1,893,404)
Total equity		**76,884**	29,631

The financial statements on pages 17 to 40 were approved by the Board of Directors and signed on its behalf by:

Darryl Cartmell (Chief Finance Officer)

30 April 2021

Avios Group (AGL) Limited
Statement of changes in equity as at 31 December 2020

	Called up share capital £'000	Profit and loss account £'000	Currency translation reserve £'000	Capital reserve £'000	Total equity £'000
As at 1 January 2019	1,904,100	(123,283)	(1,872)	(1,893,404)	(114,459)
Profit for the year	-	145,216	-	-	145,216
Other comprehensive loss	-	-	(1,103)	-	(1,103)
Total comprehensive income	-	145,216	(1,103)	-	144,113
Employee share schemes	-	(23)	-	-	(23)
As at 1 January 2020	1,904,100	21,910	(2,975)	(1,893,404)	29,631
Profit for the year	-	45,096	-	-	45,096
Other comprehensive income	-	-	2,178	-	2,178
Total comprehensive income	-	45,096	2,178	-	47,274
Employee share schemes	-	(21)	-	-	(21)
As at 31 December 2020	**1,904,100**	**66,985**	**(797)**	**(1,893,404)**	**76,884**

The currency translation reserve records exchange differences on the translation of the assets and liabilities of foreign operations into the Company's presentational currency of sterling.

The capital reserve occurred as a result of a business combination in 2015. The Avios Shareholder Restructure transferred certain parts of the British Airways' Executive Club and Iberia Plus loyalty schemes to the Company in exchange for shares issued to British Airways and Iberia with a governance structure headed by IAG.

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Avios Group (AGL) Limited for the year ended 31 December 2020 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Darryl Cartmell on 30 April 2021.

Avios Group (AGL) Limited is incorporated and domiciled in England and Wales.

The Company has taken the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements as it was a wholly owned subsidiary of International Consolidated Airlines Group S.A. ("IAG") for the year ended 31 December 2020. The consolidated results of IAG can be found on the website www.iagshares.com.

2. Accounting policies

2.1 Basis of preparation

These financial statements were prepared using the historical cost convention in accordance with FRS 101, *Reduced Disclosure Framework* and in accordance with the Companies Act 2006.

The Company's financial statements are presented in pounds sterling, the functional currency, and all values are rounded to the nearest thousand pounds (£'000), except where indicated otherwise.

As allowed under paragraphs 8 to 9 of FRS 101 the Company has applied the following disclosure exemptions:

- The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements;*
- The requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*;
- The requirements of IAS 7 *Statement of Cash Flows*;
- The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;*
- The requirements of paragraph 17 and 18A of IAS 24 *Related Party Disclosures*;
- The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- The requirements of paragraph 45(b) and 46-52 of IFRS 2 *Share based payments*; and
- The requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*; and
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers.*

Going concern
The Company had cash and cash equivalents of £1,125 million at 31 December 2020 and £1,106 million at 31 March 2021, of which approximately £130 million is a minimum cash balance required to be maintained by certain partner agreements. In light of the COVID-19 pandemic, the Directors have prepared updated cash flow forecasts for the period to 30 June 2022.

2.1 Basis of preparation (continued)

Based on these forecasts the Directors have a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2020.

However, the Company's operations and financial position are significantly affected by the level of operating activity of British Airways, which is part of International Consolidated Airlines Group S.A. (the Group). The Directors note the publication on 2 March 2021 of the Group's consolidated financial statements for the year ended 31 December 2020 in which a material uncertainty in relation to going concern was disclosed.

As disclosed in those consolidated financial statements, given the economic uncertainty of the COVID- 19 pandemic, the Group has modelled the impact of mitigating actions to offset further deteriorations in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience.

Furthermore, to add resilience to the liquidity position of the Group, including for the period beyond the next 12 months, the Directors of the Group are actively pursuing a range of financing options, including securing additional long term financial facilities.

The Directors of the Group have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence adopted the going concern basis in preparing the consolidated financial statements.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Group, therefore, is not able to provide certainty that there could not be a more severe downside scenario than those it has considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario were to occur, the Group will need to secure sufficient additional funding. As set out above, sources of additional funding are expected to include the renegotiation of existing financing arrangements and securing additional long term financial facilities. The Group may also require the Company to provide short term funding to support its parent companies, British Airways and Iberia. However, the Group's ability to obtain this additional funding in the event of a more severe downside scenario represents a material uncertainty that could cast significant doubt upon the Group's ability to continue as a going concern.

As a consequence, the Directors of the Company consider this also represents a material uncertainty for the Company, in the event that short term funding to its parent companies was not able to be repaid and the Company could not settle its liabilities and this could cast significant doubt upon the Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

2.2 Summary of significant accounting policies

The principal accounting policies adopted by the Company are set out below:

Revenue
Revenue associated with performance obligations arising on the sale of Avios, includes revenue allocated to brand and marketing services. Revenue allocated to Avios, is determined based on the relative stand-alone selling price of each performance obligation.

The primary sources of revenue are:

- Revenue related to redemptions in the year – deferred on issuance and recognised on redemption;
- Brand and marketing services – recognised as the Avios are issued; and
- Management fees from Group companies - recognised on a straight-line basis for the period to which the fees relate.

The Company considers whether it is an agent or a principal in relation to the services provided by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. Where the Company acts as principal, revenue is recognised based on the stand-alone selling price of the Avios redeemed. When the Company acts as an agent, revenue is recognised net of the related costs, as the Company is considered to be an agent in these redemption transactions.

Revenue is recognised when the service or supply is provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Intangible assets - Software
Intangible assets are held at cost and are amortised on a straight-line basis over their economic life, not exceeding five years with certain specific software developments amortised over a period of up to 10 years. The amortisation period and method are reviewed at the end of each financial period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is de-recognised. The amortisation costs are charged to administrative expenses in the statement of comprehensive income.

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the project and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit not exceeding five years on a straight-line basis. During the period of development, the asset is tested for impairment annually.

2.2 Summary of significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are held at cost. The Company has a policy of not revaluing tangible fixed assets. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of up to ten years for I.T. infrastructure and equipment and over the remaining period of the lease for leasehold improvements.

The carrying value is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of tangible fixed assets.

A tangible fixed asset is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of comprehensive income in the period of de-recognition.

Leases

The Company leases various properties and equipment. The lease terms of these assets are consistent with the determined useful economic life of similar assets within tangible assets.

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognised as a right of use (ROU) asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company.

ROU assets

At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs to return the asset to its original condition.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments, less any lease incentives receivable; amounts expected to be payable by the Company under residual value guarantees; the exercise price of a purchase option if the Company is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option; and payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. If that rate cannot be determined, the Company's incremental borrowing rate is used.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

2.2 Summary of significant accounting policies (continued)

The Company has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less, that do not contain a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the ROU asset. Extension options are included in a number of property and equipment leases across the Company and are reflected in the lease payments where the Company is reasonably certain that it will exercise the option.

Investments
Investments in subsidiaries are held at historical cost less any provision for impairment.

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

Trade and other debtors
Trade and other debtors are stated at cost less provisions for expected credit losses. The simplified approach, based on the calculation and recognition of lifetime expected credit losses, is applied to trade and other debtors.

Pension costs and obligations
The Company does not operate a company pension scheme but makes contributions to a Group personal pension scheme. Contributions made by the Company are charged to the statement of comprehensive income as they become payable.

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

Share-based payments
IAG has a number of equity-settled share-based employee payment plans in which the Company's employees participate. Awards are made under schemes operated by IAG and represent rights over its ordinary shares. The cost of these awards is recharged from IAG to the Company and recognised as a creditor owed to IAG.

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

2.2 Summary of significant accounting policies (continued)

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

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

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

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

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

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

The assets and liabilities of foreign operations, including foreign branches, are translated into sterling at the rate of exchange at the balance sheet date. The exchange differences arising on retranslation are recognised in other comprehensive income and included in a currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that foreign operation is reclassified to profit or loss.

Critical accounting estimates and judgements
The preparation of financial statements requires management to use judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from these estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Revenue measurement**
  The transaction price associated with loyalty points is allocated to the separate performance obligations (brand and marketing services and Avios) based on their stand-alone selling prices. The stand-alone selling price of brand and marketing services is based on the amounts that a third party would be prepared to pay in an arm's-length transaction for access to comparable brands over the period for which they have access.

2.2 Summary of significant accounting policies (continued)

The stand-alone selling price attributed to Avios is based on the value of the awards for which the Avios could be redeemed. This revenue is deferred as a liability and is recognised on redemption of the Avios and provision of service to the participants to whom the Avios are issued. The Company exercises judgement in determining the number of points not expected to be redeemed through the use of historical trends and statistical modelling.

In August 2020, the Company received an upfront payment of £750 million related to the fulfilment of future performance obligations under the renewal of the multi-year commercial partnership with American Express. The Company estimates the number of Avios expected to be issued over the life of the contract and allocates the upfront payment to the relevant performance obligations. At each reporting date, the Company updates its estimate of the number of Avios expected to be issued over the total contract term and recognises a cumulative catch-up adjustment where necessary. The Company considers that these upfront payments include a significant financing component considering the length of time between the payment and the expected allocation to performance obligations. Accordingly, the transaction price for the contract is discounted using the prevailing market interest rate.

- **Presentation of revenue – principal versus agent**
  A key judgement in recognising revenue is to distinguish where the Company acts in the capacity as principal or agent so as to determine whether the Company presents its revenue and costs separately in the statement of comprehensive income or presents the related margin as revenue. The Company exercises judgement to assess whether it is principal or agent by considering if it is the prime obligor, including whether it has pricing discretion or is exposed to inventory or credit risk, in which case the Company will be the principal in the arrangement. In most cases, the Company is not responsible for providing the goods or services for which Avios are redeemed and does not control the goods or services being provided although the Company does have pricing discretion.

  Where the Company arranges for goods or services to be provided by an IAG Group company, the Company bears greater risk, being committed to minimum inventory purchase levels, has greater control over the provision of goods and services and has pricing discretion. In these cases, the Company, taking all the relevant factors into account, considers that it acts as a principal, using a separate IAG Group company to provide the actual goods or services on its behalf. Therefore, all amounts earned are reflected as revenue with any associated costs being treated as a cost of sale.

- **Recognition of software development costs**
  Development costs are capitalised in accordance with the aforementioned accounting policy. The initial capitalisation of costs is based on the Directors' judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, the Directors make assumptions regarding the expected future cash generation of the assets and the expected period of benefits.

3. Revenue

Revenue can be analysed as follows:

	2020	2019
	£'000	£'000
Revenue from redemptions	**171,445**	627,080
Brand and marketing services	**99,538**	122,235
Management fees and other services	**18,854**	62,110
	289,837	811,425

4. Operating profit

Operating profit is arrived at after charging/(crediting):

	2020	2019
	£'000	£'000
Amortisation of intangible assets	**4,568**	4,785
Impairment of intangible assets	**1,795**	2,064
Depreciation on owned assets	**277**	433
Depreciation on right of use assets	**786**	891
Net foreign currency exchange differences	**3,392**	(3,053)

5. Auditor's remuneration

	2020	2019
	£'000	£'000
Fee payable to the auditor for audit of the statutory accounts	**218**	192

The Company has taken the exemption not to disclose amounts paid for non-audit services as they are disclosed in IAG's Group financial statements.

6. Employee costs and numbers

Employee costs comprise:	**2020**	2019
	£'000	£'000
Wages and salaries	**16,403**	20,029
Social security costs	**1,735**	2,268
Pension contributions	**750**	717
Total employee costs	**18,888**	23,014

Pension costs are all related to the defined contribution scheme.

6. Employee costs and numbers (continued)

The Company has availed itself of the Coronavirus Job Retention Scheme (CJRS) which was implemented by the Government of the United Kingdom from 1 March 2020 to 30 August 2020, where those employees designated as being 'furloughed workers' were eligible to have 80 per cent of their wage costs paid up to a maximum of £2,500 per month. This has led to an amount of £153,000 being received in the form of government assistance and has been recorded net within employee costs. The Company is obliged to continue to pay the associated social security costs and employer pension contributions.

The average number of employees during the year was as follows:

	2020	2019
	No.	No.
Customer service, sales and operations	**276**	287
Administration	**144**	157
Total employees	**420**	444

7. Directors' emoluments

During the year, three directors (2019: two) were remunerated for qualifying services to the Company:

	2020	2019
	£'000	£'000
Total remuneration in respect of qualifying services (excluding pension contributions)	**463**	1,183
Pension contributions	**34**	107
	497	1,290

The total emoluments of the highest paid Director (excluding pension contributions), paid by IAG in respect of their services to the Company, were £261,000 for the year ended 31 December 2020 (2019: £995,000).

The value of IAG pension contributions, made on behalf of the highest paid director, for the year ended 31 December 2020, were £nil (2019: £100,000).

All other directors of the Company were employed and remunerated during the year by IAG, British Airways or Iberia in respect of their services to the Group as a whole. The qualifying services provided to the Company by these directors were incidental compared to their main roles and they received no remuneration relating to the Company for the year ended 31 December 2020 (2019: £nil).

At 31 December 2020, none of the Directors held any direct interest in any shares of the Company. However, as per the disclosure requirements of Schedule 5 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, during the year nine directors (2019: eleven) participated in IAG's share award plan, the IAG Performance Share Plan ("PSP") and nine directors (2019: eleven) participated in IAG's Incentive Award Deferral Plan ("IADP"). During the year, awards vested for eight directors (2019: nine) in the form of IAG shares under the PSP and awards vested for eight directors (2019: nine) under the IADP.

No other transactions (other than the ones already disclosed above) or loans were outstanding with the directors of the Company at the end of the year, which need to be disclosed in accordance with the requirements of section 412 and 413 of the Companies Act 2006.

8. Share-based payments

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

a) IAG *Performance Share Plan*

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. Since 2015, awards have been made as nil-cost options, with a two-year holding period following the three-year the performance period, before the options can be exercised. All awards since 2015 have three independent performance measures with equal weighting: Total Shareholder Return (TSR) relative to the STOXX Europe 600 Travel and Leisure Index (for 2020 awards) or MSCI European Transportation Index (for prior to 2020 awards), earnings per share, and Return on Invested Capital.

b) IAG Incentive Award Deferral Plan

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

The Company recognised a share-based payment charge of £435,000 (2019: £130,000) The awards outstanding at 31 December 2020 have a £nil exercise price and their weighted average remaining life is 2.4 years.

9. Interest receivable and similar income

	2020	2019
	£'000	£'000
Bank and money market interest receivable	**744**	2,326
Interest receivable from group undertakings	**5,264**	1,599
Other interest receivable	**600**	-
Total interest receivable and similar income	**6,608**	3,925

10. Interest payable

	2020	2019
	£'000	£'000
Interest payable on lease liabilities	**113**	125
Interest payable on contract liabilities	**13,219**	-
Other interest payable	**27**	21
Total interest payable	**13,359**	146

11. Tax

a) *Tax on ordinary activities*

Tax charge in the statement of comprehensive income and statement of changes in equity:

Year ended 31 December 2020	Statement of comprehensive income £'000	Statement of changes in equity £'000	Total £'000
Current income tax			
Movement in respect of prior years – UK corporation tax	2,056	-	**2,056**
Movement in respect of current year – UK corporation tax	12,626	(22)	**12,604**
Movement in respect of prior years – overseas tax	(3,543)	-	**(3,543)**
Total current income tax	**11,139**	**(22)**	**11,117**
Deferred tax			
Movement in respect of prior years	16	-	**16**
Movement in respect of current year	3,971	49	**4,020**
Effect of corporate tax rate change	(49)	(6)	**(55)**
Total deferred tax	**3,938**	**43**	**3,981**
Total tax at 31 December 2020	**15,077**	**21**	**15,098**

Year ended 31 December 2019	Statement of comprehensive income £'000	Statement of changes in equity £'000	Total £'000
Current income tax			
Movement in respect of prior years – UK corporation tax	(1,257)	-	**(1,257)**
Movement in respect of current year – UK corporation tax	29,058	-	**29,058**
Movement in respect of prior years – overseas tax	368	-	**368**
Movement in respect of current year – overseas tax	3,017	-	**3,017**
Total current income tax	**31,186**	**-**	**31,186**
Deferred tax			
Movement in respect of prior years	(127)	-	**(127)**
Movement in respect of current year	3,722	26	**3,748**
Effect of corporate tax rate change	(4)	(3)	**(7)**
Total deferred tax	**3,591**	**23**	**3,614**
Total tax at 31 December 2019	**34,777**	**23**	**34,800**

Tax in the statement of changes in equity all relates to share-based payments.

11. Tax (continued)

b) Deferred tax

	Fixed assets	Employee leaving indemnities	Revenue from contracts with customers	Share-based payment schemes	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2020	361	92	4,259	291	5,003
Statement of comprehensive income	367	116	(4,259)	(162)	(3,938)
Statement of changes in equity	-	-	-	(43)	(43)
As at 31 December 2020	**728**	**208**	**-**	**86**	**1,022**

	Fixed assets	Employee leaving indemnities	Revenue from contracts with customers	Share-based payment schemes	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2019	453	-	7,840	324	8,617
Statement of comprehensive income	(92)	92	(3,581)	(10)	(3,591)
Statement of changes in equity	-	-	-	(23)	(23)
As at 31 December 2019	**361**	**92**	**4,259**	**291**	**5,003**

c) *Reconciliation of the total tax charge in the statement of comprehensive income*

The tax charge is calculated at the standard rate of UK corporation tax and Spanish corporate income tax. The tax charge on the profit for the year to 31 December 2020 is higher (2019: higher) than the expected tax charge at the UK rate. The Company's effective tax rate is 21.6% (2019: 19.3%) and the differences to the UK rate are explained below:

	2020	2019
	£'000	£'000
Profit before tax	**60,173**	179,993
Tax calculated at the standard rate of corporation tax in the UK of 19% (2019: 19%)	**11,433**	34,198
Effects of:		
Non-deductible expenses	**209**	48
Share based payments	**165**	(8)
Adjustments in respect of prior years	**(1,471)**	(1,016)
Tax rate differences	**(352)**	1,559
Deferred tax not recognised in overseas branch	**5,142**	-
Effect of UK corporation tax rate changes	**(49)**	(4)
Tax charge in the statement of comprehensive income	**15,077**	34,777

11. Tax (continued)

d) Factors that may affect future tax charges

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This reduction from 19% to 17% was reversed in Finance Act 2020. This has generated deferred tax opening balance rate changes and will increase the Company's future UK current tax charge accordingly.

The UK corporation tax rate will be increased to 25% (effective 1 April 2023) as published in Finance (No.2) Bill 2021. As the aforementioned rate increases had not been substantively enacted at the date of this report, the deferred tax on UK temporary differences as at 31 December 2020 has been calculated at the 19% rate. The deferred tax asset calculated at a rate of 25% would have been approximately £320,000 more than the amount included in the balance sheet at 31 December 2020.

e) Unrecognised temporary differences

	2020	2019
	£'000	£'000
Spanish deductible temporary differences	**13,949**	-
Tax losses carried forward	**6,623**	-
Unrecognised temporary differences in Spanish branch	**20,572**	-

The deferred tax asset in the Spanish branch is not recognised as it is currently not probable that taxable profit in the IAG Spanish tax grouping will arise in the foreseeable future against which the differences can be utilised. The tax losses are carried forward indefinitely until utilised.

12. Intangible assets

	Assets in course of construction	Software	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2020	8,968	32,899	41,867
Additions	7,976	105	8,081
Disposals	-	(4,732)	(4,732)
Transfer	(1,408)	1,408	-
Foreign exchange	202	-	202
At 31 December 2020	**15,738**	**29,680**	**45,418**
Amortisation and impairment			
Balance at 1 January 2020	-	13,722	13,722
Amortisation charge for the year	-	4,568	4,568
Impairment charge for the year	-	1,795	1,795
Disposals	-	(4,732)	(4,732)
At 31 December 2020	**-**	**15,353**	**15,353**
Net book amounts			
At 31 December 2019	8,968	19,177	28,145
At 31 December 2020	**15,738**	**14,327**	**30,065**

Assets in course of construction relate to system improvement projects' costs that meet the criteria for recognition as an intangible asset under IAS 38. Once brought into use they are amortised over periods not exceeding ten years.

13. Tangible assets

	Property	IT infrastructure and equipment	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2020	4,415	1,696	6,111
Additions	391	163	554
Foreign exchange	19	-	19
At 31 December 2020	**4,825**	**1,859**	**6,684**
Depreciation			
Balance at 1 January 2020	840	1,120	1,960
Charge for the year	736	325	1,061
Foreign exchange	4	-	4
At 31 December 2020	**1,580**	**1,445**	**3,025**
Net book amounts			
At 31 December 2019	3,575	576	4,151
At 31 December 2020	**3,245**	**414**	**3,659**

14. Right of use assets

Tangible assets include the following amounts relating to right of use assets:

	Property £'000	Equipment £'000	Total £'000
Cost			
Balance at 1 January 2020	4,415	137	4,552
Additions	391	-	391
Foreign exchange	19	-	19
At 31 December 2020	**4,825**	**137**	**4,962**
Depreciation			
Balance at 1 January 2020	840	51	891
Charge for the year	736	48	784
Foreign exchange	4	-	4
At 31 December 2020	**1,580**	**99**	**1,679**
Net book amounts			
At 1 January 2020	3,575	86	3,661
At 31 December 2020	**3,245**	**38**	**3,283**

15. Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £902,000 at 31 December 2020 (2019: £1,057,000).

16. Investments

Details of the Company's principal subsidiary undertakings are as follows:

Entity name & address	Country of incorporation	Group equity interest	Nature of the business
IAG Loyalty Limited (formerly Remotereport Trading Limited) Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%	Trademark ownership
Avios South Africa Proprietary Limited Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619, South Africa	Republic of South Africa	100%	Travel and leisure reward schemes

On 6 January 2020 Remotereport Trading Limited changed its name to IAG Loyalty Limited.

Details of the Company's investments in subsidiaries and other investments are given below:

	Investments in Subsidiaries £'000	Other investments £'000	2020 £'000	2019 £'000
Balance at 1 January	32	1,595	**1,627**	1,627
At 31 December	**32**	**1,595**	**1,627**	1,627

17. Debtors

	2020 £'000	2019 £'000
Trade debtors	**11,046**	89,548
Owed by Group companies	**11,822**	6,697
Loan to Parent company	**185,000**	185,000
Other taxes and social security debtors	**1,443**	1,055
Current tax asset	**3,176**	-
Deferred tax asset	**1,022**	5,003
Other debtors	**4**	3
Flight prepayment	**1,179,551**	1,042,266
Prepayments and accrued income	**24,176**	86,964
At 31 December	**1,417,240**	1,416,536
Analysis:		
Current	**1,417,240**	1,231,536
Non-current	**-**	185,000
	1,417,240	1,416,536

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

	2020 £'000	2019 £'000
Cash at bank and in hand	**12,025**	42,756
Short term deposits	**1,113,232**	220,123
At 31 December	**1,125,257**	262,879

Short term deposits are primarily held in AAA money market funds. Monies held directly with Lloyds Bank plc accrued interest at commercial rates, based on the LIBOR one-month money market rate. No credit or overdraft facilities are maintained with any bank.

19. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Lease liabilities	**767**	695
Trade creditors	**2,059**	1,072
Owed to ultimate Parent company	**3,792**	3,351
Owed to Group companies	**2,965**	31,708
Corporation tax creditor	**-**	19,742
Other taxes and social security costs	**600**	591
Accruals	**11,455**	18,588
Deferred revenue	**2,040,933**	1,602,423
At 31 December	**2,062,571**	1,678,170

Deferred revenue

Deferred revenue consists of the gross amount allocated to Avios from customer loyalty programmes and cash received from customers. Where the Company acts as agent in the provision of redemption products and services to customers, the margin earned is recognised as revenue rather than the gross amount included in deferred revenue. Active customer accounts do not have an expiry date and revenue may therefore be recognised at any time in the future.

Movements in deferred revenue are as follows:	2020 £'000	2019 £'000
Balance at 1 January	**1,602,423**	1,545,937
Changes in estimates	**-**	6,213
Avios and cash deferred in the year	**1,145,553**	805,712
Revenue recognised in the statement of comprehensive income	**(296,208)**	(746,754)
Interest expense	**13,219**	-
Currency translation	**9,520**	(8,685)
At 31 December	**2,474,507**	1,602,423
Analysis:		
Current	**2,040,933**	1,602,423
Non-current	**433,574**	-
	2,474,507	1,602,423

1. Where the Company acts as an agent in the provision of redemption products revenue is recognised in the statement of comprehensive income net of the related costs.
2. Included within revenue recognised in the statement of comprehensive income is an amount of £135,302,000 previously held as deferred revenue at 1 January 2020 (at 1 January 2019: £451,552,000).

20. Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Deferred revenue	**433,574**	-
Lease liabilities	**2,604**	3,223
At 31 December	**436,178**	3,223

a) Creditors includes the following amounts relating to lease liabilities:

	2020 £'000	2019 £'000
Lease liability at 1 January	**3,918**	-
Adoption of IFRS 16	-	4,481
Additions	**406**	94
Repayments	**(1,066)**	(782)
Interest expense	**113**	125
Lease liability at 31 December	**3,371**	3,918
Current	**767**	695
Non-current	**2,604**	3,223
At 31 December	**3,371**	3,918

b) Amounts recognised in the statement of comprehensive income

	2020 £'000	2019 £'000
Interest expense	**113**	125
Depreciation charge	**785**	891

c) The Company had total cash outflows for leases of £1,038,000 in 2020 (2019: £792,000).

21. Provisions for liabilities and charges

	Dilapidation costs		Severance		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance at 1 January	**1,414**	1,342	**900**	1,265	**2,314**	2,607
Amounts provided in the year	**72**	72	**629**	554	**701**	626
Release of unused amounts in the year	**(255)**	-	**-**	-	**(255)**	-
Amounts utilised in the year	**-**	-	**(545)**	(919)	**(545)**	(919)
At 31 December	**1,231**	1,414	**984**	900	**2,215**	2,314

The provisions relate to estimated dilapidation costs for leased properties which are expected to be utilised within five years and severance costs which are expected to be incurred within one year.

22. Share capital

	2020 Shares	**2020 £'000**	2019 Shares	2019 £'000
Authorised, called up and fully paid				
'A' ordinary £1 shares	**1,642,500,000**	**1,642,500**	1,642,500,000	1,642,500
'B' ordinary £1 shares	**261,600,000**	**261,600**	261,600,000	261,600
At 31 December	**1,904,100,000**	**1,904,100**	1,904,100,000	1,904,100

Equity share capital includes the total net proceeds on issue of the Company's equity share capital, comprising £1 ordinary shares. Each share carries the right to one vote on a poll or a show of hands. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights in respect to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable and do not have any contingent rights.

The total share capital for the Company as at 31 December 2020 was 1,642,500,000 class 'A' ordinary shares and 261,600,000 class 'B' ordinary shares, with British Airways owning 86% and Iberia owning 14% of the total share capital. The Company falls within the governance structure of IAG.

23. Guarantees provided by financial institutions

The Company has various guarantees held with Lloyds Bank plc totalling £3,134,000 as at 31 December 2020 (2019: £643,000). These guarantees formed part of the initial supplier credit terms set up process for hotel suppliers.

24. Related party transactions

No loans due to or from directors or officers of the Company were outstanding as of 31 December 2020 and 31 December 2019 or arose during those years that needed to be disclosed in accordance with the requirements of Sections 412 and 413 of the Companies Act 2006.

25. Parent undertaking

The Company's ultimate parent undertaking is International Consolidated Airlines Group S.A., which is incorporated in Spain. Of the group of which the Company is a member, IAG was the smallest and largest undertaking preparing group financial statements, in which the Company was consolidated. Copies of the consolidated financial statements of IAG can be found on the website www.iairgroup.com.