INTERNATIONAL AIRLINES GROUP

ANNUAL REPORT
AND ACCOUNTS 2020

MANAGING
THE CRISIS

TRANSFORMING
OUR BUSINESS

SHAPING
OUR FUTURE

"IAG has proven resilient and flexible in a challenging year which saw the devastating effects of the COVID-19 pandemic. We took swift action to mitigate the impact of the crisis and have worked hard to transform our business. This enables us to shape our future as we remain a leading player in the airline industry."

Luis Gallego
Chief Executive Officer

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Management Report

IAG is required to prepare a Management Report in accordance with Article 262 of the Spanish Companies Act and Article 49 of the Spanish Commercial Code. Pursuant to this legislation, this Management Report must contain a fair review of the progress of the business and the performance of the Group, together with a description of the principal risks and uncertainties that it faces. In the preparation of this report, IAG has taken into consideration the guide published in 2013 by the Spanish National Securities Market Commission (CNMV) which establishes a number of recommendations for the preparation of management reports of listed companies.

The Management Report is composed of the following sections:

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

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

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

Acting quickly to respond to the pandemic

The COVID-19 pandemic has caused substantial losses for the global airline industry and IAG

Our performance in summary:

Total revenue before exceptional items	Statutory operating loss	Operating loss before exceptional items	Capacity change ASKs vly	Net Promoter Score
€7,868 million	€7,426 million	€4,365 million	-66.5%	36.7
-69.2% vly	-€10,039m vly	-€7,650m vly		+10.9 pts vly

IAG acted quickly to mitigate the negative impacts, bolster liquidity and protect its long-term future

Capital increase	Total liquidity at December 31, 2020[1]	Additional cargo-only flights	CAPEX savings (2020-22)[2]	Renewal of Amex global partnership[3]
€2.74 billion	€8.1 billion	4,003	€7.2 billion	€830 million

More information on the impact of COVID-19 and IAG's response can be found in the following sections:

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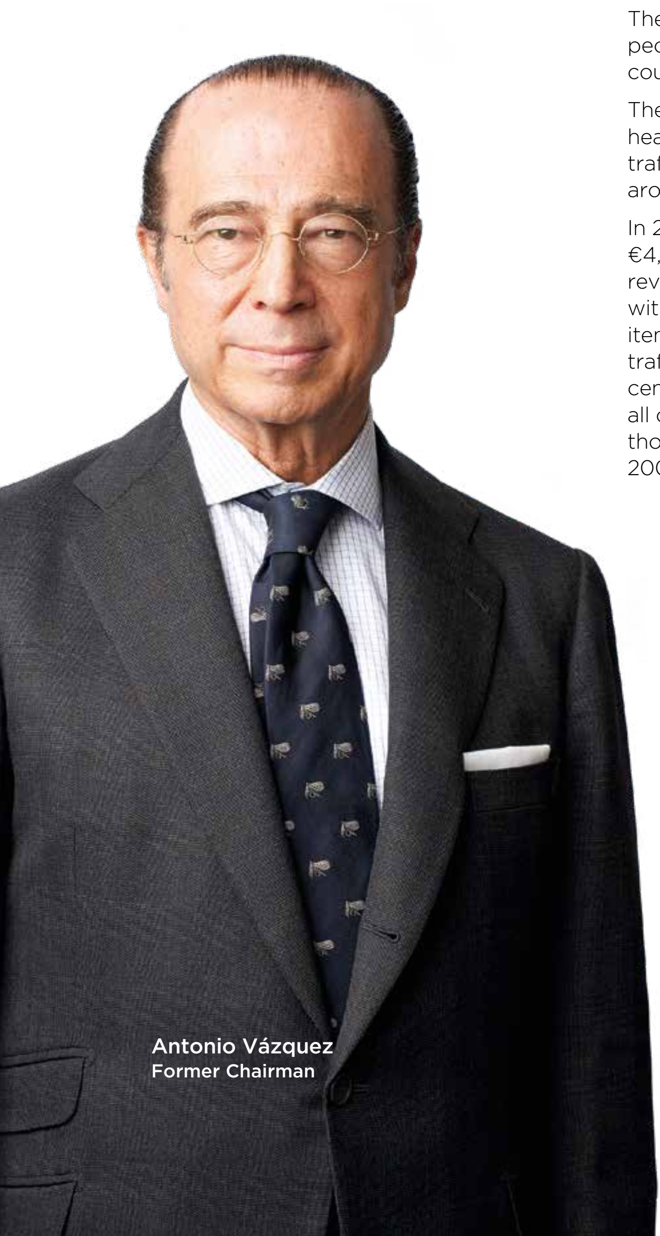
1 Total liquidity, measured as cash and interest-bearing deposits and committed and undrawn general and aircraft facilities, was €9.1 billion at December 31, 2019.
2 Saving versus planned spend announced at Capital Markets Day 2019.
3 Advance cash receipt of £750 million, a significant part of which is a pre-purchase of Avios points.
For definitions see Glossary

Staying competitive and resilient in a changed world

"In 2020 aviation faced the devastating effects of COVID-19. At a testing time, we took swift action to ensure we emerge from this unprecedented crisis well positioned to compete in a structurally changed industry."



Antonio Vázquez
Former Chairman

The COVID-19 pandemic's impact on people, communities, companies and countries has been overwhelming.

The toll on our sector has been particularly heavy, with IATA estimating that global traffic will not reach 2019 levels until around 2024.

In 2020 IAG made an operating loss of €4,365 million before exceptional items on revenues of €7,868 million. This compares with an operating profit before exceptional items of €3,285 million in 2019. Passenger traffic and capacity reduced by 74.7 per cent and 66.5 per cent, respectively, with all our airlines making losses far exceeding those recorded in the 2001 crisis and the 2009 financial shock.

These results reflect the negative effect of the COVID-19 pandemic on our business, exacerbated by constant changes in government travel restrictions.

We acted swiftly to mitigate the pandemic's impact, bolster liquidity and protect our long-term future. We've made significant progress on restructuring, reducing our cost base and increasing the proportion of our variable costs, to ensure IAG not only weathers the present storm, but emerges from the crisis well positioned to compete in a structurally changed industry.

Much of that is down to our successful business model, bringing together a portfolio of world-class, market-leading brands coupled with a record of financial discipline that has seen us become one of the world's best performing airline groups in terms of financial returns.

Our record on growing profitability – which increased six-fold between 2011 and 2019 – and Return on Invested Capital has underpinned our leadership position, as has our ability to create shareholder value, with €4.1 billion returned to investors between 2015 and 2019.

As the pandemic struck, we strengthened our financial and strategic position. In October we successfully completed a €2.74 billion capital increase which was fully subscribed by our shareholders. This positions us well for when demand eventually recovers.

Brexit led us to implement plans approved by national regulators in Spain and Ireland to ensure our EU-licensed airlines continue to meet EU ownership and control rules. They include creating a national ownership structure for Aer Lingus and changes to IAG's longstanding Spanish structure.

Also, we changed the Board composition to create a majority of independent non-executive EU directors. I wish to thank Deborah Kerr, María Fernanda Mejía and Steve Gunning who stepped down from the Board for their valuable contribution to IAG. Steve's executive functions as Chief Financial Officer remain unchanged and I'm very grateful for his support for these changes.

Although it was disappointing to take this step, we're pleased that the EU-UK Trade and Cooperation Agreement recognises the potential benefits of further liberalisation of airline ownership and control as we believe it's in the best interests of the industry and consumers.

Throughout the crisis we've stuck to our strategy, including playing a lead role in industry consolidation. Iberia amended its agreement to acquire Air Europa, subject to regulatory approvals. This will strengthen our Madrid hub's competitiveness, benefiting consumers and the Spanish economy.

It's critical our industry plays a full part in addressing climate change and we won't back down from our ambition to lead that effort. Having become the first airline group to commit to net zero carbon emissions by 2050, last year we supported **one**world in making this pledge which involves 13 airlines representing a fifth of global aviation.

We've retired British Airways' Boeing 747 fleet and Iberia's Airbus A340s. We are investing in next-generation aircraft which are up to 40 per cent more efficient than those they replace.

2020 also saw a transition in our leadership. Willie Walsh, originally scheduled to stand down as Chief Executive Officer in March, agreed to extend his tenure until September to help see IAG through the early months of the pandemic. I thank him for the skill and professionalism he brought right through to his last day.

Together we built IAG starting with the merger of British Airways and Iberia, and it was a joy to work side-by-side for ten years to develop IAG's unique business model.

Luis Gallego took up the CEO role on September 8, having led Iberia's turnaround. He does so knowing the Board has complete confidence in his exceptional leadership skills.

I served as Chairman for nearly ten years but decided to retire in January 2021 in accordance with the UK Corporate Governance Code. Javier Ferrán has succeeded me, bringing vast experience to the role not just as a multinational executive, but also as a director and chairman of many top-tier companies. Our carefully developed succession plan has enabled a smooth and effective transition following the highest standards of corporate governance.

I feel greatly honoured to have enjoyed the trust of my fellow directors and to have worked with so many tremendous colleagues across the business. I'm fully confident that IAG will meet the challenges ahead with its powerful new leadership team.

Antonio Vázquez
Former Chairman

Q&A with the Chairman Javier Ferrán

Javier Ferrán
Chairman

Q: What attracted you to joining the IAG Board?

A: Ten years ago, IAG disrupted aviation by creating a successful business model which has delivered industry-leading returns. Its unique structure underpinned by the best European airline brands has seen it become one of the world's best performing airline groups pre-pandemic. This is testament to the fantastic work and innovative thinking of its employees. I'm particularly grateful for their commitment throughout this crisis and for their hard work to help the business navigate these testing times. IAG has shown an extraordinary ability to take advantage of market opportunities, maximise synergies and play a leading role in consolidation. The airline industry is truly fascinating, and the Group has demonstrated its agility to adapt and overcome challenges through this current difficult period. I'm extremely proud of being part of IAG.

Q: What's the strength of the IAG Board?

A: IAG's Board members have vast experience, diverse backgrounds and deep knowledge of the corporate world. We started 2021 with the appointments of Peggy Bruzelius, Eva Castillo and Heather Ann McSharry who have extensive experience in top-tier companies across various industries. Diversity enables effective leadership and decision-making and is an essential part of our nomination processes. I'm pleased that 45 per cent of our Board members are women. It's a great honour to enjoy the trust of my fellow directors and chair IAG's Board in this challenging and fast-moving environment.

Q: What changes will COVID-19's impact bring to the industry?

A: The global impact of COVID-19 has been unprecedented. Aviation is going through a structural change and we are transforming our business to adjust it to a 'new normal'. Last year, we acted swiftly to strengthen liquidity and protect our long-term future by adapting to the new circumstances. Reducing our cost base and increasing the proportion of our variable costs will give us flexibility to compete and take advantage of a recovery in air travel demand. Customer needs are also rapidly changing. The industry must be ahead of the game in developing user-friendly digital solutions to provide the tools and reassurance passengers need to travel. Both innovation and technology are critical in driving efficiencies as we navigate our way out of the crisis and towards recovery.

Q: What's critical for the long-term success of the business?

A: IAG has a proven and successful operating model with a great portfolio of market-leading brands. Its pre-COVID-19 track record on profitability, sustainable growth, return on invested capital and shareholder value creation provide a solid foundation for the Group's long-term success. In these extremely challenging times, we are demonstrating our resilience to overcome COVID-19's impact. Our financial discipline is crucial to our strategy and we've got a very experienced management team under Luis's leadership with significant expertise in business transformation. Over the long term, the critical drivers of success will be our culture and the talent of our employees; a culture that allows each individual to grow and give the best of themselves.

Q: Sustainability is becoming even more critical and aviation is likely to change significantly in the coming years. Is IAG ready to adapt?

A: For a decade, IAG has been leading the airline industry on sustainability. It was the first airline group worldwide to commit to achieving net zero carbon emissions by 2050. It's also investing US$400 million in sustainable aviation fuel in the next 20 years. IAG was an aviation pioneer in signing the United Nations Climate Ambition Alliance and one of the ten global companies recognised by the UN for their ambitious carbon targets. Despite the current crisis, we will not back down from our ambition to lead aviation's efforts to reduce its carbon footprint. We're determined to play our full part in tackling climate change and support the long-term prosperity of the communities we serve.

Securing our business, building for the future

Luis Gallego
Group Chief Executive

"Our immediate focus in 2020 was navigating the deepest crisis in aviation history and then making sure our airlines emerge competitive in the future. Across the business, our people have made an incredible contribution to this effort."

It is hard to exaggerate how severe the impact of the COVID-19 pandemic has been on our industry. The disruption and financial damage it has caused airlines across the world has, quite simply, been unprecedented.

We've been through crises before, not least after 9/11 and the financial shock of 2008/9. 2020 will go down as the worst year in the history of aviation.

Not surprisingly, our own airlines have felt the effects of this crisis very deeply. With overall capacity reduced by two-thirds, all of them recorded heavy losses and a steep revenue decline. Against that background, we reported a Group operating loss of €4,365 million before exceptional items. The contrast to 2019, where we recorded an operating profit before exceptional items of €3,285 million, could not be more stark.

But we believe that a crisis, even one as profound and unpredictable as the pandemic, always presents significant opportunities as well as challenges.

It is in this spirit that we have approached these extraordinary times, taking swift action to secure the business in the short term, while taking steps to transform our business so that it is more competitive in the future.

Before I detail the actions we have taken, I want to put on record my thanks to people right across the business who have played such a central role in all we have achieved.

The commitment, resilience and flexibility they have shown is really exceptional. They have had to adapt at high speed to new ways of working and all the difficulties that come with that. They have made big sacrifices in terms of salary and working time. We have been forced to reduce our workforce by 20 per cent to just under 58,000, with 75 per cent of all redundancies achieved voluntarily.

At British Airways, while the airline did everything it could to protect as many jobs as possible, we sadly saw the departure of over 10,000 employees as a result of the pandemic. We are very grateful for their contribution over the years to the airline's success.

Finally, almost 50,000 employees have been on job retention schemes. These government initiatives, providing a valuable support for our staff and for the business, have been important in helping us navigate the crisis.

Managing the crisis

At the beginning of the pandemic we were in a strong position as one of the best performing airline groups in our industry in terms of growing profitability.

We have had to take swift and decisive action to conserve cash and reduce our cost base. Additionally, where we can we are converting fixed costs to variable costs to more closely reflect levels of demand in the market.

That is not a simple task. In the airline industry, fixed costs are traditionally very high. As an example, we can change part of our fixed price for fleet maintenance to a so-called "power-by-the-hour" arrangement.

Ideally you want to match cost reductions to capacity. Our capacity decreased by 66.5 per cent during the year compared to 2019 and we cut our non-fuel costs by 37.1 per cent, an extraordinary effort by all our airlines.

Longer term, the crisis has taught us that we will need a higher degree of variability in our cost base in a much-changed world.

Boosting liquidity

Our second priority was to improve liquidity. Again, we started in a strong position, with €6.7 billion in cash at the end of 2019, a resource strong enough to see us through the crises we have experienced in the past. But it very quickly became clear that we would need further resources and took a series of steps to boost our cash position. Our €2.7 billion successful rights issue in October was a tremendous vote of confidence from investors in the underlying strength of our business and our ability to manage the crisis.

Among our other activities, British Airways received commitments for a £2.0 billion five-year loan facility, partly guaranteed by UK Export Finance along with a £300 million loan from the Bank of England. Also, we drew down additional debt of €1.01 billion for our Spanish airlines as part of the *Instituto de Crédito Oficial* (ICO) facility. These are all commercial loans, even if some are partially underwritten by governments.

Transforming our brands

During this crisis, we've also been thinking hard about the future.

Our business model remains robust, but we recognise that customer expectations will change following the pandemic. With the rapid adoption of remote working technologies, it is likely the business travel market will also be different.

To think through these challenges, we have created a new Management Committee role, of Chief Transformation Officer, appointing Fernando Candela, Chief Executive Officer of LEVEL, to the position. He is leading our transformation projects to make us more competitive and efficient in future.

I see this as a very important role. Before the COVID-19 pandemic we had a strategic roadmap for the Group. But the pandemic has accelerated many of the projects we had in mind, as well as creating new priorities.

Nowhere is that truer than with digital transformation, where many experts believe the crisis has sped up the process of digitalisation by up to five years. It impacts on all areas of the business. But it will be particularly crucial where customers are concerned, for instance in providing them with a contactless experience at airports and faster, better ways to interact with our airlines.

Working with suppliers

One of the great advantages of our business model is our ability to achieve synergies across the Group, and our Global Business Services operation has continued to play a vital role here.

We are working closely with all our suppliers to manage our way through the current environment, looking to achieve better terms and conditions because we know they face difficulties too.

The same applies in managing our fleet, and we are in talks with aircraft manufacturers to reschedule the delivery of new, more efficient aircraft over the coming years, matching capacity to demand.

During the year, we retired the British Airways Boeing 747 fleet and Iberia's Airbus A340s early. We remain committed to bringing new aircraft technologies online, as the market allows. Refreshing our fleets with aircraft that are up to 40 per cent more efficient than the ones they replace will play an important role in our goal to achieve net zero emissions by 2050, a commitment that is as strong as ever.

Cargo revenues

As well as weathering the storm, we have also tried to help. We have carried out repatriation flights and transported vital equipment such as PPE, ventilators and COVID-19 test equipment.

We do not operate dedicated freighters any longer, and normally carry cargo in the holds of our passenger aircraft. But during the pandemic, we gained clearance to use the cabins for freight as well.

In all, we completed more than 4,000 cargo flights, something we are not used to, and our team deserves great credit for this effort. IAG Cargo increased its turnover by almost €200 million, during the year, to €1.3 billion.

Air Europa and further consolidation

We are pressing ahead with Iberia's acquisition of Air Europa, having renegotiated the original deal. The value of the transaction, originally set at €1 billion, has been reduced to €500 million, which will be paid after six years. This will allow the combined operation to repay a loan Air Europa has received from the Spanish Government and be in a strong position to compete once demand recovers.

We believe in Air Europa and think it is right to take brave decisions now for the future. The rationale behind the deal remains very strong. It will allow Madrid to compete against the other major European hubs, serving destinations around the world, rather than being primarily focused on Latin America.

The deal still needs approval from EU competition authorities. We also need to negotiate with the Spanish Government over certain non-financial conditions applying to the Air Europa loan. Given the huge benefits for consumers, Madrid and the wider Spanish economy, I'm confident we can reach an accord and hopefully the deal will be completed this year.

IAG came into existence to speed up the consolidation of our industry and we've had great success to date. The pace of that will depend on how quickly airlines recover from this crisis. Some will struggle to repay debt and there are likely to be failures. We will be looking to see if there are further opportunities to develop the Group.

A new leadership team

The last year has seen a significant change in IAG's leadership. Willie Walsh was supposed to step down as CEO in March, but, with the pandemic escalating rapidly at that point, he agreed to stay on for a further six months to help us navigate the crisis. He made a phenomenal contribution during this time and we thank him greatly for the extraordinary job he has done to bring IAG to where it is today.

I took up this post in September. But we have seen other important changes in the management team in 2020. Sean Doyle has moved across from Aer Lingus to become CEO of British Airways, after Alex Cruz stepped down. Javier Sánchez-Prieto has moved across from Vueling to become CEO at Iberia and is replaced at Vueling by Marco Sansavini, previously Iberia's chief commercial officer. Meanwhile, Donal Moriarty is acting as interim CEO at Aer Lingus.

I feel honoured to lead such a capable group of colleagues, one that I believe can achieve great things in the years ahead. It is excellent that these appointments are internal. Many of the team were already on the Management Committee, know the decisions we have taken in the past and understand our unique business model, inside out.

They also share the values that are most important to me as a leader – commitment, loyalty, a spirit of embracing change and challenging the status quo, a belief in team work and a conviction that, although we have done well in the past, we can always do better.

Making it safe to fly

People are still coming to terms with this dreadful virus and many worry if it is safe to fly. I can only assure you that it is. Safety is always the first priority in aviation.

We have put a huge effort into making sure our customers and our people remain safe, taking steps at every point of the journey. That has meant increased cleaning at all points of contact, new boarding procedures to maintain social distancing and insisting on face coverings on the ground and in the air. Our aircraft are fitted with air filters that are as powerful as those used in operating theatres. Cabin air, which flows from top to bottom, is refreshed every two to three minutes.

Last autumn IATA calculated that there had been only 44 cases of COVID-19 linked to a flight journey out of a total of 1.2 billion travellers — the equivalent of one case in every 27 million passengers. These figures speak for themselves.

We are now trialling new mobile technology to make it easier for passengers to meet all the various travel requirements in different countries, such as providing proof of a negative COVID-19 test or vaccination.

We urge governments to introduce coordinated testing protocols, rather than relying on quarantine measures and further restrictions. In the end we all want the same thing – to prevent the spread of the virus, and to allow the travel sector and the wider economy to recover.

Outlook

My first Chief Executive Officer's review has been dominated by the effects of the pandemic. It has been an incredibly tough time.

But, as I look ahead, I am optimistic. I'm confident that we'll emerge well positioned to compete, with a greater appreciation of what we have.

When I ask people what they have missed most in recent months, most say: "I want to travel and see the world."

That time will come. And when it does, I assure you we will be here to help.

Management Committee

The IAG Management Committee, led by Luis Gallego, is responsible for the overall execution and delivery of the strategy of the Group, the delivery of synergies and coordination of central functions.

For further information visit the IAG website

Steve Gunning
Chief Financial Officer

Julia Simpson
Chief of Staff

Chris Haynes
General Counsel

David Podolsky
Chief Strategy Officer

Javier Sánchez-Prieto
Chairman and Chief Executive Officer of Iberia

Sean Doyle
Chief Executive Officer of British Airways

Marco Sansavini
Chairman and Chief Executive Officer of Vueling

Adam Daniels
Chairman and Chief Executive Officer of IAG Loyalty

Lynne Embleton
Chairman and Chief Executive Officer of IAG Cargo

John Gibbs
Chief Information Officer

Fernando Candela
Chief Transformation Officer

Dónal Moriarty
Interim Chief Executive Officer of Aer Lingus

Executive Directors not pictured: Luis Gallego, Group Chief Executive Officer
Board of Directors section

Q&A with Group Chief Executive Officer Luis Gallego

Luis Gallego addresses some of the key questions on the minds of investors, customers and employees.

Luis Gallego
Group Chief Executive

Q: What actions have you taken to ensure IAG gets through the COVID-19 pandemic?

A: Once the scale of the crisis became clear, we moved quickly with a series of critical initiatives. Firstly, we took action to preserve cash; secondly, we raised funding to improve liquidity; thirdly we reduced costs and additionally we have been converting fixed costs to variable costs. On the revenue side, we have operated 4,003 cargo only flights using passenger aircraft which was an important contributor to the Group. Finally, we have pressed for a common standard of testing across the world so that we can get passengers flying again soon.

Q: Why do you think IAG will come out of the pandemic well positioned to compete?

A: We were in a very good position before the pandemic, with all the airlines in the Group performing well in the preceding years. I firmly believe we have the right team and the right commitment to take us forward and, importantly, we are taking steps to transform the business that others are not taking. That should put us in a very good position to emerge more competitive even though it is undoubtedly the most severe crisis in the history of aviation.

Q: How do you think governments can best support the re-opening of international travel?

A: I think coordinated measures are key. We need to avoid quarantine and travel restrictions, replacing them with harmonised testing protocols. Now with the vaccines being rolled out, we need to develop technologies and apps to help people to travel more easily. This approach will allow passengers to use their phones to show that they have met local travel rules – whether that is applying for flight passes, filling in flight locator notifications, proving they have the required COVID-19 tests or have been vaccinated.

Q: Why is the Air Europa acquisition still worth doing?

A: It is a strategic transaction for us. It will allow us to develop Madrid as a major and highly competitive international hub, with IAG at its centre. It will bring significant benefits to consumers, to Madrid and the wider Spanish economy. We have now renegotiated the deal at a reduced value of €500 million and on a deferred payment basis, allowing us to conserve cash as we recover from the current crisis and to be competitive when demand returns.

Q: What is your management style?

A: Perhaps others can answer this question better than me! But I try to behave in the same way as I want the people in my team to behave. The values I think are key are commitment, willingness to embrace change, teamwork and loyalty. I am lucky to be working with a very skilled team of colleagues who share these values and who know and understand the strengths of our business model very well.

Our resilient business model

Our vision

To be the world's leading airline group, employing exceptional talent and maximising sustainable value creation for our shareholders and providers of finance, customers and other stakeholders

How we're organised

IAG is the parent company of the Group and actively engages and works collaboratively with its portfolio of operating companies to drive synergies and maximise performance. Its independence from the operating companies allows for objective, flexible and rapid decision-making and enables IAG to implement the strategy to deliver the long-term vision for the Group. The operating companies are in turn able to focus their efforts on their target customers, competitive environment and their people.

The portfolio sits on the Group's common integrated platform which drives efficiency and simplicity while allowing each operating company to achieve individual performance targets and maintain its unique identity.

Corporate parent

- Makes capital allocation decisions
- Defines portfolio attractiveness
- Exerts vertical and horizontal influence across the Group
- Sets the long-term strategy to deliver the vision for the Group

Airline operating companies

- Deep and real-time understanding of customer and competitive environment
- Define product strategy for target customer segments
- Standalone profit centres and independent credit identities
- Individual brand, cultural identity and management teams

Common integrated platform

Provides common services and allows the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale

Our resources

IAG combines leading airlines in Ireland, the UK and Spain with key non-airline businesses, enabling them to enhance their presence in the aviation market while retaining their individual brand identities.

The airlines each target specific customer markets and geographies providing choice across the full spectrum of customer needs and travel occasions.

The airlines' customers benefit from a larger combined network for both passengers and cargo and the airlines also utilise successful joint businesses and alliance partnerships to expand their global reach. The scale of the Group also allows it to more efficiently innovate and invest in new products and services to enhance the customer experience.

The people across our Group are pivotal in delivering the ethos of each of our companies and retaining and promoting talent is a key driver of our success.

Portfolio of world-class brands and operations

- Operationally focused companies
- Diversified customer base
- Complementary networks
- Distinct brands
- Employees pivotal to each operation's unique identity

Global leadership positions

- Revenue share leaders in our home cities
- Transatlantic leadership and a leading player intra-Europe
- A key player in the consolidation of the airline sector
- Retain and promote talent

Common integrated platform

COST EFFICIENCY

- Continual total cost focus
- Track record of successful restructuring during crises

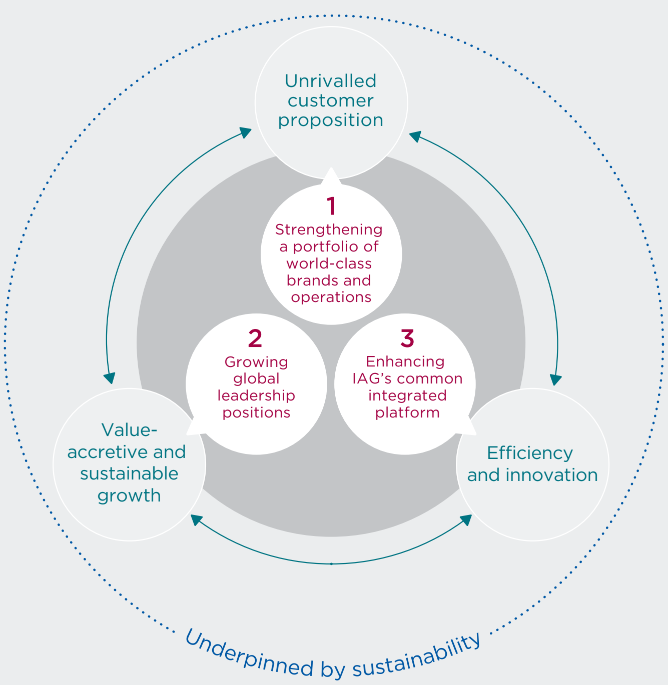
INNOVATION

- Dynamic and creative culture and workforce
- At the forefront of digital innovation in the airline industry
- Digital platform to grow revenue streams, enhance customer loyalty and drive cost efficiencies

Our strategic priorities

Unrivalled customer propositions

- Ensure our operating companies collectively deliver an unrivalled proposition able to fulfil customers' needs across the full spectrum of travel occasions
- Use consolidation and develop organic options to differentiate the Group from its competitors and ensure customer demands are met where they are currently under-served
- Deepen customer-centricity to win a disproportionate share in each customer segment



Value accretive and sustainable growth

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

Efficiency and innovation

- Reduce costs and improve efficiency by leveraging Group scale and synergy opportunities
- Engage in Group-wide innovation and digital mindset to enhance productivity and best serve our customers
- Drive incremental value with new business-to-business and business-to-customer services

Underpinned by sustainability

The Group's strategy is underpinned by its target to be the leading airline group on sustainability. We remain committed to reducing our carbon footprint and to reach the goal of net zero CO_2 emissions by 2050 and continue to prioritise other key sustainability issues including waste management, stakeholder engagement and employee engagement and welfare.

Tracking our performance

We use a combination of financial and non-financial metrics to measure the performance and progress of our strategy:

Financial and growth KPIs

- Operating result
- ASKs

See section Strategic priorities and key performance indicators

Investor measures

- RoIC
- EPS

See section Strategic priorities and key performance indicators

Customers

- NPS

See section Strategic priorities and key performance indicators

Employees

- Average manpower equivalent
- Gender diversity

See section Sustainability

Environment

- Grams of CO_2/pkm

See section Sustainability

Engaging with our stakeholders

Article 3.6 of IAG's Board of Directors regulations establishes:

The Board of Directors shall perform its duties with unity of purpose and independent judgement, giving the same treatment to all shareholders in the same position and being guided by the corporate interest, understood to be the achievement of a profitable and sustainable business in the long term, which promotes its continuity and the maximisation of the Company's value. In seeking to serve the corporate interest, in addition to respecting the applicable legislation and maintaining conduct based on good faith, ethics and respect for the generally accepted good practices and customs, the Board of Directors shall endeavour to reconcile the corporate interest with the legitimate interests, as applicable, of the employees, suppliers, customers and other stakeholders that might be affected, also taking into consideration the impact of its activities on the community as a whole and on the environment.

Introduction

The commitment made in IAG's Board Regulations, in accordance with the Spanish corporate governance framework and equivalent to that of section 172 of the UK Companies Act, is clearly present in the work of IAG's Board of Directors. This section aims to describe how directors have applied and complied with these principles in the reporting year. Further details of how the directors' duties have been discharged are included in the Corporate Governance section.

Although IAG has multiple stakeholder groups, the Board considers the most significant stakeholder groups to be customers, shareholders and other financial stakeholders, employees, suppliers, governments and regulators, and airline partners and industry associations. The relationship with all stakeholders is informed by the overarching need to ensure the sustainability of our business in all its different aspects, including the impact of our operations on the community and the environment.

Long-term vision, strategic priorities and key stakeholder groups

IAG's vision is to be the world's leading airline group, maximising sustainable value creation for its shareholders and customers.

The first strategic priority for the Group is to strengthen its existing portfolio of world-class brands, particularly through ensuring that its well-regarded and complementary brands, which are each focused on delivering to a specific set of customer needs in their target demand spaces and geographies, are able to differentiate their product and service offering against their competitors. The employees across the Group play a fundamental part in delivering the unique identity and culture of each of our brands. It is also key to ensure the necessary cooperation and support from our suppliers to help develop and deliver such distinguising products and service. The Group is also dependent on the performance of key suppliers that provide services to our customers and the Group itself, such as airport operators, border control and caterers. In addition, the airlines' operations are dependent on the timely entry of aircraft and also on the necessary engine performance and reliability of our aircraft to improve operational efficiency and resilience. Aircraft and engine performance are also crucial to support the delivery of our Group sustainability programme, meaning close engagement with airline and engine manufacturers is key.

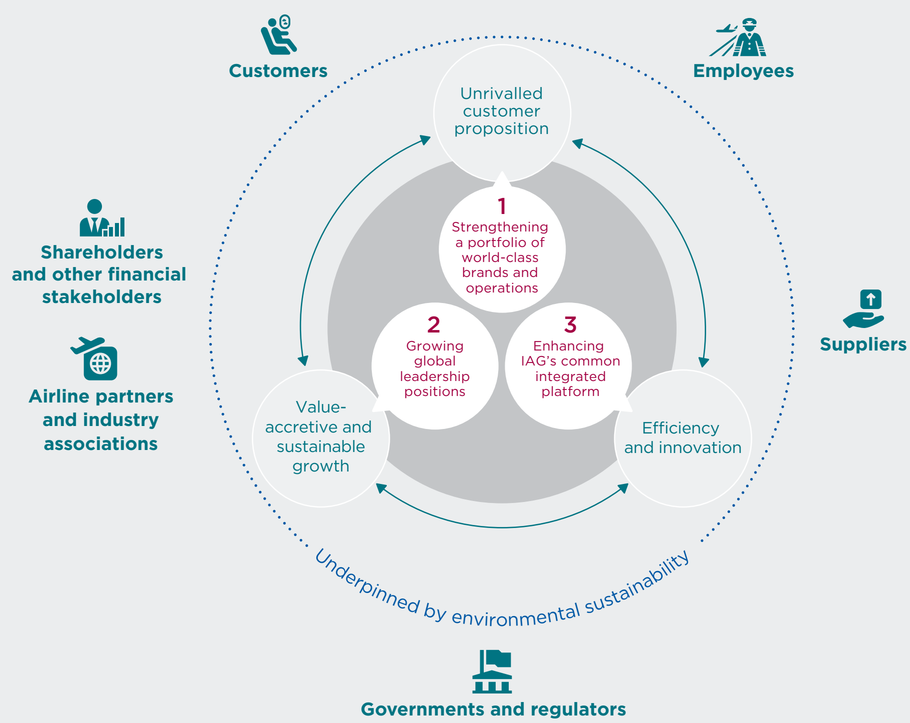
The second strategic priority for IAG is to grow its leadership positions, including through participating in the consolidation of the airline sector. For example, the proposed acquisition of Air Europa and the addition of Aer Lingus to the Group's Atlantic Joint Business with American Airlines and Finnair. Open competition and markets are in the long-term best interests of consumers. IAG is a strong proponent for continued deregulation and consolidation and we sustain our position with the support of and by engaging with relevant stakeholders such as industry associations, governments and regulators. With these stakeholder groups, we seek to mitigate the risk of excessive government intervention or changes to the regulations that can have a significant detrimental impact on operations.

The Group's third strategic priority is enhancing IAG's common platform, improving efficiency and focusing on digital and innovation. Our employees are enablers of change and we strive to create a working environment in which they can innovate to help deliver efficiency improvements and new ways of working. In addition, the realisation of these objectives needs to be built through cooperation and engagement with our key suppliers. Encouragingly, throughout the COVID-19 pandemic, IAG witnessed robust and pragmatic discussions taking place with key suppliers over affording IAG flexibility with its supplier spend, as evidenced with aircraft manufacturers, who have supported the Group by agreeing to defer deliveries of new aircraft.

As part of the Group's vision, the focus on the sustainability of the business informs all its strategic priorities. In particular, the Group's commitment to play an active role in tackling climate change continues to be a priority. Engagement with all key stakeholders in this regard underpins the Group's future. During 2021, IAG will undertake a full-scale materiality assessment with all of its major stakeholder groups, which will include issues that have arisen during the COVID-19 pandemic.

For more details please read 'Business model', 'Strategic priorities and key performance indicators', 'Risk management and principal risk factors' and 'Sustainability' sections.

Mapping our stakeholders to our strategic objectives



Our key stakeholders

Key stakeholders and engagement mechanisms

Our stakeholders engagement framework is articulated in line with our unique value proposition and business model. Accordingly, the relationship with certain stakeholders is undertaken by the operating companies, while others are managed at IAG level or are treated as a cross-group responsibility and managed by IAG's common integrated platform.

As the parent company, IAG is responsible for capital allocation decisions as its independence from the operating companies enables dispassionate, disciplined and efficient decision-making while ensuring they are aligned with the Group's strategic focus and long-term vision. Consistent with this approach, IAG is responsible for the maintenance of relationships with shareholders, strategic suppliers and key financing counterparties.

In contrast, customer engagement is undertaken by the operating companies, ensuring a deep and real-time understanding of customers' needs and their cultural, social and economic environment. Similar principles apply to the relationship with the workforce which is the direct responsibilitiy of each operating company.

In the case of governments and regulators, as well as with airline partners and industry associations, the leading role in such engagement is either at Group level or assumed by the operating companies depending on the impact and relevance of the particular stakeholder and the matters involved.

Finally, our common integrated platform drives efficiency, simplicity and consistency in our approach to our suppliers.

Mapping our stakeholders to our strategic objectives

	Why is this stakeholder relevant to the Group?	Which are our engagement mechanisms with this stakeholder group and the principal matters considered in the reporting period?
Customers	Our customers are central to the success of IAG and we maintain a relentless focus on delivering outstanding customer experience at all levels of the business. Our diverse portfolio of brands gives us a leading position in meeting the specific requirements of customers across different demand spaces.	We engage and listen to our customers through a range of customer satisfaction and market research surveys and focus groups. Their invaluable feedback is analysed by our expert customer insight teams and is used to drive product and service initiatives that will deliver the greatest value to the customer. Through our IAG Loyalty schemes we develop strong, long-term relationships with our customers. This helps us to deliver an experience tailored to individual customer needs and engage in a way that suits them. All IAG airlines have dedicated and highly-skilled customer relations teams, working around the clock to deliver the highest level of support and assistance to our customers. The customer relations teams are also responsible for resolving any customer complaints or claims, such as those covered under EC Regulation 261/2004. They engage with our customers across a range of channels, including our websites, call centres, social media accounts, e-mail and postal mail. In addition, our customers receive help and guidance throughout their journey from our renowned on-board and airport colleagues. Engagement with customers has been key during the year in understanding the changes in the needs and expectations of different customer types and to face the challenges created by the COVID-19 pandemic. This enabled the Group's airlines to adapt their customer journey by introducing a range of measures to support consumer confidence and to implement commercial reassurance measures for customers. All brands have changed their customer communications to provide clear guidance on the new airport and on-board procedures. Customer response to these and other reassurance measures has been very positive, as shown in the NPS result this year. For further information see 'Strategic priorities and key performance indicators' section.
Employees	Across the Group, employees play a vital role in delivering the service experience that customers expect, whether on the ground or in the air. Our employees bring a diverse range of talent and perspectives that contribute to the values and culture of our companies. Creating an environment where employees feel motivated, safe and able to thrive and deliver for customers is central to the continued success of the Group. We recognise the critical role that employees will play in the recovery and transformation of IAG and across the Group we are focusing on improving employee engagement.	Each company in the Group has its own communication channels adapted to its culture and profile. In general terms, communication with employees is made using formal and informal channels which include: performance reviews, specific consultations, employee forums, internal social networks, local cascade meetings, newsletters, workshops, engagement surveys and Speak Up lines. IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. Engagement with employees has been challenging given the social impact of the COVID-19 pandemic on the operations of the Group and therefore the workforce. The vast majority of employees were either furloughed for much of 2020 or working remotely from home, however, several surveys were completed during the year to adequately respond to changes in working practices and environments. Each company in the Group launched initiatives to support the wellbeing of their employees, their mental health and ensure COVID-19 safety. At the same time, IAG Tech has worked to enable employees across the Group to work in the most secure, efficient and effective manner. Employee consultations have been undertaken as required and appropriate in relation to restructuring necessitated to adapt to a new business environment.

	Why are these stakeholders relevant to the Group?	Which are our engagement mechanisms with this stakeholder group and the principal matters considered in the reporting period?
Shareholders and other financial stakeholders	As an IBEX 35 and FTSE 100 company, IAG prides itself on being a multicultural group that has inherited the legacy of long-standing listed companies in Ireland, Spain and the United Kingdom. Shareholders and investors are main capital providers to both invest and grow the Group's business. Shareholders' and other financial stakeholders' views are critical in supporting the Group to formulate its strategy, as well as the operational and financial performance, to generate and optimise returns in a sustainable way. Additionally, financial debt providers are key to support the operational and investment requirements of the Group in the short and long term. The access to adequate funding sources across different products and services enables the efficient management of the diverse funding requirements across the different geographies in which the Group operates. Finally, over half of IAG's fleet of aircraft is made up of aircraft on operating leases, which were either purchased by IAG and then sold and leased back from lessors or sourced directly from lessors. Strong relationships with our lessors are essential to allow for the smooth financing of new aircraft deliveries and to manage the aircraft during a typical 12-year operating lease. This has proved especially important in 2020 where IAG has been able to engage extensively with its leasing partners on new and existing leases.	IAG actively and frequently communicates with shareholders and other financial stakeholders through an open and transparent dialogue so they can understand performance and also raise any possible concerns. IAG usually holds at least six formal meetings every year (Annual General Meeting, Capital Markets Day and four quarterly results briefings), where shareholders and investors have the opportunity to interact with management.The Company also attends numerous investor conferences throughout the year and organise roadshows around the world to meet investors with diverse perspectives and from different locations. Some of these include both management and Board members, and have a business focus as well as a corporate governance and ESG focus. Additionally, the Group Investor Relations team maintains an ongoing dialogue with equity research analysts, to understand investors' and shareholders' views of the Company. Through the corporate website, annual reports and press activity IAG keeps shareholders informed of the development of the business. Engagement with debt and lease providers is done at IAG level to ensure strategic and consistent approach across the Group, with the support of the Fleet and Finance teams at the Group's airlines. IAG fosters a long-term relationship by actively and frequently engaging with the debt and lease providers across the different geographies and areas of expertise. The Group maintains an open and transparent dialogue, so they are familiar with its financial performance and long-term strategy, can understand the financial strategy and financing requirements. IAG outlines its financing priorities and expectations whilst they provide ideas, solutions and lending capabilities. 2020 was the first year since its creation, that IAG did not hold its usual Capital Markets Day due to the COVID-19 pandemic. However, the Company provided more detailed and extended quarterly presentations, including a presentation focused on the capital increase completed in 2020 and at the second quarter results. The Group also continued to interact with investors in a very intensive manner, including investor calls, roadshows and conferences, with the format moving from physical events to virtual events. Finally, ESG continued being an area of focus and the Company launched an investor survey to the Top 100 shareholders in December to better understand their approach towards it. In 2020, the Group focused on obtaining access to liquidity across different markets such as the bank loan market and capital markets in Europe, Japan and United States. Moreover, IAG worked closely with the financial institutions on maintaining available derivatives trading credit lines to support the business needs. Finally, on the aircraft leasing front, during the early months of the COVID-19 pandemic, IAG approached its lessors and agreed the deferral of lease payments. Most lessors supported IAG at this time and more recently, many lessors have entered into further agreements to provide additional support, working together on more structural changes to our existing lease agreements that better suit the evolving business needs of both IAG and our lessor partners. During 2020 IAG also entered into a number of new sale and lease back transactions with lessors to finance new aircraft deliveries, as well as agreeing terms that have facilitated the delivery of already committed direct lease aircraft, to the benefit of IAG and the lessors involved.

Suppliers

Why is this stakeholder relevant to the Group?

IAG is dependent on the performance of key suppliers that provide services to our customers and the Group, including aircraft and engine maintenance suppliers, airport operators and caterers. Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group's operational and financial performance as well as disrupting our customers, leading to significant reputational damage for the airline and the Group.

In addition, the Group's suppliers are fundamental to ensuring our companies meet the high standards of conduct that customers and other key stakeholders expect. Group Procurement launched the Supplier Code of Conduct to all our active suppliers which builds on the Group's commitment to a sustainable growth.

Supply chain integrity is critical to our business as we rely on our suppliers to help meet our customers' needs and to ensure the reliability of our services. 2020 was significantly different from any other year due to the impact of COVID-19, and a key area of focus for Group Procurement has been in-depth monitoring of the suppliers' risks. The Group's goal is to ensure its supply chain is secure, if risks are identified at key suppliers, timely analysis is performed to understand the situation and define a potential Business Continuity Plan.

In relation to airframe manufacturers, IAG has well established relationships with both Airbus and Boeing, whose aircraft make up most of the Group fleet, as well as with Embraer whose regional aircraft are operated by British Airways CityFlyer.

Access to the latest, fuel efficient aircraft with deliveries to meet our growth and operational requirements at competitive prices is essential to meeting the strategy of the Group.

Disruption to the timely delivery of aircraft, caused by technical or production issues can have an adverse impact on IAG's ability to meet its strategic goals, which is mitigated by providing upside and downside flexibility in fleet plans, however an effective working relationship with our airframe partners is also an essential part of managing this risk.

Which are our engagement mechanisms with this stakeholder group and the principal matters considered in the reporting period?

Group Procurement, an IAG Global Business Services (GBS) department, provides a centralised procurement function for the Group and manages supplier engagement, with approximately 23,000 suppliers. Group Procurement strives to conduct business and build relationships with suppliers sharing the Group's values: acting with honesty and integrity in all business dealings, reducing environmental footprints, improving safety, and strengthening contributions to building better societies, locally and globally. In addition to usual procurement processes, the Group engages with suppliers using joint projects, including our Hangar 51 accelerator programme, industry conferences and supplier workshops.

The COVID-19 outbreak changed GBS's ordinary day-to-day activity. The level and frequency of engagement with key suppliers increased and we started to adopt temporary measures until we had further clarity about the size of the impact COVID-19 would have on the Group. We updated the procurement supplier engagement plan in order to start articulating the situation clearly and work in partnership to defer spend and reduce costs. Wider measures were also implemented to temporarily waive minimum volume commitments across our contracts, work commenced on stopping or postponing capital investment projects that were no longer needed during the pandemic and the procurement team also focussed on converting fixed cost deals into variable to facilitate a more adaptable approach to revised capacity requirements.

During the second half of 2020, we entered a more structured phase of supply chain review and launched our Zero-Based Taskforces across all operating companies. The objective was to scrutinise the entire supply chain and our contracts in order to reflect new requirements. New specifications were also introduced to support our customers, colleagues and business requirements, such as, enhanced cleaning and PPE solutions.

These challenging times have helped us strengthen many supplier relationships who have become true partners during this difficult period. Working side by side with the businesses we operate to ensure mutual success. Equally, we have worked hard to identify those suppliers who may have been heavily impacted by the crisis and assisted in developing quick and effective solutions to ensure support was given where it was needed.

Overall, Group Procurement has delivered on its commitment to be a value generator for the Group and work in partnership with the supply base to ensure performance is aligned to business needs.

In 2020 procurement kept up its commitment to further enhance sustainability through the supply chain, with CSR, financial performance, diversity and environmental assessments at the centre of everything we do.

IAG Fleet Investments manages the overall relationship with airframe manufacturers along with the Fleet and Engineering departments at the Group's airlines.

At the start of 2020 IAG had commitments to take delivery of new aircraft from Airbus and Boeing and planned to exercise options to purchase further new aircraft. Following the COVID-19 outbreak, IAG suspended plans to exercise options for further aircraft and entered discussions to defer the delivery of aircraft and the associated pre-delivery payments.

By the summer of 2020, IAG had agreed to defer the delivery of a number of aircraft from 2020 and to reschedule aircraft due to be delivered in the 2021-2025 period. These agreements provided a reduction in capital expenditure for IAG and at the same time confirmed the delivery of some aircraft, providing planning certainty for the airframers, and allowing them to adjust their production plans to suit the new requirements.

The airframe manufacturers also suffered periods of disruption to their production capability caused by the need to adapt to COVID-19-secure working practices and outbreaks of the virus at their facilities. Technical and logistical delays further reduced the number of new aircraft delivered in 2020, but in a way that was managed between IAG and the airframers to avoid disruption.

As the impact of the COVID-19 virus has evolved, IAG has continued to engage with its airframe partners on further changes to deliveries scheduled between 2021 and 2025, again with the intention of creating planning certainty for our partners and right-sizing the delivery stream for IAG's revised requirements.

Governments and regulators

Why is this stakeholder relevant to the Group?

The nature of aviation, providing international connections in a safety and security critical environment, means that governments will always take a close interest in the industry's developments and that regulators will make rules that directly affect our operations.

IAG therefore engages closely with the national governments, regulators and parliamentarians in the states in which its airlines are based, as well as with relevant supra-national organisations such as the International Civil Aviation Organisation (ICAO), the European Commission and other European institutions.

The expected close involvement of governments and regulators in aviation has been even more clearly demonstrated this year due to the COVID-19 pandemic

The Group engages to understand and mitigate the impacts of regulatory change but also to ensure that policymakers and regulators take decisions with an understanding of the nature of IAG's business and of the economic and social benefits flying delivers.

Which are our engagement mechanisms with this stakeholder group and the principal matters considered in the reporting period?

IAG manages its engagement with government and regulatory stakeholders through a small team reporting to the Chief of Staff. This is supported by representatives in Madrid and Dublin who can engage quickly with local stakeholders where necessary. In doing so IAG's government affairs team regularly includes operating company colleagues to ensure technical expertise and local knowledge is leveraged. This approach has been particularly beneficial to the Group in responding to the actions of governments around the world in response to the COVID-19 pandemic.

In 2020, IAG continued to engage closely with the national governments, regulators and parliamentarians in the states in which its airlines are based, as well as other key jurisdictions (in particular the US) as well as with relevant supra-national organisations such as the International Civil Aviation Organisation (ICAO), the European Commission and other European Institutions.

The Group employs informal and formal mechanisms for engagement. These include taking part in individual meetings with ministers, officials, parliamentarians and industry regulators; providing written input to formal consultations; and membership of industry expert groups. This is often done collectively through trade associations, in particular International Air Transport Association (IATA), A4E and national airlines associations, as well as directly and through bilateral IAG representation.

In 2020, engagement has focused on COVID-19, Brexit and sustainability. In response to the pandemic, government decisions have tended to be more rapid than usual and the direct impacts on IAG operating companies have been more profound as authorities around the world have restricted air travel. In addition to restricting movement of citizens by various means, including through flight bans and immigration controls, governments have introduced a range of measures directly affecting airline operations.

The Group has contributed directly to the response to the COVID-19 pandemic, helping develop national and EU guidance, particularly on safety and security isues and including health protection measures, passenger facilitation processes and requirements to provide authorities with passenger data. The Group aims to help develop best practices and workable solutions that can allow travel to continue while restricting the spread of the virus.

In the lead up to the agreement of the EU-UK Trade and Cooperation Agreement, IAG was in regular contact through individual meetings with national regulators and ministers on both sides of the negotiations to explain the Group position.

IAG's input into sustainability policies continued, including the IAG Chief Executive Officer's engagement with European Commissioners through A4E, and British Airways' as a member of the UK's Jet Zero Council.

Airline partners and industry associations

Why is this stakeholder relevant to the Group?

IAG participates in different national and international associations in order to develop common positions and to improve the effectiveness of the associations' work in developing and promoting the airline industry. IAG and its operating companies rely on a number of partnerships with airlines across the world. These partnerships are an efficient way to strengthen the operating companies' marketing and distribution presence in "non-home" markets, and to extend the number of destinations we can offer to our customers. The customer bases of these partners also provide a vital source of traffic to sustain the overall scale of our airlines.

Which are our engagement mechanisms with this stakeholder group and the principal matters considered in the reporting period?

IAG takes a leading role in the international associations of which its airlines are members, in particular IATA and A4E (Airlines for Europe) as well as the national airline associations in Spain (ACETA) and the UK (Airlines UK), participating through the relevant corporate governance structures. As far as partnerships are concerned, each has formal governance structures in place, with regular meetings to monitor progress against a set of agreed outcomes. Informal working level engagement on a continuous basis also occurs, usually to progress specific initiatives that require additional focus. Many of our partnerships have emanated through our participation in the **one**world alliance. They can vary in size from simple bilateral agreements between an operating company and a partner airline to market the services of each other on a number of routes, to a fully comprehensive immunised joint business extending across a number of regions and allowing participants to coordinate on pricing and capacity decisions.

Participation in industry bodies has been particularly important this year, with an emphasis on delivering common messaging and influencing of governments, calling for unified and consistent measures to better allow the industry to navigate the impacts of the COVID-19 pandemic.

Despite very low levels of flying, the Group's partnerships and the **one**world alliance have remained a central focus as the IAG airlines think about how to rebuild their networks and offer the best possible proposition to customers during the recovery. IAG has also worked closely with the **one**world alliance in trialling COVID-19 testing across the Atlantic as a way of safely reopening markets.

Strategic priorities and key performance indicators

Strategic priority

1 Strengthening a portfolio of world-class brands and operations

How we create value

Unrivalled customer proposition

Our performance

Our activity in 2020

In the wake of the COVID-19 pandemic, the Group's portfolio of brands focused on supporting the wider community in tackling the impacts of the pandemic. In order to aid the COVID-19 relief efforts, the Group has flown critical equipment and essential medical supplies across the world, and each of the Group's airlines offered repatriation flights to bring customers safely home after the introduction of COVID-19-related travel restrictions and border closures. Each brand and operation also focused on supporting their local communities through charitable work such as volunteering at local hospitals, donating supplies and delivering care packages.

IAG's airlines have adapted the customer journey by introducing a range of measures to support consumer confidence. With the COVID-19 pandemic resulting in variable and unpredictable travel rules, the Group's airlines have implemented commercial reassurance measures for customers, such as extending flexible booking policies and guaranteeing flights that will operate. In addition, IAG supported the development of a COVID-19 insurance product aimed to support and protect customers against travel restrictions and health concerns.

The Group has influenced and trialled industry guidelines for safe travel, such as ICAO's Council Aviation Recovery Taskforce (CART) 'Take-off' Guidance. IAG has also been working with government and industry bodies to call for an effective COVID-19 testing procedure which could be used to reduce or remove quarantine requirements and enhance passenger safety onboard. In support of this, British Airways, together with its joint business partner American Airlines and the **one**world alliance, has trialled COVID-19 testing on routes from the USA to London Heathrow. All brands have also updated their customer communications to provide clear guidance on the new airport and onboard procedures, COVID-19 specific entry requirements for relevant destinations and an overview of the enhanced cleaning measures adopted by the airline.

Our priorities for 2021

The Group will continue its leading work on safety, aiming to ensure its businesses can deliver an unrivalled customer proposition that adapts to meet changing customer expectations, regulatory requirements and drives customer trust as well as satisfaction. The brands will continue to deepen their understanding of changes in the needs and expectations of different customer types, in particular as a result of the COVID-19 pandemic and will evolve their products and services to best deliver against the needs of the customer. Strong emphasis will be placed on digitalisation, including automating disruption management and delivering touchless travel solutions.

KPI or industry measure

Net Promoter Score (NPS)

2020

36.7

+10.9 pts vly

Definition and purpose

NPS is a non-financial metric which measures the customer's sentiment and loyalty to a brand. At IAG a transactional NPS is measured: customers respond about their likelihood of recommending an IAG operating carrier no more than seven days after taking a flight. Including NPS targets in the Group's employee bonus scheme has driven a stronger focus on improving the customer experience, which together with customer advocacy drives competitive advantage, leading to faster organic growth.

Performance

IAG's NPS in 2020 increased 10.9 points versus 2019, achieving record levels of customer satisfaction and growth across all IAG airlines. However, this score must be viewed in the context of the pandemic.

The COVID-19 pandemic has altered customer expectations and demanded a significant change in the flying experience. IAG has adapted the customer journey by introducing a range of reassurance measures to protect the safety and wellbeing of our customers, including revised service routines to promote social distancing, increased levels of aircraft cleaning and the provision of complimentary personal protection packs to all customers on board. The customer response to these and other reassurance measures has been overwhelmingly positive.

At the same time, the reduced flying schedule in 2020 has helped deliver improved on-time performance whilst the decrease in customer demand has contributed to lower load factors, both of which have historically been closely correlated with customer satisfaction.

The impact of the COVID-19 pandemic on the flying experience makes comparisons with prior and future periods challenging, however the Group's NPS performance in the first two months of 2020 (when customer demand was similar to that of the prior year) exceeded equivalent 2019 levels, suggesting a continuation of the positive customer satisfaction trends exhibited in recent years in the absence of the COVID-19 pandemic.

Strategic priority

2 Growing global leadership positions

How we create value

Value-accretive and sustainable growth

Our performance

Our activity in 2020

In 2020, the Group has primarily focused on securing its financial position so that, as the industry recovers from the impact of the COVID-19 pandemic, it is well-placed to maintain and bolster the existing leadership positions it holds in its home cities of Barcelona, Dublin, London, and Madrid.

Despite challenging and changeable travel restrictions, the Group continually optimised its network to deploy aircraft on routes with the most demand and has worked closely with its joint business partners to ensure the relationships help support each other through the recovery, and continue to provide choice and flexibility to customers.

In response to the drop in demand due to the COVID-19 pandemic, and recognising that the full recovery would take at least three years, the Group took strong, decisive action to right-size its businesses, including grounding a large number of aircraft, accelerating the retirement of older, less fuel-efficient aircraft and securing deferrals. Additionally, in October, IAG successfully secured €2.74 billion in funding through a capital increase which has helped strengthen the financial position of the Group's existing businesses. These actions will allow the Group to take advantage of opportunities for value-accretive growth that may arise as we recover from the pandemic.

Our priorities for 2021

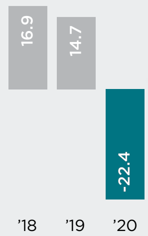
As and when the global aviation industry starts to recover from the impact of the COVID-19 pandemic, the Group's priority will be to invest in strengthening and maintaining its leadership positions in each of its home cities by managing and optimising its networks to meet demand.

Following receipt of antitrust approval for Aer Lingus to join the Atlantic Joint Business in December 2020, IAG will progress the integration of Aer Lingus into the joint business. In addition, the Group will continue to leverage its other joint businesses, alliances and partnerships and where appropriate form new joint businesses.

The Air Europa acquisition remains subject to approval from competition authorities. If approval is received, IAG will then prioritise the integration of Air Europa into the Group and commence delivering the synergies brought about by the acquisition.

KPI or industry measure

RoIC (%)[1]



Targeting sustainable

15%

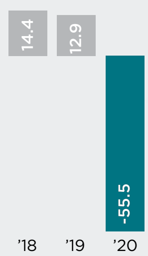
Ⓐ Definition and purpose

Return on Invested Capital (RoIC) is defined as EBITDA[1], less adjusted fleet depreciation, other depreciation and software amortisation, divided by average invested capital. We use 12-months rolling RoIC to assess how well the Group generates returns in relation to the capital invested in the business together with its ability to fund growth and to pay dividends.

Ⓡ Performance

The Group's RoIC fell 37.1 points versus last year to -22.4%. The decrease reflects the significant reduction in EBITDA of €7,662 million on similar levels of invested capital. The average age of fleet decreased from 11.9 years to 9.8 years reflecting the early fleet retirements of legacy aircraft but the average fleet value was in line with prior year, driven by the fleet additions in the year.

Operating margin (%)[1]



Targeting

12-15%

Ⓐ Definition and purpose

Operating margin is the Group operating result before exceptional items as a percentage of revenue. We use this indicator to measure the efficiency and profitability of our business and the financial performance of the individual operating companies within the Group.

Performance

The Group's operating margin fell by 68.4 points to -55.5 per cent. The Group acted quickly to implement initiatives to reduce non-fuel costs and to right-size the business; this helped to significantly reduce operating costs (excluding exceptional costs) and ensure IAG is well positioned to take advantage of a recovery in demand for air travel.

Average capacity (ASKs)

2020

-66.5%

Definition and purpose

Capacity in the airline industry is measured in available seat kilometres (ASKs) which is the number of seats available for sale multiplied by the distance flown.

2020 performance

IAG's capacity was severely impacted by global travel restrictions, following initial lockdowns in March. Capacity recovered at a slow rate as strict quarantine rules and travel restrictions, put in place by governments, limited demand. Recovery was then further impacted by the re-introduction of lockdowns as second and third wave COVID-19 infections swept across the UK, Europe and many other parts of the world. IAG's fleet plans have the flexibility to be able to adapt capacity as needed and react quickly to changes in demand when borders re-open and restrictions are lifted.

Gross CAPEX (€m)

2020

1,939 million

Definition and purpose

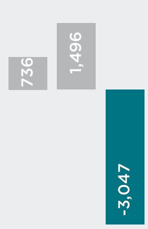
Gross CAPEX (capital expenditure) is the total investment in fleet, customer product, IT and infrastructure (including leased right of use assets) before any proceeds from the sale of property, plant and equipment.

We track the planned capital expenditure through our business planning cycle to ensure it is in line with achieving our other financial targets.

Planned CAPEX

IAG significantly reduced planned gross CAPEX for the three years 2020 to 2022, reducing planned spend for the period from €14.2 billion[3] to approximately €7 billion including the deferral of 68 fleet deliveries across the period. 2020 gross CAPEX reflected spend to maintain core IT infrastructure and cyber projects plus the addition of 34 aircraft during the year that could not be deferred. €0.5 billion of gross CAPEX has been delayed from late 2020 into 2021, due to aircraft delivery delays. The Group has also retired legacy aircraft early, with the two main fleet retirements being the Boeing 747 fleet of British Airways and the Airbus A340-600 fleet of Iberia.

Levered free cash flow (€m)[1]



Ⓐ Definition and purpose

Levered free cash flow is the cash generated in the year before returns to shareholders. It is used, in conjunction with leverage (measured as net debt to EBITDA), to measure the underlying cash generation of the business.

Performance

The Group's levered free cash flow for 2020 was -€3,047 million, €4.5 billion lower than 2019, due to the significant impact of COVID-19 on the business. Cost savings have included the impact of employee furlough and equivalent schemes following measures taken by national governments, which were applied from April and these, together with other employee and supplier cost reductions, have helped reduce operating cash costs.

Ⓐ Alternative performance measure

Ⓡ Measure linked to remuneration of Management Committee

Strategic priority

3 Enhancing IAG's common integrated platform

How we create value

Efficiency and innovation

Our performance

Our activity in 2020

While the COVID-19 pandemic has drastically reduced consumer demand, IAG's common integrated platform has helped deliver necessary cost-optimisation and improved efficiency through negotiations with third-party suppliers and has also provided revenue support through its non-passenger airline businesses.

The IAG GBS procurement team has helped negotiate agreements to extend supplier payables, defer deliveries, secure temporary discounts, and amend payment terms, improving the Group's cash position. In addition, the IAG GBS Finance Operations rapidly established additional support to ensure a constant overview of working capital.

IAG Tech continued its focus on enhancing new technology capabilities across the Group such as changes to the .com platforms to support bookings, improvements to contact centres and enhancements to disruption management solutions. Furthermore, IAG Tech delivered initiatives to reduce operating costs and improve efficiency through process automation and workflow.

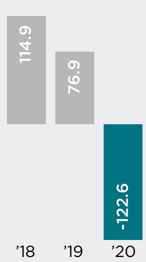
IAG Cargo and IAG Loyalty have experienced ongoing demand for their services despite the COVID-19 pandemic and contributed additional revenue for the Group. IAG Cargo has supported the sale of additional cargo space for operation of a number of cargo-only flights. IAG Loyalty signed a multi-year renewal, extending its worldwide commercial partnership with American Express, pursuant to which American Express made a payment to IAG Loyalty of approximately £750 million.

Our priorities for 2021

In 2021, IAG will continue to analyse the potential to create more value by bringing other parts of the operations into the common integrated platform and whether such centralisation should be accelerated. The Group will also continue to invest in enhancing the existing platform, to provide quality services and solutions across the Group at faster pace and lower unit cost, and continue to support its operating companies to accelerate their digital transformation which will be critical as the Group recovers from the COVID-19 pandemic.

KPI or industry measure

Adjusted EPS (€ cents)[1 2]



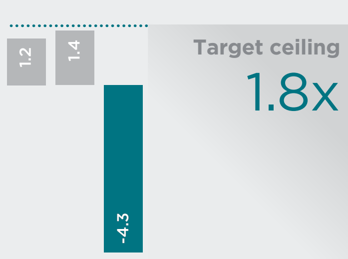
A Definition and purpose

Adjusted earnings per share (EPS) represents the diluted earnings for the year before exceptional items attributable to ordinary shareholders. This indicator reflects the profitability of the business and the core elements of value creation for IAG's shareholders.

R Performance

Adjusted earnings per share turned negative at -122.6 cents as the result after tax before exceptional items declined by €6.7 billion. The weighted average number of shares includes the impact of the new shares that were issued as part of the capital increase. The 2019 adjusted earnings per share figure has been restated to adjust for the bonus element of the capital increase.

Net debt to EBITDA[1]



A Definition and purpose

Net debt to EBITDA is calculated as long-term borrowings (both current and non-current), less cash, cash equivalents and less other current interest-bearing deposits. This is divided by EBITDA.

IAG uses this measure to monitor leverage, to assess financial headroom.

Performance

The Group's leverage increased significantly in 2020 with net debt to EBITDA turning negative to -4.3 times, which renders the metric less meaningful than previous years. Net debt rose by €2,191 million to €9,762 million primarily from the additional borrowing the Group entered into in 2020. Additional non-aircraft debt of €1,010 million was drawn down in Spain as part of the Instituto de Crédito Oficial ('ICO') facility and British Airways issued commercial paper worth €328 million (£298 million) using the UK's Covid Corporate Financing Facility (CCFF). Aer Lingus also entered into a financing agreement with the Ireland Strategic Investment Fund (ISIF) for €150 million, with €75 million drawn down in December 2020.

A Alternative performance measure

R Measure linked to remuneration of Management Committee

1 For further detail refer to the Alternative performance measures section. RoIC has not been included for the main airline operating companies, as with negative EBITDA the measure is less meaningful than in prior years.
2 Earnings per share information has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the bonus element of the rights issue.
3 As indicated during Capital Markets Day in November 2019.

Preserving liquidity and preparing for recovery

Steve Gunning
Chief Financial Officer

> *"The Group took, and continues to take, decisive actions to preserve liquidity."*

2020 has been an exceptional and challenging year for the Group, with the unparalleled set of circumstances brought about by the COVID-19 pandemic. IAG, thanks to its unique structure was able to react quickly, with an intense focus on liquidity.

The year had started well, with performance in January and February in line with previous plans. However, as the pandemic spread across the globe, the Group had to severely curtail its operations in the second quarter. The summer saw some easing of restrictions, with evidence of strong pent-up demand from customers to travel, but the impact of the virus increased again as winter approached, resulting in further restrictions on freedom of movement and travel being imposed. Passenger capacity for the year was only a third of that operated in 2019. One welcome development at the end of the year was that the UK agreed a trade deal with the EU, removing one source of uncertainty.

The Group took, and continues to take, decisive actions to preserve liquidity and to ensure it is positioned for the recovery, when it comes. Multiple workstreams and initiatives have been delivered, which can be summarised in five main areas: capacity, operating costs, working capital, capital expenditure and funding.

The Group reduced passenger capacity, with a focus on ensuring the remaining flying was cash-positive. The cargo operation introduced additional cargo-only flights and ended the year with record revenues. Many initiatives were implemented to reduce costs and the Group has made use of wage support and temporary redundancy arrangements in its home markets. Restructuring plans have been agreed and implemented during the year, leading to a reduction in employee numbers of over 10,000; additional flexibility has been introduced to make employee costs more variable with the level of activity. However, the cost savings achieved were outweighed by a 75 per cent drop in passenger revenue. In addition, exceptional charges were triggered by a fleet of aircraft, and fuel and foreign exchange hedging programmes too large for the significantly reduced operation. The resulting operating loss for the year was €7,426 million. The operating loss before exceptional items was €4,365 million, down €7,650 million on 2019.

The Group was able to negotiate a new eight year contract between American Express and IAG Loyalty, with an up-front receipt of €830 million. Capital expenditure was cut by more than half, following constructive discussions with aircraft manufacturers to delay deliveries of aircraft and payments planned for 2020 and the following years.

Despite the credit rating agencies' downgrades of their ratings for IAG and British Airways to below investment grade, the Group raised €1.4 billion of additional non-aircraft debt, including €1.0 billion partly guaranteed by Spain's *Instituto de Crédito Oficial* ('ICO'), in addition to €0.8 billion of bridging facilities against aircraft. The successful completion of long-term financing for aircraft deliveries meant the bridging facilities were repaid in the year. Aircraft financing generated €2.2 billion, higher than the total capital expenditure of €1.9 billion. A €2.7 billion rights issue, which was fully subscribed, was completed in September. In December, the Group secured a €2.2 billion 5-year loan facility for British Airways, partly guaranteed by UK Export Finance.

The timing and shape of recovery is uncertain and hence the Group remains focused on preserving liquidity and transforming its businesses for the future. The Group continues to develop initiatives to improve its cost-base, with a focus on reducing fixed costs and making the remaining cost structure more flexible and variable with capacity. The Group continues to review and develop other funding initiatives to provide further resilience, should it be required. Due to all of the hard work undertaken to preserve liquidity, the Group enters 2021 with total liquidity, including the recent UK Export Finance debt, higher than at the start of 2020.

Steve Gunning
Chief Financial Officer

Structure of Financial Review

Due to the unprecedented impact of COVID-19 and governments' responses, many of the usual variance analysis and measures are significantly less meaningful than in previous years and in some cases measures used previously no longer provide relevant insight into understanding the performance of the Group. As a consequence, unlike in prior years, in this review there is no detail on industry growth rates and GDP by market, as in 2020 the main drivers of capacity and revenue were COVID-19 and the related governmental travel bans and restrictions, rather than broader economic factors. This review, therefore, is structured to provide detail about the impact of COVID-19 on the Group, including the measures the Group has taken to mitigate the financial impact of the pandemic. Where variances exceed 100 per cent they have been substituted with 'nm' for 'not meaningful' and the absolute values are shown.

COVID-19 impact and IAG's response

The main impact of COVID-19 materialised as a significant drop in the demand for passenger flights, linked to both the pandemic itself and the travel restrictions introduced by national governments, which changed many times through the year, normally with no or very short notice, thereby creating uncertainty for customers.

As a result of the significantly reduced flying programme, aircraft had to be temporarily grounded, with some retired early. Jet fuel consumption was significantly lower than that on which the Group's hedging programme was based, leading to the discontinuation of hedge accounting for the related derivative financial instruments. In addition, the commodity price of jet fuel fell sharply, leading to significant losses related to the hedging programme.

The Group acted quickly to mitigate the impact of COVID-19 on its liquidity and results, through reductions in operating and capital expenditure, together with working capital initiatives and additional funding. The success of these measures was recognised by all three credit rating agencies, however, the severity of the deterioration in operating conditions resulted in successive downgrading of both IAG's and British Airways' credit ratings to below investment grade. The main measures taken to mitigate the impact of COVID-19 on the Group are shown opposite and reviewed in further detail below.

Key COVID-19 mitigations

Demand and capacity	• Passenger capacity 66.5% lower than 2019 • Additional cargo flights, including for essential equipment and supplies
Fleet reductions	• Temporary grounding and parking of aircraft • Early retirement of aircraft, including British Airways Boeing 747-400s and Iberia Airbus A340-600s, plus lease returns
Operating costs	• Pay cuts, wage support, furlough and temporary reductions in hours worked and employee numbers • Restructuring in British Airways and Aer Lingus, with increased flexibility • Non-essential discretionary spend reduced • Negotiated price reductions for supplier costs
Capital expenditure	• Deferral of delivery of 68 aircraft • Reduction in other capital expenditure; cyber spend retained
Working capital	• 2019 final dividend proposal withdrawn and no 2020 dividend • Reduction in trade receivables • Impact of reduction in bookings for future travel mitigated by customers opting to take vouchers in lieu of cash refunds • With agreement, deferred supplier payments treasury settlements and lease payments • American Express loyalty contract renewal, with significant pre-payment • Accelerated tax refunds from 2021 to 2020 and deferral of UK HMRC payments • Deferred UK and US pension contributions
Funding	• Aircraft financed throughout year (sale and leaseback and new €1 billion EETC facility) • British Airways Revolving Credit Facility extended by one year; other credit lines secured • €328 million commercial paper issued under UK's CCFF • €1 billion debt through ICO-backed loans in Spain • €75 million debt through ISIF-backed loans in Ireland, potential for further €75 million • £2 billion UK Export Finance loan agreed • €2.7 billion equity increase

Demand and capacity

IAG capacity

In 2020, all of IAG's airlines significantly reduced passenger capacity, with total Group capacity, measured in Available seat kilometres (ASKs), down 66.5 per cent versus 2019. The early months of the year started in line with the Group's plans approved by the Board in December 2019, aside from a limited COVID-19 impact mainly in the Asia Pacific region with suspension of services to China at the end of January and other capacity reductions across the region. Passenger capacity was 1.4 per cent higher than 2019 in January and 2.9 per cent higher in February. From late February, as the virus spread across the globe, many governments placed significant restrictions on the movement of people and on travel across international borders. This led to the cancellation of all flights to, from and within Italy and extensive reductions across the whole network, with capacity in the first quarter down 10.5 per cent on 2019.

In the second quarter, due to the impact of the virus worldwide and the associated travel and border restrictions applying in most countries, the Group was only able to operate a skeleton passenger schedule, with capacity operated only 5 per cent of that operated in the same quarter 2019. The third quarter showed improvement and additional capacity was introduced, mainly driven by leisure demand and for those visiting friends and relatives (VFR); however, capacity was still down 78.6 per cent on the previous year. Where travel restrictions were removed the Group saw a strong level of travel demand from customers. Plans to increase capacity steadily during the fourth quarter had to be revised, as a second wave of infections swept across Europe and governments re-imposed lockdowns and travel restrictions. Capacity for the fourth quarter was down 73.4 per cent.

The IAG passenger load factor was down 20.8 points from 2019 to 63.8 points, also impacted by travel restrictions, which changed frequently, together with low demand and a higher than normal level of passengers not checking in for flights that were still operating ('no-shows'). One consequence of the reduction in passenger capacity across the industry was a reduction in hold space available for cargo purposes, leading to reduced overall cargo supply and a more favourable cargo yield environment than in the previous year.

IAG capacity

Year to December 31, 2020	ASKs higher/ (lower) vly	Passenger load factor	Higher/ (lower)
Domestic	(49.8)%	71.0	(16.2) pts
Europe	(70.5)%	64.6	(19.0) pts
North America	(69.3)%	53.2	(30.9) pts
Latin America and Caribbean	(64.3)%	72.7	(13.7) pts
Africa, Middle East and South Asia	(61.4)%	67.2	(15.8) pts
Asia Pacific	(70.7)%	61.3	(24.5) pts
Total network	**(66.5)%**	**63.8**	**(20.8) pts**

Domestic and Europe

Together, IAG's Domestic and European markets continue to represent the Group's largest region. However, capacity across both was, and continues to be, significantly impacted by the travel restrictions and quarantines imposed by European governments.

Capacity in IAG's Domestic markets decreased by 49.8 per cent versus 2019. British Airways' capacity reflected demand from UK holidaymakers avoiding overseas destinations subject to quarantine restrictions, Scottish routes re-opened in quarter 2 and a new route to Newquay launched in the summer. Vueling focused its operations on connecting the Spanish peninsula with the Canary and Balearic Islands and Iberia maintained similar Domestic routes for connectivity. Aer Lingus' route between London and Belfast benefitted from UK citizens opting for domestic holidays, with load factors reaching 70 per cent in August. Passenger load factor in the region remained above 70 per cent as Spanish and UK government travel restrictions and quarantine rules prompted an increase in travellers opting for holidays in their home country.

The Group's capacity in Europe decreased 70.5 per cent year on year. As the COVID-19 outbreak started to spread, Vueling limited its operations outside of Spain as demand remained weak throughout 2020. Iberia maintained minimum operations to keep major European cities, including London, Paris and Madrid, connected in quarter 2 and expanded operations in quarter 3 to meet summer leisure demand. In quarter 3 British Airways had a good performance throughout the summer on the limited number of routes operated to destinations included on the UK Government's 'Travel Corridor' list. Aer Lingus' European operations were limited by the Irish government's 'Green List', which severely restricted travel and discouraged Irish citizens from non-essential travel. LEVEL's operations in Vienna and Amsterdam ceased on June 19, 2020.

North America

IAG's North American market accounts for almost 30 per cent of the Group's ASKs. The region's capacity increase at the beginning of 2020 reflected the full-year impact of routes launched during 2019, including British Airways' route to Pittsburgh, Aer Lingus' route to Minneapolis and LEVEL's route to New York, JFK. Following the outbreak of COVID-19, a much-reduced flight schedule to North America operated, primarily for cargo purposes, with British Airways and Aer Lingus operating regular flights to New York, Boston, Washington and Chicago. Iberia resumed operations to Chicago in quarter 3 and LEVEL Spain restarted its route to JFK in September. Quarter 4 benefited from increased leisure and VFR travel around the Thanksgiving and Christmas holidays, with routes to second-home markets such as Miami performing well. LEVEL France ceased operations on July 8, leading to the cancellation of its routes to Newark and Las Vegas. Passenger load factor for the region was the lowest for the Group as the United States government's COVID-19 restrictions allowed only residents and nationals to enter the country.

Latin America and Caribbean (LACAR)

IAG's capacity in LACAR increased in January and February driven by Iberia's new route to Guayaquil, Ecuador launched in 2019 and additional frequencies on routes to Colombia, Peru and Brazil. LEVEL's growth reflected the annualisation of new routes launched in 2019 to Santiago de Chile and additional frequencies on routes to the French Caribbean. However, following the initial outbreak of COVID-19, LACAR operations were extremely limited, due to strict government restrictions and high COVID-19 case numbers impacting the region, with regular operations only starting to resume in quarter 3. British Airways operated a number of charter flights to the Caribbean in quarter 2 and restarted regular service to a number of destinations in quarter 3. In quarter 4 flights operated regularly to São Paulo, Antigua and Saint Lucia, benefiting from leisure travel over the holiday period. In quarter 2, Iberia's operations were mainly for repatriation and cargo purposes and routes to Panama City, Santo Domingo and Quito resumed in quarter 3. Quarter 4 benefited from significant VFR travel to the region with load factors to routes in Ecuador and Dominican Republic reaching over 80 per cent. LEVEL France operations to the French Caribbean ceased in July, however LEVEL Spain continues to operate and resumed limited operations to Buenos Aires in September and Santiago de Chile in December. Passenger load factor in this region was the highest for the Group, down only 13.7 points on 2019 to 72.7 per cent.

Africa, Middle East and South Asia (AMESA)

AMESA capacity increased in January and February primarily due to new routes launched in 2019 by British Airways, including to Dammam via Bahrain and Islamabad. Following the outbreak of COVID-19 and initial lockdowns, regular operations did not restart until quarter 3 with British Airways returning to Dubai, Kenya, Israel, India and Pakistan. Iberia restarted its regular service to Dakar, Senegal in July but did not reopen regular operations to Morocco and Israel in 2020. Vueling did not restart any regular operations to the region in 2020. Passenger load factor for the region was down 15.8 points versus 2019 to 67.2 per cent.

Asia Pacific

In the Asia Pacific region, the Group's capacity was down significantly on 2019 and it was the first region to see cancellations as a result of the COVID-19 outbreak in late January. British Airways, Iberia and Aer Lingus all operated government charter flights to the region, carrying back Personal Protective Equipment (PPE) during the first wave of the pandemic. Since then, there has been a steady return to flying with British Airways reopening routes to China, Hong Kong and Tokyo, although strict travel restrictions remain in place limiting capacity, with China only allowing international carriers to operate one flight per week on a single route. Passenger load factor was down 24.5 points to 61.3 per cent on a capacity decrease of 70.7 per cent.

Basis of preparation

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to March 31, 2022, and accordingly the Directors have adopted the going concern basis in preparing the consolidated financial statements.

There are a number of significant factors related to COVID-19 that are outside of the control of the Group, including the status and impact of the pandemic worldwide, including 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. Due to the uncertainty that these factors create, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the sensitivities it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at February 25, 2021. The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020, secured an additional €3.6 billion of non-aircraft debt and having completed an equity increase of €2.7 billion in September 2020, which was fully subscribed. However, the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur. Refer to note 2 of the consolidated financial statements for further information.

Summary

In light of the significant reduction in the Group's passenger capacity linked to the impact of COVID-19, the year saw a significant reduction in passenger revenue. The Group took action to mitigate the impact through exploiting cargo opportunities and by reducing costs. The Group also recognised exceptional charges for restructuring costs, the discontinuance of hedge accounting in relation to fuel and foreign currency derivatives and the impairment of aircraft and related assets either retired or stood down early. The net result was an operating loss for the year of €7,426 million, versus an operating profit in 2019 of €2,613 million. The reported loss after tax for the year was €6,923 million, versus a profit of €1,715 million in 2019.

(Loss)/profit for the year

Statutory results € million	**2020**	2019	Higher/ (lower) vly
Operating (loss)/profit	**(7,426)**	2,613	(10,039)
(Loss)/profit before tax	**(7,810)**	2,275	(10,085)
(Loss)/profit after tax	**(6,923)**	1,715	(8,638)

The Group uses Alternative Performance Measures (APMs) to analyse the underlying results of the business excluding exceptional items, which are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance. A summary of the exceptional items relating to 2019 and 2020 is given below, with more detail in the Alternative Performance Measures section, including the exceptional items by operating company.

Summary of exceptional items

Income statement line	Exceptional item description	(Charge)/credit to the Income statement € million 2020[1]	2019
Passenger revenue	Discontinuation of hedge accounting for foreign currency derivatives for revenue	**(62)**	–
Employee costs	Non-cash increase in liabilities in association with pension scheme settlement	**–**	(672)
Employee costs	Restructuring costs	**(313)**	–
Fuel, oil and emissions costs	Discontinuation of hedge accounting for fuel and associated foreign exchange derivatives	**(1,694)**	–
Engineering and other aircraft costs	Inventory write-down and charge in relation to contractual lease provisions	**(108)**	–
Property, IT and other costs	Legal costs associated with employee restructuring programmes	**(6)**	–
Property, IT and other costs	Settlement provision in relation to the theft of customer data at British Airways in 2018	**(22)**	–
Depreciation, amortisation and impairment	Impairment of fleet and associated assets	**(856)**	–
Tax	Tax on exceptional items	**463**	–

1 In 2020 all items were associated with the impact of COVID-19, except the settlement provision in relation to the theft of customer data at British Airways in 2018.

Excluding the impact of the exceptional items shown above, the operating loss for 2020 was €4,365 million, down €7,650 million from the operating profit of €3,285 million generated in 2019. The loss after tax and before exceptional items was €4,325 million, versus a profit after tax and before exceptional items of €2,387 million in 2019.

Alternative Performance Measures (before exceptional items), € million	2020	2019	Higher/ (lower) vly
Operating (loss)/profit	**(4,365)**	3,285	(7,650)
(Loss)/profit before tax	**(4,749)**	2,947	(7,696)
(Loss)/profit after tax	**(4,325)**	2,387	(6,712)

Revenue

€ million	2020	Higher/ (lower) vly	Higher/ (lower) vly
Passenger revenue[1]	**5,512**	(16,956)	(75.5)%
Cargo revenue	**1,306**	189	16.9%
Other revenue	**988**	(933)	(48.6)%
Total revenue	**7,806**	(17,700)	(69.4)%

1 Includes an exceptional charge of €62 million (2019: nil) related to discontinued hedge accounting of revenue foreign currency derivatives. Further information is given in the Alternative Performance Measures section.

Passenger revenue

The overall impact of the significantly reduced schedule and lower passenger load factors described above was a decrease in passenger revenue of €16,956 million, or 75.5 per cent versus 2019.

Cargo revenue

2020 was a record year for cargo revenue, as additional flights were operated to transport essential equipment and supplies, assisted by a dedicated charter team to develop solutions for customers and governments, recognising that IAG Cargo does not operate a dedicated freighter fleet. The cargo business identified markets most impacted by the reduction in air cargo supply, where demand would not be met by traditional freighter services and that could support the yields required to fly cargo-only services using passenger aircraft. The focus of cargo-only flying was to ensure a cash-positive contribution was achieved for the airlines and the Group. Cargo opportunities were increased by removing seats from five passenger aircraft and obtaining regulatory approvals to load cargo in the passenger cabins. During the year 4,003 additional cargo-driven flights were operated; these additional flights are not included in the passenger capacity figures for ASKs, as seats were not offered for general sale to passengers.

The overall impact of the cargo operation, including the additional cargo-driven flights linked to the COVID-19 response, was an increase in Cargo revenue of €189 million, or 16.9 per cent versus 2019.

Other revenue

The largest Other revenue streams for the Group in normal times are Iberia's Maintenance, Repair and Overhaul (MRO) and Handling businesses, together with BA Holidays. Revenue from these activities was also significantly reduced versus the previous year, linked to lower activity levels associated with COVID-19. In the case of MRO and Handling, these revenues were affected by reduced demand following lower flight schedules and significant fleet reductions across the airline industry and hence lower maintenance requirements, although the reductions were less than the reduction in the level of passenger capacity. The BA Holidays business is closely linked to the passenger business and was therefore impacted by the significantly reduced passenger operation. Loyalty revenues were also down on 2019, as the lower flying programme led to a reduced number of redemptions of Avios and a reduced volume of the sale of Avios to third parties, linked to the reduced level of expenditure on travel. Other ancillary revenue streams were also affected by the impact of the pandemic, including handling recoveries in Terminal 7 at New York, JFK. In total Other revenue was down €933 million, or 48.6 per cent versus 2019.

Fleet reductions

The Group anticipates that as a result of COVID-19, demand will continue to be supressed for several years and will not reach levels seen in 2019 until at least 2023. The Group, therefore, took steps to reduce its aircraft fleet and the associated cost of maintenance.

During 2020, a significant number of aircraft were temporarily grounded and parked, with the limited operations focused on flying the more fuel-efficient new-generation aircraft, where possible. The Group also decided to accelerate the retirement of its older, four-engined longhaul fleet. British Airways retired its fleet of 32 Boeing 747-400 aircraft, and Iberia retired its fleet of 15 Airbus A340-600 aircraft. In addition to these retirements, 37 aircraft were stood down earlier than planned, either pending disposal or return to lessors, bringing the reductions in fleet numbers to 84 aircraft. However, the Group also took delivery of 34 aircraft during the year, detailed in the Capital expenditure section below.

The early retirement and stand-down of these aircraft led to an exceptional impairment charge of €837 million; there was also a €108 million exceptional charge related to a write-down of inventory and recognition of contractual end-of-lease provisions.

Number of fleet

Number of fleet in-service	**2020**	2019	Higher/ (lower) vly
Shorthaul	**367**	394	(6.9)%
Longhaul	**166**	204	(18.6)%
	533	598	(10.9)%

241 of the 533 "in-service" fleet at the end of the year were temporarily grounded. In addition to the in-service fleet, there were a further 71 aircraft held by the Group pending disposal or lease return and 1 new aircraft that had been delivered to the Group and paid for but had not yet entered service.

Operating costs

Due to the reduced flying programme and significantly reduced revenues, the Group took action to offset the financial impact by reducing costs, together with measures to increase the variability and flexibility in its cost base. Total expenditure on operations before exceptional items fell from €22,221 million in 2019 to €12,233 million in 2020, a 44.9 per cent reduction, compared to the reduction in passenger capacity, measured in ASKs, of 66.5 per cent. The reduction in operating costs before exceptional items and excluding depreciation, amortisation and impairment was 49.6 per cent.

Employee costs

€ million	**2020**	Higher/ (lower) vly	Higher/ (lower) vly
Employee costs[1]	**3,560**	(2,074)	(36.8)%

1 Includes an exceptional charge of €313 million related to the restructuring programmes in British Airways, Aer Lingus, Iberia and LEVEL, undertaken to resize the Group as a consequence of COVID-19. A non-cash exceptional charge of €672 million in 2019 related to the impact of a settlement between British Airways and its oldest pension scheme, APS. Further information is given in the Alternative Performance Measures section.

National governments provided wage or job support mechanisms in each of IAG's main home markets and the operating companies used these facilities to reduce employee numbers and costs, with the direct impact of these mechanisms reducing employee costs by approximately €730 million. Other arrangements were agreed for staff not directly covered by such schemes and so costs were reduced at all levels in the organisation, with the Management Committee and Board members also seeing reductions as outlined in the Report of the Remuneration Committee.

In addition to temporary measures, both British Airways and Aer Lingus implemented longer-term restructuring, consistent with the expected multi-year impact of COVID-19 on demand. The restructuring measures will result in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce at June 2020) and 500 at Aer Lingus (or approximately 10 per cent of the workforce at June 2020); the substantial majority of employees affected had left the Group by the end of 2020. British Airways has also introduced more flexibility in certain operational areas, in order to be able to better adjust employee numbers and cost to the level of capacity operated. Iberia also made reductions in management numbers, together with restructuring related to staff outside of Spain. Iberia and Vueling made use of the temporary redundancy arrangements in Spain under an *Expedientes de Regulación Temporal de Empleo* ('ERTE') arrangement and hence did not incur restructuring costs in respect of non-managerial employees in Spain. The closure of LEVEL France led to an exceptional provision of €28 million for the associated employee restructuring costs. The total exceptional employee restructuring charges for the year included within Employee costs were €313 million.

In addition to the wage and pay support schemes and restructuring programmes outlined above, other measures were taken to further reduce employee costs, such as offering unpaid leave, the removal of bonuses and reduced non-mandatory training. Measures were taken at all levels across the Group.

Employee costs for the year decreased by €2,074 million, or 36.8 per cent compared with 2019; excluding exceptional items, employee costs reduced by €1,715 million, or 34.6 per cent.

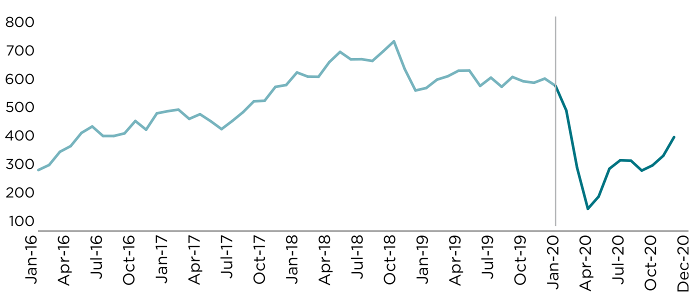
Fuel, oil and emissions costs

€ million	2020	Higher/ (lower) vly	Higher/ (lower) vly
Fuel, oil costs and emissions charges[1]	**3,735**	(2,286)	(38.0)%

1 Includes an exceptional charge of €1,694 million (2019: nil) related to discontinuation of hedge accounting for fuel derivatives and fuel foreign currency derivatives as a result of the impact of COVID-19. Further information is given in the Alternative Performance Measures section.

Commodity fuel prices fell dramatically following the spread of COVID-19 globally in March, with prices down approximately 75 per cent on levels experienced immediately beforehand. Although there was a partial recovery during the remainder of the year, prices were still at levels much lower than 2019.

Jet fuel price trend ($/mt)



The Group seeks to reduce the impact of volatile commodity prices by hedging prices up to three years in advance. The hedging programme is based on expected levels of activity, with the proportion hedged in line with treasury policies agreed with the Board.

In 2020, due to the rapid fall in the commodity fuel price, the Group has experienced losses on its fuel hedging derivatives. These hedging losses would have normally been offset against the reduced cost of physical fuel purchased. However, the impact of COVID-19 has led to a significant reduction in the requirement to purchase jet fuel, due to the significantly reduced flying programme. As a consequence, the Group had derivative contracts for which there was no corresponding purchase of jet fuel, leading to discontinuance of hedge accounting for these derivatives, with the mark-to-market loss of €1,781 million recognised as an exceptional charge in the Income statement. There was also a related mark-to-market gain recognised in the Income statement related to foreign exchange hedging of €87 million, bringing the net exceptional charge to €1,694 million for the year. These values are calculated based on the fuel curve and foreign exchange rates as at December 31, 2020 and the anticipated capacity to be operated for 2021 and 2022.

The Group continued to benefit from reduced fuel consumption associated with the investment in new fleet, together with the early retirement of older aircraft. Overall fuel, oil and emissions charges were down €2,286 million, or 38.0 per cent versus 2019; excluding the exceptional net overhedging charge fuel, oil and emissions charges were down €3,980 million, or 66.1 per cent.

Supplier costs

€ million	2020	Higher/ (lower) vly	Higher/ (lower) vly
Handling, catering and other operating costs	**1,340**	(1,632)	(54.9)%
Landing fees and en-route charges	**918**	(1,303)	(58.7)%
Engineering and other aircraft costs[1]	**1,456**	(636)	(30.4)%
Property, IT and other costs[2]	**782**	(29)	(3.6)%
Selling costs	**405**	(633)	(61.0)%
Currency differences	**81**	88	nm

1 Includes an exceptional charge of €108 million (2019: nil) related to an inventory write-down and a charge relating to contractual lease provisions. Further information is given in the Alternative Performance Measures section.
2 Includes an exceptional charge of €28 million (2019: nil) related to the penalty notice issued by the UK Information Commissioner's Office for the theft of customer data at British Airways in 2018 (€22 million) and to the legal costs of the Group-wide restructuring programme undertaken in the year (€6 million). Further information is given in the Alternative Performance Measures section.

Handling, catering and other operating costs were down €1,632 million on 2019, or 54.9 per cent. In addition to volume-linked savings, including the reduced product costs associated with lower BA Holidays revenues, costs were reduced by management actions, such as the closure of airport lounges and by the necessary reduction in catering, linked to measures to reduce the risk of transmission of COVID-19 to customers and staff.

Landing fees and en-route charges were down €1,303 million on 2019, or 58.7 per cent. Costs reduced in line with the lower flying programme, although there was some adverse impact from lost volume rebates and equivalent arrangements, including at London Heathrow, together with price increases from Eurocontrol.

Engineering and other aircraft costs reduced due to the reduction in flights operated, together with the reduction in Iberia's external MRO business and other savings in the wake of COVID-19. Engineering and other aircraft costs were down €636 million, or 30.4 per cent; excluding the exceptional charge, due to the write-down of inventory and provision for lease return costs, Engineering and other aircraft costs were down €744 million, or 35.6 per cent.

Property, IT and other costs were down €29 million, or 3.6 per cent, on 2019, including the final penalty notice issued by the UK Information Commissioner's Office regarding the theft of customer data at British Airways in 2018; excluding the cost of this final penalty notice Property, IT and other costs were down €57 million or 7.0 per cent. Cost savings associated with the lower volume of IT transactions and reduced energy usage and rates were partly offset by the costs associated with IT infrastructure investment. The 2019 base included income from a settlement in respect of a British Airways data centre issue in 2017.

Selling costs reduced with the significant drop in passenger revenue and lower forward bookings, together with a reduction in marketing and other discretionary expenditure in light of COVID-19. Selling costs were €633 million lower than the previous year, or 61.0 per cent.

Ownership costs

Ownership costs include depreciation, amortisation and impairment of tangible and intangible assets. The Group adopted IFRS 16 'Leases' from January 1, 2019, meaning right of use assets in respect of leases are included with the Balance sheet and associated depreciation of those right of use assets is included within depreciation.

€ million	**2020**	Higher/ (lower) vly	Higher/ (lower) vly
Ownership costs[1]	**2,955**	844	40.0%

1 Includes an exceptional charge of €856 million (2019: nil) related to the impairment of fleet assets and other assets. Further information is given in the Alternative Performance Measures section.

The increase in ownership costs of €844 million, or 40.0 per cent, is driven by the €856 million impairment charge in respect of the retirement of the British Airways Boeing 747-400 and Iberia Airbus A340-600 fleets, and related other assets, together with the early stand down or lease return of 37 other aircraft. Excluding these items, ownership costs would have been at a similar level to 2019.

Exchange rate impact

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily British Airways and IAG Loyalty. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group typically generates a surplus in most currencies in which it does business, except the US dollar, for which capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. The Group hedges its economic exposure from transacting in foreign currencies but does not hedge the translation impact of reporting in euro.

Overall, in 2020 the Group operating loss before exceptional items was increased by €5 million due to adverse exchange rate impacts.

Exchange impact before exceptional items

	2020		
€ million Favourable/(adverse)	**Translation impact**	**Transaction impact**	**Total exchange impact**
Total exchange impact on revenue	84	33	**117**
Total exchange impact on operating expenditures	(31)	(91)	**(122)**
Total exchange impact on operating loss	**53**	**(58)**	**(5)**

	2019		
€ million Favourable/(adverse)	Translation impact	Transaction impact	Total exchange impact
Total exchange impact on revenue	68	325	393
Total exchange impact on operating expenditures	(58)	(268)	(326)
Total exchange impact on operating profit	10	57	67

The exchange rates for the Group were as follows:

	2020	2019	Higher/ (lower) vly
Translation – Balance sheet			
£ to €	**1.10**	1.18	(6.8%)
Translation – Income statement (weighted average)			
£ to €	**1.13**	1.13	0.0%
Transaction (weighted average)			
£ to €	**1.13**	1.13	0.0%
€ to $	**1.13**	1.12	0.9%
£ to $	**1.27**	1.27	0.0%

Total net non operating costs

Total net non-operating costs for the year were €384 million, versus €338 million in 2019. The main driver of the increase was finance costs up €59 million (9.7 per cent), related to interest on new debt and arrangement costs. In both years the finance costs were partially offset by net currency retranslation credits, mainly related to the retranslation of US dollar balances and related derivate financial instruments.

Tax

The tax credit for the period was €887 million (2019: tax charge of €560 million), with an effective tax rate (credit) for the Group of 11 per cent (2019: 25 per cent charge). The substantial majority of the Group's activities are taxed where the main operations are based, in the UK, Spain and Ireland, with corporation tax rates during 2020 of 19 per cent, 25 per cent and 12.5 per cent respectively, which results in an expected effective tax rate of 21 per cent. The difference between the expected effective tax rate of 21 per cent and the actual effective tax rate of 11 per cent was firstly due to not recognising tax credits in respect of certain current and prior period losses and deductible temporary differences; those losses and deductible temporary differences relate principally to Iberia, Openskies and Vueling. In addition, the UK Government retained its rate of corporation tax rate at 19 per cent from April 1, 2020, in place of the reduction to 17 per cent that had previously been enacted into law.

Operating profit and loss performance of operating companies

	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
Post-exceptional items[1]	**2020**	Higher/ (lower)	*Higher/ (lower)*	**2020**	Higher/ (lower)	*Higher/ (lower)*	**2020**	Higher/ (lower)	*Higher/ (lower)*	**2020**	Higher/ (lower)	*Higher/ (lower)*
Passenger revenue	2,840	(9,059)	(76)%	379	(1,681)	(82)%	1,160	(2,893)	(71)%	569	(1,868)	(77)%
Cargo revenue	890	179	25%	88	34	63%	240	(51)	(18)%	–	–	–
Other revenue	217	(463)	(68)%	–	(11)	-	859	(442)	(34)%	5	(13)	(72)%
Total revenue	**3,947**	(9,343)	(70)%	**467**	(1,658)	(78)%	**2,259**	(3,386)	(60)%	**574**	(1,881)	(77)%
Fuel, oil costs and emissions charges	1,996	(1,241)	(38)%	286	(174)	(38)%	716	(486)	(40)%	314	(234)	(43)%
Employee costs	1,916	(1,196)	(38)%	217	(188)	(46)%	798	(366)	(31)%	196	(105)	(35)%
Supplier costs	2,440	(2,057)	(46)%	370	(484)	(57)%	1,544	(848)	(35)%	594	(522)	(47)%
Ownership costs[2]	1,475	369	33%	157	27	21%	612	222	57%	345	95	38%
Operating loss	**(3,880)**	(5,218)	nm	**(563)**	(839)	nm	**(1,411)**	(1,908)	nm	**(875)**	(1,115)	nm
Operating margin	*(98.3)%*	*(108.4) pts*		*(120.4)%*	*(133.4) pts*		*(62.5)%*	*(71.3) pts*		*(152.3)%*	*(162.1) pts*	
Alternative Performance Measures[1]												
Passenger revenue	2,894	(9,005)	(76)%	382	(1,678)	(81)%	1,160	(2,893)	(71)%	569	(1,868)	(77)%
Cargo revenue	890	179	25%	88	34	63%	240	(51)	(18)%	–	–	–
Other revenue	217	(463)	(68)%	–	(11)	-	859	(442)	(34)%	5	(13)	(72)%
Total revenue before exceptional items	**4,001**	(9,289)	(70)%	**470**	(1,655)	(78)%	**2,259**	(3,386)	(60)%	**574**	(1,881)	(77)%
Fuel, oil costs and emissions charges	1,159	(2,078)	(64)%	142	(318)	(69)%	372	(830)	(69)%	160	(388)	(71)%
Employee costs	1,695	(834)	(33)%	193	(212)	(52)%	784	(380)	(33)%	196	(105)	(35)%
Supplier costs	2,398	(2,099)	(47)%	363	(491)	(57)%	1,492	(900)	(38)%	564	(552)	(49)%
Ownership costs[2]	1,076	(30)	(3)%	133	3	2%	370	(20)	(5)%	277	27	11%
Operating loss before exceptional items	**(2,327)**	(4,248)	nm	**(361)**	(637)	nm	**(759)**	(1,256)	nm	**(623)**	(863)	nm
Operating margin before exceptional items	*(58.2)%*	*(72.7) pts*		*(76.8)%*	*(89.8) pts*		*(33.6)%*	*(42.4) pts*		*(108.5)%*	*(118.3) pts*	

1 Further detail is provided in the Alternative Performance Measures section.
2 Ownership costs reflects Depreciation, amortisation and impairment.

Review by operating company

The results after exceptional items for each operating company are shown previously, along with the Alternative Performance Measures, which exclude exceptional items, as detailed in the Alternative Performance Measures section.

The results for all operating companies were significantly impacted by COVID-19 in 2020 and the main items driving the results of the four main operating companies are therefore common, many of which have been covered above. All four of the operating companies saw significant reductions in passenger revenue and took measures to reduce operating costs and preserve liquidity. British Airways, Iberia and Aer Lingus benefited from additional cargo flights and higher cargo yields, with both British Airways and Aer Lingus generating higher cargo revenue than in 2019.

Employee costs fell due to the use of wage support or similar schemes, particularly in the UK and Ireland, with temporary redundancy programmes under the ERTE arrangement operating in Spain. British Airways and Aer Lingus undertook restructuring programmes during the year, with Iberia also making reductions in management numbers and reductions outside of Spain.

The operating companies all operate similar hedging programmes, under a centrally agreed Group policy, which resulted in overhedging of jet fuel purchases and related currency transactions. Excluding the impact of overhedging, fuel costs fell in line with the capacity reductions, with a small benefit from the efficiency of new-generation aircraft and a reduced effective price net of hedging.

Supplier costs also fell significantly at each of the operating companies, reflecting the impact of volume-related savings, linked to the significantly lower flying programmes, together with the negotiated cost-reduction initiatives and reductions in discretionary expenditure.

Ownership costs were impacted by the impairment of aircraft and related assets in each operating company, including the early retirement of the Boeing 747-400 fleet at British Airways and the Airbus A340-600 fleet at Iberia, together with other aircraft permanently stood down pending disposal or return to lessors.

Operating margins are much less meaningful than in previous years, given the significant impact of COVID-19, but are included for completeness; each main operating company saw a substantial operating loss in 2020, with cost reductions only able to mitigate part of the fall in revenues.

Capital expenditure

In response to COVID-19, the Group has agreed to defer 68 aircraft scheduled for delivery over the period 2020 to 2022 and to re-schedule certain pre-delivery payments to aircraft manufacturers. In November 2019, as announced at the IAG Capital Markets Day, it was anticipated capital expenditure would total €14.2 billion for the period 2020 to 2022. With aircraft deferrals and savings in other capital expenditure, linked to the response to COVID-19, the Group now expects capital expenditure over that period to be below €7 billion. Further deferrals are under discussion with the aircraft manufacturers.

The Group did not enter into any new agreements to acquire additional aircraft in 2020, either from aircraft manufacturers or lessors.

In 2020 the Group took delivery of 34 aircraft, with 19 for British Airways, eight for Iberia, three for Vueling and four for Aer Lingus. As at December 31, 2020 one of these aircraft had yet to enter service and is therefore not included in the 'in service' fleet shown elsewhere in this report. The liquidity impact of the aircraft deliveries in the year was cash-positive, as the value of financing raised exceeded the final delivery payments made to the aircraft manufacturers, due to pre-delivery payments for those aircraft made in previous years, with total aircraft financing proceeds in the year of €2.2 billion.

Aircraft deliveries	**2020**	2019
Airbus A320 family	**15**	32
Airbus A330	**2**	3
Airbus A350	**7**	8
Boeing 777-300	**4**	–
Boeing 787-10	**2**	–
Embraer E190	**4**	2
Total	**34**	45

Capital expenditure for the year was reduced to €1.9 billion, more than 50 per cent down on the €4.2 billion anticipated for 2020 in November 2019. Capital expenditure was also lower than the revised projection of €2.7 billion for the year given in July 2020, mainly due to further aircraft delays, moving approximately €0.5 billion of aircraft delivery payments and associated financing into 2021.

Despite the reductions made to discretionary capital projects, the Group maintained its programme of cyber-related investments.

Capital commitments

Capital expenditure authorised and contracted for at December 31, 2020 amounted to €10,545 million (2019: €12,830 million). Most of this commitment is denominated in US dollars and includes commitments until 2027 for 121 aircraft including 64 aircraft from the Airbus A320 family, 10 Boeing 787s, 18 Boeing 777s, one Airbus A330, 26 Airbus A350s and two Embraer E190.

The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2020.

Aircraft future deliveries at December 31	**2020**	2019
Airbus A320 family	**64**	79
Airbus A330	**1**	1
Airbus A350	**26**	33
Boeing 777-300	**–**	4
Boeing 777-9	**18**	18
Boeing 787-10	**10**	12
Embraer E190	**2**	–
Total	**121**	147

Working capital and other initiatives

The Group negotiated deferrals to supplier payments and lease payments. The Group rolled over fuel derivatives, monetised EU Emissions Trading Scheme credits and foreign currency derivatives that resulted in reduced cash outflow in 2020 of approximately €625 million; deferrals to future years account for approximately 60 per cent of this amount, with the majority due in 2021. Relief was given during the year in respect of the timing of VAT and other payments to the UK's HMRC and to Eurocontrol for regulated overlying charges, although both had reverted to normal terms by the end of the year.

In quarter 3 a multi-year renewal was signed with American Express, including an upfront payment of approximately €830 million (£754 million), with a significant amount being for the pre-purchase of Avios.

Trade receivables were reduced significantly, falling from €2,255 million (net of the provision for expected credit losses) at December 31, 2019 to €557 million at the end of 2020. Part of the reduction was due to the contraction in activity, with lower passenger and other revenue yet to be received by the Group, but the reduction was also achieved by ensuring outstanding amounts due from customers and government agencies were paid.

Deferred revenue on ticket sales, which includes loyalty points (Avios), fell €356 million to €5,130 million at December 31, 2020; €4,657 million is included in current liabilities and €473 million within non-current liabilities, associated with the renewal of the IAG Loyalty contract with American Express. The value of loyalty points (Avios) issued and yet to be recognised in revenue was up €0.8 billion versus 2019 at €2.7 billion, reflecting the American Express contract renewal and associated pre-payment, but sales in advance of carriage, related to passenger ticket sales, were down €1.2 billion versus 2019 at €2.4 billion. The cash impact of cancelled flights was partially mitigated by customers accepting vouchers for future travel in lieu of a cash refund, with the outstanding value of vouchers as at December 31, 2020 accounting for approximately half of the sales in advance of carriage balance.

Due to COVID-19 British Airways was eligible for refund of tax payments made to HMRC in 2019 and the Group was able to accelerate receipt into 2020, rather than 2021. Together with refunds in Ireland, the impact was to improve cash by approximately €175 million in 2020.

British Airways deferred monthly UK pension contributions that would otherwise have been due in quarter 4, 2020 to the value of €125 million, together with contributions of €375 million relating to the first three quarters of 2021. These payments are due to be added to the end of the schedule of deficit recovery contributions, which currently ends in March 2023. British Airways granted to the Trustee of NAPS security over certain property assets in respect of these deferred payments. British Airways has also agreed that it will not make dividend payments to IAG before the end of 2023 and that from 2024 dividends will be matched by a contribution to NAPS of 50 per cent of the dividend paid until the deferred contributions have been paid.

Funding and debt

IAG's long-term objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S+P and Moody's assigned IAG with a long-term investment grade credit rating with stable outlook. Ratings (as at February 25, 2021) are: S&P: BB (3 notch decline), Moody's: Ba2 (2 notch decline), based on the status of COVID-19 and related travel restrictions, together with the expected timing of the recovery of global air traffic.

Debt and capital

The Group monitors leverage using net debt to EBITDA.

See Alternative Performance Measure section for calculation

The Group has a target of net debt to EBITDA below 1.8 times.

In 2020, due to the significant impact of COVID-19, EBITDA turned negative, rendering the net debt to EBITDA ratio much less meaningful than in normal times; the calculation for 2020 results in minus 4.3 times.

Net debt

€ million	2020	2019	Higher / (lower)
Debt	**14,254**	12,704	1,550
Cash and cash equivalents and interest-bearing deposits	**(6,683)**	(6,274)	(409)
Net debt at January 1	**7,571**	6,430	1,141
Decrease/(increase) in cash net of exchange	**766**	(409)	1,175
Net cash outflow from repayments of borrowings and lease liabilities	**(2,514)**	(2,237)	(277)
Net cash inflow from new borrowings	**3,567**	2,286	1,281
Non-cash impact from new leases	**1,179**	1,199	(20)
Increase in net debt from financing	**2,232**	1,248	984
Exchange and other non-cash movements	**(807)**	302	(1,109)
Net debt at December 31	**9,762**	7,571	2,191

Gross debt increased by €1,425 million, principally driven by the non-aircraft debt raised by British Airways under the UK's CCFF mechanism (€328 million), loans backed by Spain's ICO of €750 million for Iberia and €260 million for Vueling, together with €75 million of debt backed by the Irish ISIF (see below). Cash fell by €766 million, leading to net debt €2,191 million higher at €9,762 million. Since the adoption of IFRS 16 from January 1, 2019 net debt includes leases for aircraft with financing arrangements formerly accounted for as operating leases.

Cash and interest-bearing deposits

The 2020 cash balance in IAG and other Group companies includes the balance of the proceeds from the capital increase retained in IAG and the net proceeds of the American Express renewal payment in IAG Loyalty.

€ million	2020	2019	Higher/ (lower)
British Airways	**1,389**	3,055	(1,666)
Iberia	**822**	1,121	(299)
Aer Lingus	**266**	580	(314)
Vueling	**590**	820	(230)
IAG and other Group companies	**2,850**	1,107	1,743
Cash and deposits	**5,917**	6,683	(766)

Cash and interest-bearing deposits reduced by €766 million to €5,917 million, with the significant impact of COVID-19 on profitability offset by the mitigation measures taken by the Group, including additional borrowing and the €2.7 billion capital increase.

Debt

Despite some disruption to financial markets in respect of the aviation sector, linked to the COVID-19 pandemic, the Group has been able to continue to obtain efficient funding secured against aircraft deliveries. In total 36 aircraft were financed in the year, 4 of which were delivered in 2019, and with 13 involving sale and leaseback transactions, a further 11 direct leases from lessors and 12 on finance lease arrangements. Just two of the aircraft delivered in 2020 had not been financed as at the end of the year, although sale and leaseback transactions for these were agreed and executed in February 2021.

Proceeds from sale and leaseback transactions continue to cover substantially all of the Group's aircraft purchase price. An Enhanced Equipment Trust Certificates (EETC) funding for $1,005 million (€823 million) was successfully issued and closed for British Airways in November 2020, with $577 million (€472 million) drawn down in December in the form of finance leases, with the remainder expected to be drawn in 2021, in line with aircraft deliveries. The issuance comprised a dual-tranche structure achieving a loan-to-value of 75 per cent against an independently appraised value of the aircraft.

In addition to long-term regular aircraft financing, the Group took steps to boost available liquidity through other lending and facilities. Short-term aircraft-backed financing facilities for British Airways ($750 million, or €667 million) and Iberia ($228 million, or €194 million) were secured in the second quarter. These facilities were fully drawn during the year but had been repaid in full by the end of the year, due to the Group's success in securing more efficient long-term financing.

The Group agreed new non-aircraft debt for each of its main operating companies. In March, British Airways completed its inaugural commercial paper issuance raising net proceeds of €328 million (£298 million) using the UK's Coronavirus Corporate Finance Facility (CCFF) with a maturity of 12 months. In April, Iberia and Vueling entered into floating rate syndicated financing agreements for €750 million and €260 million respectively, with the funds received in May. These loans are secured by a guarantee of 70 per cent of the amount borrowed from the *Instituto de Crédito Oficial* ('ICO') in Spain. There is no amortisation for the first three years and the loans mature in 2025; the loans do not include financial covenants but place some restrictions on the transfer of cash to the rest of the IAG companies. In December, the Irish Strategic Investment Fund (ISIF) approved a €150 million facility for Aer Lingus with €75 million drawn down as a loan as at December 31, 2020; this loan also has restrictions regarding transfers of cash, from Aer Lingus to IAG and other Group companies. At the end of 2020 British Airways announced that it had received commitments for a 5-year Export Development Guaranteed term loan for £2.0 billion underwritten by a syndicate of banks, partially guaranteed (80 per cent) by UK Export Finance (UKEF) and containing some non-financial covenants, including restrictions on cash transfers to IAG. The facility was fully drawn down as a loan in February 2021.

The debt actions above resulted in total 'Proceeds from borrowings' for the year of €3,567 million. This includes the drawing down of the short-term aircraft financing facilities above, with the repayment of those facilities during the year shown in 'Repayments of borrowings and lease liabilities'.

Equity

During quarter 3 the Group launched a capital increase by rights issue, which was fully subscribed, with the Group's largest shareholder, Qatar Airways Group subscribing for its pro rated entitlement in full. The capital increase was successfully completed at the start of quarter 4, with gross proceeds of €2.7 billion received in October. As at December 31, 2020 none of the proceeds from the €2.7 billion capital increase had been allocated permanently to any of the Group's operating companies. British Airways received a loan from IAG of €1,645 million and Aer Lingus a loan of €50 million.

Liquidity facilities

In March, British Airways' revolving credit facility (RCF) was extended to June 2021, with a committed amount of $1.38 billion. The Group has secured other credit facilities during the year. At the end of the year committed general credit facilities, including the undrawn amount of the British Airways RCF, were €0.9 billion. In addition, the Group had committed aircraft financing facilities of €1.2 billion, which provide guaranteed financing against certain future aircraft deliveries, including the committed proceeds still to be drawn as part of the British Airways EETC issued in November 2020. In total, the Group had €2.1 billion of committed and undrawn general and aircraft facilities as at December 31, 2020.

Dividends

As a result of the impact of COVID-19, on April 2, 2020, the Board of Directors of the Group resolved to withdraw the proposal to the subsequent Shareholders' Meeting to pay a final dividend for 2019 of 17 € cents per share, which would have resulted in a total payment of €337 million.

Liquidity and cashflow

Total liquidity, measured as cash and interest-bearing deposits of €5,917 million and committed and undrawn general and aircraft facilities of €2,142 million, was €8,059 million at December 31, 2020. Including the €2.2 billion UKEF debt agreed in December 2020 results in pro forma liquidity of €10.3 billion.

Cash flow

€ million	2020	2019	Movement
Operating (loss)/profit	**(7,426)**	2,613	(10,039)
Depreciation, amortisation and impairment	**2,955**	2,111	844
Movement in working capital	**1,227**	(70)	1,297
Payment related to restructuring	**(383)**	(180)	(203)
Pension contributions net of service costs	**(313)**	(865)	552
Provisions and other non-cash movements	**556**	951	(395)
Unrealised loss on discontinuance of fuel and foreign exchange hedge accounting	**569**	-	569
Interest paid	**(548)**	(481)	(67)
Interest received	**22**	42	(20)
Tax received/(paid)	**45**	(119)	164
Net cash (outflows)/inflows from operating activities	**(3,296)**	4,002	(7,298)
Acquisition of PPE and intangible assets	**(1,939)**	(3,465)	1,526
Sale of PPE and intangible assets	**1,133**	911	222
Decrease/(increase) in current interest-bearing deposits	**2,366**	(103)	2,469
Other investing movements	**2**	(1)	3
Net cash flows from investing activities	**1,562**	(2,658)	4,220
Proceeds from borrowings	**3,567**	2,286	1,281
Repayments of borrowings	**(978)**	(730)	(248)
Repayment of lease liabilities	**(1,536)**	(1,507)	(29)
Dividend paid	**(53)**	(1,308)	1,255
Proceeds from rights issue	**2,674**	-	2,674
Net cash flows from financing activities	**3,674**	(1,259)	4,933
Net increase in cash and cash equivalents	**1,940**	85	1,855
Net foreign exchange differences	**(228)**	140	(368)
Cash and cash equivalents at January 1	**4,062**	3,837	225
Cash and cash equivalents at year end	**5,774**	4,062	1,712
Interest-bearing deposits maturing after more than three months	**143**	2,621	(2,478)
Cash, cash equivalents and interest-bearing deposits	**5,917**	6,683	(766)

Many of the significant cashflow items are already explained above, including in the sections on operating costs (fuel), capital expenditure, working capital and other initiatives and funding.

Restructuring payments include payments in Spain relating to redundancy programmes agreed in prior years, together with the cash paid in 2020 relating to the exceptional restructuring charge of €313 million (see Alternative Performance Measures section).

Pension payments in 2019 included an additional one-off payment of £250 million (€283 million) to the British Airways NAPS fund; 2020 benefited from the deferral of deficit contributions in quarter 4.

Of the exceptional charges for discontinuance of hedge accounting in respect of passenger revenue of €62 million and fuel, oil and emissions costs of €1,694 million in 2020, €1,187 million had been paid, leaving €569 million to be paid in future years, with the majority due in 2021.

Sale of property, plant and equipment and intangibles, in addition to the aircraft 13 sale and leaseback transactions discussed under 'Funding' above, includes the disposal of surplus engines and other equipment and property at London Heathrow.

Repayments of borrowings and lease liabilities includes the principal element of ongoing lease payments, together with short-term aircraft financing of €833 million, which was drawn and fully repaid during the year. There are no IAG bond payments falling due in 2021; based on the share price at December 31, 2020, the remaining €500 million IAG convertible bond will be due for repayment in November 2022.

The €53 million of cash outflow for dividends relates to the Spanish withholding tax in respect of the 2019 interim dividend, as the dividend was paid to shareholders in December 2019 and the related withholding tax was paid to the Spanish tax authorities in January 2020.

BRITISH AIRWAYS

A year of exceptional challenges due to the COVID-19 pandemic

Sean Doyle
Chief Executive Officer of British Airways

British Airways statistics

Operating margin	Fleet
-58.2%	**277**
-72.7 pts vly	-25 vly

ASK change
-65.8%

"In an incredibly difficult year we took decisive action to restructure our business, to enable us to compete in a much-changed industry."

Overview

In our 100-year history, the airline had never experienced a crisis of this magnitude. As a result of the pandemic, we were forced to curtail our operations as we navigated continual, fast-changing global travel and quarantine restrictions, and UK lockdowns. During the year we saw a reduction in our flying schedule of around 66 per cent compared to 2019.

I was appointed Chief Executive Officer of British Airways in October 2020. Alex Cruz had led the airline since 2016, as well as steering it through the first seven months of the crisis. I would like to thank Alex for his passion and commitment to the airline's success over the last four years.

The impact of the COVID-19 pandemic

The UK Government imposed a ban on all but essential travel between April and June 2020, and as a consequence British Airways operated just 5 per cent of its schedule compared with the same period in 2019.

When the first lockdown ended in June, UK Government-imposed travel restrictions remained in place for most destinations. During the summer, as some travel corridors began to open, we re-introduced routes in Europe and further afield where we saw pockets of demand. But with US borders still closed, travel corridors being reviewed on a weekly basis and customer confidence low, we operated just 27 per cent of our schedule between August and October (compared to the same period in 2019), typically our busiest time of the year.

During this time, we operated 134 repatriation flights from 21 countries, returning 40,000 Britons to the UK and flew many thousands of tonnes of Personal Protective Equipment to where it was urgently needed.

Our business

We took urgent action to restructure the business in the wake of the pandemic. By working with our trade unions, we were able to mitigate redundancies, protect as many jobs as possible and reach agreements across the main areas of the business, including our cabin crew and pilots. By the end of 2020, around 23 per cent of our colleagues had left the airline, the vast majority on a voluntary basis.

We are extremely grateful for the commitment, dedication and resilience shown by our people throughout this period to ensure the airline remained operating at an extremely difficult and stressful time.

The Government's Coronavirus Job Retention Scheme has helped us financially through the crisis, alongside a £298 million loan from the Bank of England Covid Corporate Financing Facility (CCFF) and a bond issue of over US$1 billion to fund previously committed aircraft deliveries in 2020 and the first quarter of 2021. In December 2020 British Airways received commitments for a five-year term-loan Export Development Guarantee Facility of £2 billion underwritten by a syndicate of banks, partially guaranteed by UK Export Finance (UKEF).

Keeping colleagues and customers safe

To protect our customers, crew and build confidence in travel we introduced new COVID-19 safety measures, including new catering designed to minimise contact, sanitising our aircraft from nose-to-tail and requiring customers and crew to wear face masks. In November 2020, industry body Skytrax awarded British Airways four stars for COVID-19 safety.

Flexibility for customers

We introduced our *Book with Confidence* policy, giving customers the option to change their booking date and destination for those travelling up until April 2022, or to cancel it completely and request a voucher for future travel. Customers whose flights were cancelled were able to request a cash refund. In 2020 we issued more than 2.8 million cash refunds and 2 million vouchers for future travel, which can be used right up until April 2023.

Testing for travel

Since starting as CEO, I have campaigned for a pre-departure COVID-19 testing regime to re-open air travel. In November we began a trial with American Airlines and the **one**world alliance for customers travelling from the US to the UK taking three COVID-19 tests, before and after their flight. We hope the results will demonstrate with scientific evidence the essential role that COVID-19 pre-departure testing can play in safely re-starting travel as we wait for vaccines to become widely available.

Sustainable recovery

We remain committed to achieving net zero carbon emissions by 2050. In January 2020 we began offsetting carbon emissions on all domestic flights. With our partner Velocys, we achieved planning permission to create the UK's first commercial-scale waste-to-jet fuel plant in Lincolnshire to power our aircraft. In December, we announced a partnership with hydrogen electric aviation company ZeroAvia.

As a result of the crisis, we retired our entire fleet of 32 Boeing 747 aircraft four years earlier than planned. We welcomed four new Airbus A350 aircraft, two Boeing 787-10s, four Boeing 777-300ERs, two Airbus A321neos and three Airbus A320neos, all of which have significantly superior fuel and CO_2 efficiency.

Conclusion

Despite a very turbulent year I am confident British Airways is in the right shape to emerge as a sustainable airline from this crisis. We are focused on re-opening travel safely, re-building our global network, reducing our environmental impact, recognising and rewarding the hard work of our colleagues and continuing to delight our customers with our unique British Airways service.

Maximum flexibility to adapt following our most difficult year

Javier Sánchez-Prieto
Chairman and Chief Executive Officer of Iberia

Iberia statistics

Operating margin	Fleet
-33.6%	**89**
-42.4 pts vly	-18 vly

ASK change

-65.5%

The year started with great momentum and great announcements: record results in 2019, new uniforms, the opening of new routes to Washington, Cairo and Ljubljana, daily flights to Tokyo and Puerto Rico, the addition of new Airbus A350 and Airbus A320neo aircraft and refresh of the onboard service. The COVID-19 pandemic changed everything and has forced Iberia to reinvent itself, with different challenges arising from one day to the next.

In April, more than 95 per cent of operations were cancelled, which impacted the flight programme, all ground and flight crews and, most importantly, our customers, with millions of booking changes, vouchers and refunds. We partially recovered the flight schedule over the year, operating just 20 per cent of 2019 capacity in the summer but reaching 40 per cent of 2019 capacity in December 2020.

Iberia went into the crisis with a solid cash position as a result of the strong recent performance and the *Plan de Futuro* initiatives. However, the prolonged lack of revenue and the level of fixed costs within the business led us to take additional measures to ensure the long-term survival of Iberia. The initiatives have focused on three main pillars: cost reduction, liquidity improvement and new financing sources.

"In 2020 normality has become extraordinary, and Iberia's adaptability has been put to the test like never before."

To offset the impact of the lack of demand, we implemented cost-saving and containment measures focused on liquidity, by delaying aircraft rental payments, reducing supplier spending and offsetting existing debts. We also agreed additional borrowing facilities including a five-year loan guaranteed by the *Instituto de Crédito Oficial* (ICO) for €750 million.

Repatriation, volunteering and special cargo flights

Between April and June, in coordination with the Spanish Ministry of Foreign Affairs, Iberia operated more than 50 repatriation flights to over 20 international destinations. These flights allowed thousands of people stranded around the world to return home. In addition, from the end of March to mid-June, Iberia operated nearly 100 flights from China carrying back critical medical supplies and Personal Protective Equipment.

Our employees have also made a big impact on our local communities, particularly those affected by the temporary reduction in working hours due to Spain's ERTE (*Expediente de Regulación Temporal de Empleo*) temporary redundancy scheme, spending time volunteering for organisations that have been on the front line in the fight against COVID-19.

Building trust in customers

To generate the security and confidence necessary to stimulate customer demand, we have been focusing on three main areas:

Firstly, reinforcing all safety, hygiene and prevention measures throughout the customer's travel experience, improving processes and adopting necessary measures to prevent the spread of COVID-19. These measures have placed the company among the ten safest airlines in the world against COVID-19, according to the Safe Travel Barometer.

Secondly, we have adopted a flexibility policy that creates peace of mind for customers in case their journey is impacted by COVID-19.

And finally, we worked hard to have a stable flight programme, with minimal changes and cancellations, to give our customers as much certainty as possible.

A more efficient fleet and adaptability

The pandemic has tested the adaptability of airlines and demanded greater efficiency. Projects such as the Airbus A340-600 fleet retirement have been accelerated. As a result, Iberia currently operates a very young longhaul fleet, made up of Airbus A330 and A350, new-generation aircraft which are more sustainable and technologically advanced than their predecessors.

We also transformed three Airbus A330 aircraft into cargo-only freighters to take advantage of the increased demand for air cargo, to diversify our sources of income and continue generating activity for our employees while air demand remains suppressed.

New organisation

I returned to Iberia as CEO in September, replacing Luis Gallego, now IAG's Chief Executive Officer. A new organisation was designed to ensure it is fit for the future and ensure we are poised to respond to it in an appropriate manner.

Our new organisation faces four fundamental challenges: ensuring Iberia is seen as a trusted airline in all our markets; returning to profitability and providing sustainable returns to our shareholders; reinforcing Iberia's presence at our Madrid airport hub; and emphasising the role of the employees as ambassadors of the company.

These four priorities form our new transformation plan Iberia Next Chapter and they detail the necessary steps we need to take, building on the successful transformation *Plan de Futuro.* The current situation has presented us with new challenges, and it is time for a new plan, Iberia Next Chapter, to help us emerge from this crisis more competitive than before.

Conclusion

2021 promises to be just as complex as 2020 with air traffic recovery scenarios not expecting recovery to 2019 levels until at least 2023. We will have to continue evolving and adapting to this new reality, just as we have done before.

vueling

Managing the crisis and shaping the new Vueling

Marco Sansavini
Chairman and Chief Executive Officer of Vueling

Vueling statistics

Operating margin	Fleet
-108.5%	**113**
-118.3 vly	-10 vly

ASK change

-66.3%

"As we navigated an uncharted environment, we focused on both the present and the future."

Overview

In September, I was honoured and delighted to be appointed CEO of Vueling, replacing Javier Sánchez-Prieto, who led the development and strengthening of Vueling over the past four years and is now CEO of Iberia. Managing the challenge created by the COVID-19 pandemic has required intense focus and agility, which has been possible thanks to the engagement and dedication of all Vueling employees, who have made significant sacrifices and efforts to ensure the viability of the company. At the same time, the "new normal" forces us to rethink and prepare for it with a focus on the long-term health and strength of the airline. As we have adapted our network, operation, and organisation to the demands of the current environment, we have also positioned Vueling to emerge better built than before.

Managing the crisis

The COVID-19 pandemic and associated travel restrictions have drastically affected our capacity and results.

To manage the crisis, we have focused on four priorities:

1. Protecting the health of our employees and customers. We have ensured the strict enforcement of all applicable safety protocols, from boarding, to in-flight, to deplaning. Our aircraft continue to employ powerful HEPA air filtration systems and are cleaned according to new, rigorous procedures, and use of protective masks is mandatory on all flights. We have offered free COVID-19 testing to our employees, and we have actively engaged with authorities to ensure development of further measures to facilitate safe travel.

2. Detecting and stimulating demand. We have taken advantage of opportunities to generate business. For example, in November we further unbundled our basic product with the launch of the Guaranteed Cabin Bag service. We have also adapted our capacity to changing demand. After the first wave of COVID-19, we rapidly increased capacity, reaching 50 per cent of 2019 levels in August. In the long term, we remain focused on market leadership through network and schedule depth in key markets. However, in the current environment, we have prioritised cash preservation and generation, ensuring flights are cash-accretive. We have continued to focus on our Spanish, French, and Italian main markets, such as Spanish domestic routes connecting the peninsula with the islands. We also have demonstrated agility to adapt to changing market conditions, testing new markets where appropriate.

3. Managing our cash flow. We have managed cash flow and sources of financing to ensure necessary robustness in the short and medium term. We have maximised working capital by, for example, renegotiating delivery and pre-delivery payment calendars and improving supplier and rental payment conditions. In April we entered into a syndicated financing agreement for €260 million, 70 per cent guaranteed through the Spanish *Instituto de Crédito Oficial* (ICO) programme.

4. Managing cost. Vueling has a flexible model with a high proportion of variable costs that were successfully adjusted in line with capacity. We have removed non-essential costs, especially in marketing, IT, and external services. We have pursued reductions of fixed fleet costs by, for example, negotiating power by-the-hour contracts. We mitigated fixed employee costs while preserving jobs by accessing Spain's ERTE and reaching an agreement with Vueling labour representatives that allows employee costs to be aligned with the level of company activity, potentially until the end of 2021.

We look forward to the subsidence of COVID-19, supported by vaccines, improved testing schemes and effective coordination among European institutions. Until such time, we remain focused on managing the crisis.

Shaping the new Vueling: Vueling Transform

We believe we must emerge from this crisis in an even more competitive shape. In partnership with the new IAG Transformation Office, Vueling has defined a balanced portfolio of transformation initiatives, driving improvements to revenue, cost, and employee and customer experiences. These are focused on three areas: international market development, low-cost leadership, and digital enablement. Our sustainability programme also continues at pace, to reduce carbon emissions, waste, and noise. For example, in 2020 we removed all plastic from our on-board customer service.

Conclusion

In 2020, the COVID-19 pandemic challenged Vueling, and indeed our whole industry, like nothing ever before. I am proud of how our team has risen to the task of managing the crisis, to ensure Vueling remains healthy and strong in the long term. In 2021, we will maintain this focus on both managing the crisis and shaping the new Vueling.

Reducing our cost base across the business

Dónal Moriarty
Interim CEO of Aer Lingus

Aer Lingus statistics

Operating margin	Fleet
-76.8%	**50**
-89.8 pts vly	-3 vly

ASK change

-71.1%

At the outset of 2020, Aer Lingus was well positioned to further build on the strong performance and growth of previous years. We had ambitious plans for the year ahead, enabled by a strong balance sheet.

The unprecedented impact of COVID-19 on the sector was particularly pronounced in Ireland.

Eurocontrol data for air traffic activity shows Ireland down approximately 80 per cent versus Europe down 60 per cent in 2020. The US – a key strategic market for Aer Lingus - was effectively closed. As a result, Aer Lingus operated less than five per cent capacity compared with 2019 for a substantial period of the second quarter of 2020, and due to continued lack of demand in its home market, that level remained at close to 25 per cent for the second half of 2020.

In October, I was appointed Interim CEO following Sean Doyle's appointment as CEO of British Airways. Sean made a lasting and positive contribution to Aer Lingus during his tenure as CEO and he expertly led the airline through the first seven months of the crisis. On behalf of everyone in Aer Lingus I would like to thank him and wish him every continued success at British Airways.

"As the global economy emerges from the COVID-19 crisis, facilitating international connectivity will again be paramount for Ireland."

Quickly responding to the COVID-19 pandemic

In response to the lack of demand brought about by the COVID-19 pandemic, we quickly reduced our cost base across the business by aligning working hours and pay with the amount of work required; reducing the size of our workforce; right-sizing our fleet, including the permanent grounding or disposal of five aircraft; and negotiating new terms with suppliers.

All areas of the business sought to preserve cash. We effectively managed our costs and those control measures had a significant impact in slowing the amount of cash leaving the business, such as encouraging customers to opt for vouchers rather than refunds when flights were cancelled.

Delivering vital Personal Protective Equipment

In March, we were contacted by the Irish Government for advice on how to transport critical supplies from China. Something of this scale would normally take months to set up. Our people rose to the challenge demonstrating immense determination and commitment and delivered the operation in a matter of days. The successful completion of 259 Dublin – Beijing return flights importing vital Personal Protective Equipment (PPE) for Health Service Executive of Ireland was a considerable achievement. Completed over a three-month period, the operation was the largest cargo operation by air in the history of the Irish state.

Reassuring our customers

Commitment by our people was also key to the successful introduction of extensive new safety procedures to prevent the transmission of COVID-19. Measures include the mandatory wearing of face masks and a significantly enhanced cleaning process. All Aer Lingus Airbus aircraft are fitted with HEPA air filtration technology as standard.

We introduced a new Book with Confidence policy which allows all customers travelling with Aer Lingus to change their travel dates free of charge, and as many times as they wish, up to two hours before they travel.

Opportunity in a crisis

We continue to look at opportunities for our business and in August, we announced the opening of a new Aer Lingus Regional base with the launch of six routes operated by Stobart Air at Belfast City Airport, five of which are currently in operation.

Towards the end of 2020, Aer Lingus was granted antitrust immunity by the US Department of Transportation to enable the airline to join the transatlantic joint business between American Airlines, British Airways, Iberia and Finnair. The addition of Aer Lingus' Dublin hub and its complementary network will significantly enhance customers' travel options and add new European destinations not currently served by any other transatlantic joint business.

Throughout this most tumultuous of years, the resilience demonstrated by colleagues across the airline has been exemplary. Our people have displayed extraordinary commitment in an ever-changing and unprecedented environment. Their dedication ensured the success of various charter flight operations, the introduction of new safety measures, our response to the ever-changing schedule and its impact for customers; and has laid the groundwork to optimise opportunities in the future.

Conclusion

As the global economy emerges from the COVID-19 crisis, this importance of facilitating international connectivity for our island nation, and through our island between North America and Europe will again be paramount. Our value carrier business model means that there will be significant opportunities for the airline, and we are well positioned to return to delivering compelling results for IAG, our stakeholders and for the Irish economy.

Building IAG's longhaul low-cost brand model

A reshaped airline to face the new challenges

LEVEL is IAG's low-cost airline brand.

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant negative effect on LEVEL's business, with all the fleet grounded in March 2020. A strong focus on cost reduction and cash preservation has been maintained since then.

In June, LEVEL Europe, the Group's Austria-based shorthaul operator, announced that it was entering insolvency and that it had ceased trading following all flights being grounded as of March 2020. The operations out of Vienna and Amsterdam were ceased and the base in Vienna was closed.

In November, Openskies, the operator of LEVEL France, completed a consultation process on its proposed cessation of operations and the development of an Employment Safeguard Plan. Openskies has ceased its activities.

During 2020, LEVEL Spain has taken significant steps to improve key value drivers in digital distribution and ancillary merchandising and continues to operate longhaul flights from Barcelona.

Important milestones have been achieved to increase LEVEL Spain's distribution in away markets and to improve product relevance, such as the enablement of the connectivity with Vueling on flylevel.com. LEVEL's unbundled fare distribution was activated on all the channels to improve its market share.

Looking forward

LEVEL is now focused on creating value for the Group from its longhaul operation in Barcelona. Together with Vueling, it will reinforce the ambition of Barcelona as an IAG hub, with the aim to improve the capture of connecting traffic.

An agile network planning process has been implemented to adjust capacity rapidly to the situation and to any change in environment.

There will be a continued focus on direct distribution with the launch of a full reviewed booking flow with new pricing and merchandising functionalities, and the implementation of a new Customer Lifecycle improving upsell and repetition.

The new Online Contact Centre, with reinforced omnichannel capabilities, will become the lever to improve customer service at the lowest cost.

IAG PLATFORM

Creating further opportunities for efficiency, modernisation and innovation to support the Group

IAG Platform

IAG GBS	IAG Cargo	IAG Loyalty	IAG Tech	IAG Connect

The IAG Platform enables Group operating companies to achieve revenue and cost synergies that would be hard to achieve as a standalone organisation.

Integral to the Group's delivery model, the IAG Platform provides access to quality resources, common systems and centres of excellence, providing operating companies new to the Group with a 'plug and play' model they can quickly and efficiently join and rapidly realise benefits.

All operating companies have benefited hugely from the IAG Platform, which continues to provide scalable opportunities to develop innovative solutions and further enhance synergies.

IAG Connect

IAG Connect is a "platform as a service" business, providing IAG airlines with an in-air connectivity capability (.air) agnostic of hardware and data provider. On top of this, IAG Connect uses the .air platform to provide in-flight services including entertainment, customer service, retail and loyalty via portal and seatback interfaces.

During 2020, the IAG Connect management was transitioned to IAG Loyalty to allow it to further enhance customer relevancy of its products as well as provide access to an extensive partnership network. This will be used to extend the value that the platform can create for customers across IAG airlines in the future. IAG Connect has continued to roll out Wi-Fi connectivity across the Group's fleet in 2020 and now covers 75 per cent of the Group's aircraft.

Vast improvements have also been made to IAG Connect's processes to speed up delivery of new and enhanced products and services. IAG Connect's plans for 2021 include new products and features already in development to further add value to customers.

Providing support with our scalable model

Zoe Davis
Director of IAG GBS

“GBS proved itself as a solution in difficult times by demonstrating our scalable model and resilience, cementing our position as a fundamental part of IAG.”

An integral part of the IAG Platform, GBS evolved its remit in 2020, to provide creative and innovative solutions to drive sustainable transformation in providing finance, procurement, IT and digital services to all operating companies across IAG. Each operating company benefits from the GBS centralised model, driving efficiencies, automation and economies of scale.

During the pandemic, GBS quickly pivoted to further focus on cash preservation and contract renegotiations to support the Group, while continuing to drive additional enhancements and efficiencies in process automation, supplier management, common systems and operational resilience. In addition, the onboarding of new services continued, including activities within airport operations and the transfer of IT colleagues into GBS.

I was appointed CEO of IAG GBS early in 2020. A new leadership team was also introduced that reflects representation from all key areas of the GBS business, together with IAG Tech.

With a diverse workforce spread across four countries, GBS will continue to further harmonise processes; drive automation; strengthen the sustainable supply chain; develop and deliver new consolidated services and innovative solutions in 2021, supporting the Group’s day-to-day operations and long-term business strategy and transformation.

Finance Operations

As the hub of working capital activity for the Group, GBS was ideally placed to rapidly establish additional support to provide a constant overview of working capital during the global pandemic. Teams were pivoted to focus on core requirements and new services across IAG, demonstrating the swift responsiveness, scalability and flexibility of all centralised services provided by GBS.

GBS Finance Operations continues to transform and consolidate migrated functions through the optimisation of processes, automation and a constant review of insourcing or outsourcing (make versus buy) via its onshore, nearshore and offshore model.

Procurement

Group Procurement led a comprehensive zero-based supplier review with all operating companies, using taskforces to adjust the supply chain in response to the challenges of the pandemic.

With a large proportion of flight operations grounded and uncertainty as to when travel would recover, the immediate focus of Group Procurement was right-sizing the supply chain for the future and supporting cash preservation. Supplier spend initiatives delivered a combined cash benefit of €2 billion (excluding the impact of volume reductions) across the Group in 2020. These initiatives included securing the waiver of minimum contractual commitments; deferral of cash payments; extension of payment terms; cancellation of committed CAPEX spend; temporary discounts; and the removal of costs. In parallel, Group Procurement worked with the operating companies to move fixed costs to a variable basis, where appropriate.

PPE equipment was procured and delivered to protect the Group’s customers and employees, and further improvements were made to aircraft and lounge cleaning services.

Finally, Group Procurement maintained its commitment to our Corporate Social Responsibility policies and launched the updated Supplier Code of Conduct to all our active suppliers, setting out clear guidelines and expectations for our suppliers and building on the Group’s commitment to sustainable growth.

Looking forward

GBS will continue to focus on driving sustainable transformation across the Group by creating and delivering innovative centralised solutions for all operating companies. Further growth will come from leveraging the GBS platform and onboarding additional services from across the Group, driving synergies and streamlining new solutions through automation tools and the optimal mix of onshore, nearshore and offshore work.

Finance operations will target the automation of 40 per cent of processes by the end of 2021; determine and select the right long-term suppliers and leverage our insights from around the Group to deliver synergies and best-in-class working capital management.

Group Procurement will continue the in-depth restructure of the cost base to optimise unit costs; partner with suppliers who share our values and ways of working; continue to manage supplier performance; and proactively monitor any potential supplier risks to mitigate emerging issues.

IAG Cargo

Delivering through the pandemic

Lynne Embleton
Chief Executive Officer of IAG Cargo

"This year has tested our resilience, teamwork and problem-solving as we adapted our business."

Market overview

The cargo industry was dominated by the impact of the COVID-19 pandemic. International air cargo capacity (market supply) contracted sharply, down 24.1 per cent, a consequence of the cessation of passenger flights initially to China and then globally.

Market demand was also negatively impacted; production shutdowns and supply chain disruptions had a severe impact on global trade. In 2020 international cargo tonnes kilometres (CTKs) were down 11.8 per cent versus 2019. However, the imbalance created from market supply decreasing at a faster rate than demand resulted in significantly higher yields.

Despite the significant disruption to our capacity, IAG Cargo delivered revenues of €1,306 million, an increase of 16.9 per cent on 2019.

Customer focus

As passenger aircraft were grounded, our teams adapted to ensure IAG Cargo continued to play a crucial role in supporting global trade and the movement of essential goods.

Without a freighter fleet, we rapidly developed a network of scheduled cargo-only flights using the Group's passenger aircraft. Passenger aircraft vary in belly hold capacity and in their cost of flying. Only a portion of the Group's fleet, such as the Boeing 787s, Boeing 777s and Airbus A330s are economical for cargo-only flying. We identified markets most impacted by the reduction in air cargo supply which could sustain the yields required to fly cargo-only services. Our first routes included New York, Chicago and Toronto. The focus of cargo-only flying was to ensure cash positive contribution for the airlines and the Group. Cargo opportunities were increased by removing seats from five passenger aircraft and obtaining regulatory approvals to load cargo in the passenger cabins.

We also established a charter team to develop capacity solutions for customers and governments. During the year we operated 1,057 charters, including over 750 critical supply operations for the British, Irish and Spanish authorities.

As lockdowns and travel restrictions change, IAG Cargo continues to work closely with the Group's airlines to build a network of destinations. This consists of both cargo-only flying and co-sponsored routes, which would not be viable based on either cargo or passenger revenues alone.

A challenging year for our people

For many of the team, 2020 was a demanding yet fulfilling year, requiring teamwork, problem-solving and creativity to navigate new challenges against the backdrop of the changing external environment. The dedication and talent of our people was highly evident.

However, it was also a difficult year. It was a particular challenge to maintain operational performance in the face of rapidly changing plans and the unpredictable resource levels associated with COVID-19 related absence. Our people were also affected by furlough, the extended period of working from home and, in the operation, introduction and evolution of COVID-19 secure procedures in the workplace.

In October we completed a management restructure to simplify the organisation and reduce costs whilst rebuilding teams with the talent and experience to grow IAG Cargo in the future.

We also worked closely with British Airways management in their consultation with their London Heathrow Cargo employees. Our aim was to secure modern and flexible working practices required to improve customer delivery. Although there was industrial action, an important agreement in principle was reached to achieve structural change and cost savings.

Conclusion: delivering for today and preparing for tomorrow

IAG Cargo has been successful in maintaining a broad network and proposition for cargo customers throughout the pandemic.

Our strategic pillars of deliver, transform and grow still hold. Whilst we had a strong focus on cost reduction, we continued to invest in the resilience of our business, including moving cargo revenue management and booking systems to the cloud.

2020 was a remarkable year. With the world's focus on health, we moved large quantities of PPE, sanitiser, ventilators and COVID-19 testing kits alongside our regular movement of food, medicines, high-tech, and parts for industry.

Looking ahead into 2021, air cargo will be a key driver in global economic recovery. With world-class Constant Climate and cold-chain facilities, IAG Cargo will continue to play its part in the global distribution of COVID-19 vaccines. We also look forward to offering our customers a further expansion in our network.

Still profitable in a challenging year

Adam Daniels
Chairman and Chief Executive Officer of IAG Loyalty

“The impact of the COVID-19 pandemic on our performance has been significant, however, 2020 has proven the resilience of our loyalty business.”

Overview

IAG Loyalty continues to provide comprehensive services to all airlines as the centre of excellence for loyalty for the Group. I was appointed as Chief Executive Officer and Chairman early in the year following the departure of Andrew Crawley. I would like to thank Drew for his leadership and vision in the initial stages of the loyalty transformation.

Our focus on driving loyalty through increasing customer benefit and stronger engagement has continued to progress this year, delivering, for example, the full roll-out of new low-cash redemption options, from as little as £1 plus Avios on shorthaul and £100 plus Avios on longhaul. We have also reached commercial agreements on several new partnerships, including a new banking relationship in Spain with Santander that has already successfully launched.

Our transition to a single loyalty platform for the Group now on course for completion in 2021 – delivering synergies for the Group and providing the platform from which to accelerate our growth.

COVID-19 pandemic impact

The levels of Avios issued and redeemed significantly reduced during 2020 which 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 our Central London office space. Our capital expenditure plans reduced by 50 per cent through programme deferrals.

Our teams have adapted to new ways of working, leveraging on the progress we had made as a business with collaborative tools well before the pandemic arrived. We successfully converted our loyalty contact centre colleagues to homeworking by mid-March, enabling us to continue to serve customers through the prolonged period of travel uncertainty.

We have completed a restructure to ensure that our organisation is fit for the challenge ahead as we continue our role of driving revenue and cash into the Group and enhancing our customer proposition.

Key achievements

Despite the effects of the pandemic, IAG Loyalty remained profitable and our business model continued to generate significant levels of cash, in particular the renegotiation of key Finance Partner contracts. The extension of our longstanding relationship with American Express generated a £750 million cash injection in the third quarter of 2020, highlighting significant confidence and value in our loyalty business model.

We have continued to roll out new products for customers. We have witnessed strong redemption demand from our customers where pockets of demand have arisen, particularly in the UK during the summer when travel corridors opened. Our lowest cash redemption options are proving exceptionally popular with customers and the concept is now available on British Airways longhaul flights.

We also invested in the development of our employee engagement products to support the wellbeing and engagement of our team during the pandemic, such as ‘Get Active with Avios’. The success of the initiative has led to us explore new opportunities for these products with our partners.

We slowed our investment in the development of our Global Loyalty Platform and now expect Iberia and British Airways to migrate during 2021. We have reformed our capital investment plans and will continue to increase our investment in our platform capability as we see the air issuance side of the business recover.

Looking forward

Looking ahead we will accelerate our transition into a data-led organisation, applying our agile ways of working to develop new products at speed for customers and airlines. We have recently restructured our management team to accelerate our speed of development, 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 and Sainsbury’s 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.

Our journey to become the very best

John Gibbs
Chief Information Officer

"2020 saw a significant step change in the capability of our IT/ Digital community as IAG Tech continued on its journey to deliver the very best, rapidly executed technology solutions to meet the business needs."

IAG Tech delivered over 300 different COVID-19 initiatives in less than two months in response to the Coronavirus pandemic in early 2020 and further capabilities were deployed throughout the remainder of the year. We had three main priorities:

To ensure our customers have a world class experience throughout the customer journey. We enhanced the .com platforms to support bookings and amendments; enabled voucher refunds; implemented new communication channels such as WhatsApp, Amazon Alexa and Google voice assistant; improved disruption management; increased capacity in the call centres; and made modifications to our customer relationship management solution. The safety of our customers remained a top priority as we invested in contactless technologies throughout the journey including changes at check-in, lounges, departure gates and on board. We are now investing in systems to support boarded passenger health data, testing and vaccination history.

To enable our employees to work efficiently. We enabled the switch to remote working with enhanced communication and collaboration, but ensuring the necessary controls remained effective. Other changes included wider deployment of automated workflow; enhanced operational planning; changes to pilot and crew systems; and, use of data and analytics to provide unique insights.

To support the Group's financial performance. We delivered capabilities to increase revenues such as additional ancillary sales; drove cost optimisation using robotic process automation; and, worked with our supply chain partners to deliver a 30 per cent reduction in operating costs of the IT/Digital estate and a 25 per cent improvement in project and product team efficiency.

However, as a consequence of the COVID-19 pandemic, we deferred non-business critical investments so we have not addressed as much of the technology obsolescence and risks as we had originally planned but, importantly, we maintained our cyber security investments to deliver a 'defence in depth' strategy and improve our capability across the five NIST framework stages: identifying, protecting, detecting, responding and recovering from attacks. We strengthened our cyber security leadership team, increased the breadth and depth of our in-house team, and introduced a new partner to run our security operations centre. We increased awareness of cyber security through training, phishing campaigns and simulations at all levels in the organisation.

We continued the Hangar 51 programme to identify innovative use of technology to solve business challenges. In 2020 we addressed contactless travel, connected operations, new products and services, sustainability, loyalty, cyber security, and smart working. With applications received throughout August we held a 'virtual pitch week' in October. The selected partners entered a ten-week accelerator phase with capability demonstrations to be held in February 2021.

We slowed down the transformation of the IAG Tech organisation as we furloughed staff and focused on the critical COVID-19 investments. However, at the end of 2020 I completed the appointment of a new Technology senior leadership team and we are currently finalising the appointment of the extended leadership team. We have now restarted the transformation journey to "become the very best at what we do" and we have completed the design of a new operating model covering our organisation structure, governance, processes and tools underpinned by modern ways of working which will be implemented in the first half of 2021. At the heart of this strategy is a highly skilled, motivated, engaged and empowered Technology community.

In addition to completing the transformation of the IAG Tech organisation, our focus in 2021 includes delivering the critical technology to support the business transformation plans and COVID-19 pandemic response; drive further improvements in performance and stability of core systems; and to deliver the IAG Tech business plans.

2020 was an extremely challenging year for all of us and I am incredibly proud of IAG Tech's achievements during the year, which have put us in a strong position for 2021.

Maintaining our lead on net zero emissions

Javier Ferrán
Chairman

"Our approach to corporate governance is all about ensuring our business can continue to grow sustainably long into the future for the benefit of all our stakeholders."

We have always been clear that the aviation industry must play a full part in tackling climate change, and we remain as committed as ever to leading that effort.

In 2019, we became the first airline group to commit to net zero carbon emissions by 2050. Throughout 2020 we worked hard to engage the wider industry with this goal, leading coalitions around the world both to create net zero roadmaps and to encourage others to adopt similar targets.

For example, in February we were instrumental in supporting the UK aviation sector to develop a roadmap and a net zero target through the Sustainable Aviation group. In September, we actively supported the **one**world alliance, which includes 13 airlines accounting for some 20 per cent of global aviation, to commit to the same 2050 goal.

We were active through Airlines for Europe and the Air Transport Action Group in developing roadmaps for airlines in Europe and globally. We are also working with partners to secure a net zero target for the global industry at the 2022 general assembly of the International Civil Aviation Organisation.

We were first in our industry to sign up to the UN Climate Ambition Alliance and the Race to Zero campaign, and are proud to be one of ten global companies recognised for our actions at the UN Climate Ambition summit in December, which marked the fifth anniversary of the Paris Climate Agreement.

Across the Group, our 30-year de-carbonisation plan continued to make great progress. We sped up the retirement of Boeing 747s and Airbus A340s due to COVID-19, invested in new-generation aircraft, and British Airways partnered with ZeroAvia on developing commercial hydrogen flights.

Operationally, we continued to innovate, using special software to identify fuel-saving opportunities and investing in the i6 Group fuel management software company. Investment in sustainable fuels continued too, with our groundbreaking Altalto waste-to-jet fuel plant in the UK securing planning permission and a new deal backing a pioneering Lanzajet alcohol-to-jet fuel plant in the USA.

Meanwhile, IAG became a founding member of the Coalition for Negative Emissions, which is advocating for policy support to advance greenhouse gas removal technology. I'm pleased to report that, through our Hangar 51 accelerator programme, eight of our business units are now partnering with environmental innovators.

Sustainability is not just about climate, of course, and we were busy on other fronts too in 2020. We made important improvements to our sustainability governance systems, in data collection, procurement and risk management. We also launched initiatives to support and enhance the wellbeing of our employees.

From the start of 2021, a new Safety, Environment and Corporate Responsibility sub-committee of the Board will meet quarterly to help us maintain and build on our sustainability leadership. This year we will carry out an in-depth materiality review with our stakeholders, and waste management and key social issues will be priority areas for the Group.

We will be doing more to engage with our employees, who will have critical roles to play in the transformation of the Group to ensure its sustainability and long-term resilience.

As you read the pages that follow, I hope you can see that we understand just how important sustainability is to the communities we serve, our customers, employees and investors.

We have always tried to lead the way on sustainability, often with great success. Even in these difficult times, our commitment to do so remains undiminished.

Javier Ferrán
Chairman

This report has three sections: Governance, Planet and People and Prosperity.

A. Governance

A.1. Sustainability strategy

IAG has maintained a vision to be the world's leading airline group on sustainability. Sustainability underpins our business strategy and is fundamental to our long-term growth. IAG is committed to minimising its environmental impact and improving its social impact, whilst executing on Group strategy, and delivering best practices in both programmes and processes. IAG also aspires to drive improvements in the sustainability performance of the global aviation industry.

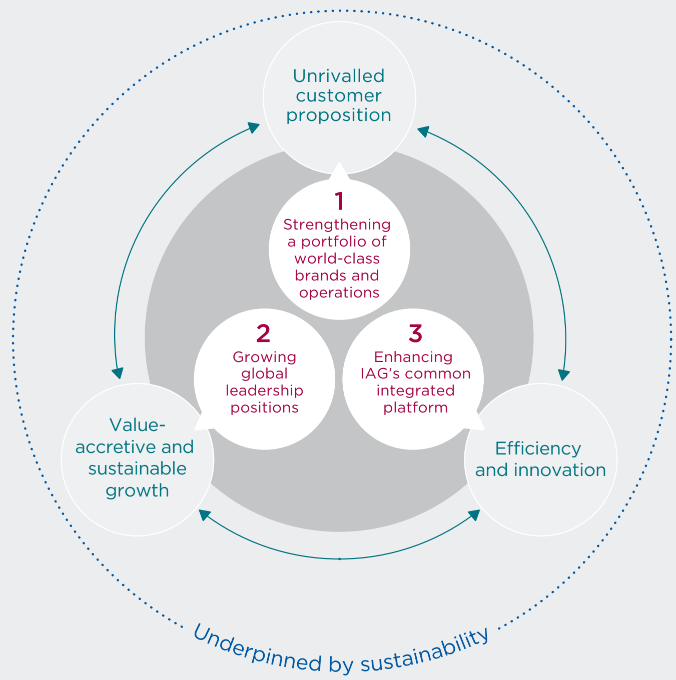
IAG's sustainability strategy is aligned to IAG's three strategic priorities, as demonstrated in the diagram to the right.

Progress against the vision is measured against five strategic aims:

1 Clear and ambitious targets relating to IAG's most material issues.
2 Low-carbon transition pathways embedded in business strategy.
3 Management incentives aligned to delivering a low-carbon transition plan.
4 Leadership in carbon disclosures.
5 Accelerating progress in sustainable aviation fuels, future aircraft and low carbon technologies.

To support these ambitions, IAG's core business processes embed consideration of sustainability issues. Three-year business plans, one–year financial plans, procurement and financial approvals all address climate and sustainability impacts. Assessments of climate-related risks are integrated into an interdisciplinary Enterprise Risk Management (ERM) process. Carbon prices are incorporated into fleet investment decisions.

In 2020, IAG implemented new management incentives explicitly linked to climate targets. These incentives were agreed by IAG's Management Committee, Remuneration Committee and Board in 2019, resulting in 60 of the most senior executives across the Group, including the IAG Chief Executive Officer, having a proportion of their annual incentives linked to achievement of annual carbon intensity targets. The 2020 annual incentive plan was cancelled due to COVID-19 but the intention is to reinstate it for 2021.



1

Strengthening a portfolio of world-class brands and operations

Ensuring customers have visibility of, and are engaged in, our sustainability programmes

See 'Stakeholder engagement' section

2

Growing global leadership positions

Demonstrating industry leadership e.g. through commitment to ambitious carbon reduction targets

See 'Stakeholder engagement' section

Maturing our transition pathway towards a low-carbon economy

See 'Planet – climate commitments' section

Leadership in carbon disclosures

See bottom of this page

3

Enhancing IAG's common integrated platform

Investing in efficient aircraft fleet and delivering best practice in operational efficiency

See 'Planet – climate commitment' section

Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low-carbon technologies

See 'Planet – Climate roadmap' section

External recognition of leadership and progress in 2020 included:

- Luis Gallego was the only aviation CEO invited to speak at the global UN Climate Ambition Summit in December 2020
- Global winner of Sustainability Strategy to Achieve Net Zero award, from the Institute of Environmental Assessment and Management (IEMA);
- Maintaining a B overall rating in the Carbon Disclosure Project (CDP) climate change questionnaire, receiving A grades for governance, targets, emissions reduction initiatives and value chain engagement. The full submission is on the IAG website; and
- Maintaining a 3 out of 4 overall rating in the Transition Pathways Initiative (TPI) Management Quality Index, meeting 15 out of 18 climate indicators.

Up until now IAG's priority focus has been addressing climate change impacts, but with the establishment of the new Safety, Environment and Corporate Responsibility Committee the focus will be broadened to include societal and employee issues.

Materiality assessment

GRI 102-43, 102-44, 102-46, 102-47

IAG's sustainability initiatives and reporting are based on a 2017 assessment of which business activities have a material impact on the environment and people and are most important to key stakeholders. This materiality assessment was facilitated by the UK charitable trust Business in the Community (BITC) as an independent third party.

The assessment included workshops, stakeholder interviews, benchmarking against external materiality frameworks and the production of an IAG-specific materiality matrix. External stakeholders included investors, corporate customers, suppliers, NGOs and government. Sixteen material sustainability issues were identified and are listed to the right. IAG's most significant material issue is climate change. Four UN Sustainable Development Goals (SDGs)[1] – **5, 7, 8** and **13** – were identified as priority areas to support, amongst nine SDGs in total.

Here, material issues are grouped into the categories of Principles of Governance, Planet and People and Prosperity, to align with best practice indicated by the 2020 World Economic Forum report on 'Measuring Stakeholder Capitalism'.

These material issues align with the issues identified by IATA and GRI[2] for the wider airline sector. The nine SDGs align with those identified by IATA and UK trade association Sustainable Aviation (SA).

Water consumption, biodiversity and light pollution are not currently assessed as material for IAG. These assessments are based on the small scale of impacts in these areas, and ongoing conversations with our stakeholders. Light pollution was not assessed during the 2017 materiality assessment as it was not identified as material by any key stakeholders. IAG does not have specific risk provisions, targets or guarantees related to these non-material issues.

IAG material issues identified

Icons indicate alignment with UN SDGs

Principles of Governance

- Compliance with legislation and regulation
- Supply chain management
- Carbon pricing

Prosperity

- Local economic impacts
- Customer satisfaction
- Innovation, research and development
- Financial performance[5]

Planet

- Climate change[3]
- Energy use
- Waste[4]
- Noise
- Air quality

People

- Diversity and equality
- Community engagement and charitable support
- Employee satisfaction
- Talent management

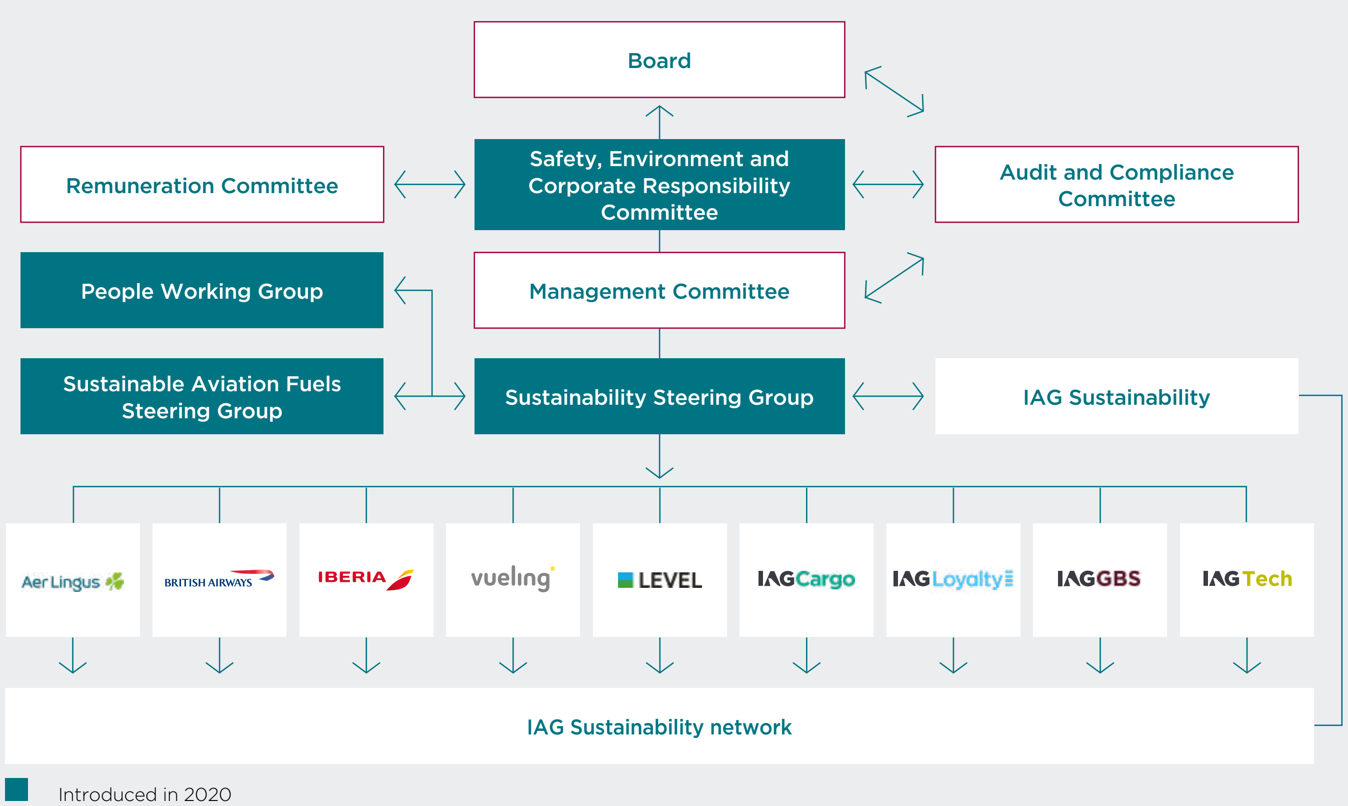
1 The UN identified 17 SDGs in total, for all sectors to work towards by 2030 in order to "end poverty, protect the planet and improve the lives and prospects of everyone, everywhere."
2 Global Reporting Initiative.
3 Including greenhouse gas (GHG) emissions, fleet modernisation, fuel efficiency and Sustainable Aviation Fuels (SAF).
4 Including food waste.
5 Short-term investor returns and long-term financial sustainability. Covered outside the sustainability section.

During 2021 IAG will repeat a full-scale materiality assessment, a year later than planned due to the impact of the COVID-19 pandemic. This assessment will include issues that have arisen during the pandemic. Health, safety and wellbeing rose in importance during 2020.

How IAG activities support priority UN SDGs:

Goal	Description	See these subsections	2020 highlight/s
5	Gender equality	Workforce overview Inclusion and diversity	45% women on the IAG Board and 30% across IAG senior executives
7	Affordable and clean energy	Climate change Sustainable aviation fuels	Secured planning permission for Europe's first waste-to-jet fuel plant and invested in an alcohol-to-jet fuel plant in the USA
8	Decent work and economic growth	Workforce overview	Provided a range of internal and external resources to support employee wellbeing and COVID-19 safety
13	Climate action	Stakeholder engagement Climate change	Instrumental in driving coalitions at national, regional and global levels to set aviation climate strategies in line with a 1.5 degrees Celsius (1.5°C) ambition

Sustainability governance structure



A.2. Sustainability governance

GRI 102-46, 102-48

The IAG Board provides oversight and direction for sustainability programmes, and the IAG Management Committee provides the key forum for reviewing and challenging these programmes and setting their strategic direction.

Sustainability programmes across all operating companies and support functions are coordinated at Group level. IAG's sustainability strategy sets out the ambition and the wider context of these programmes. This strategy covers Group policies and objectives, governance structure, risk management, strategy and targets on material issues, sustainability performance indicators, and communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy.

Group-wide policies relevant to sustainability include the Code of Conduct, Supplier Code of Conduct, and specific policies on Sustainability, Modern Slavery, Anti-Corruption and Bribery, Equal Opportunities, and Selection and Diversity. All of these have been approved by the Board of Directors. IAG will review the suite of sustainability-related policies in 2021 and update the sustainability section of the IAG website to reflect any changes.

In 2020, IAG strengthened its sustainability governance. A Sustainability Steering Group, comprised of representatives from each operating company, was established and meets quarterly to provide oversight of our environmental and social initiatives and reporting. A SAF Steering Group and People Working Group were established to report into this steering group. The IAG Sustainability Network held monthly calls rather than bi-annual meetings and representation was expanded to all operating companies.

In 2021 a Safety, Environment and Corporate Responsibility Board sub-committee will provide dedicated oversight of the Group's sustainability programme and a link between operating company management committees and the IAG Board. The 2021 governance structure is shown on the previous page and will enhance the rigour and oversight applied to sustainability initiatives and the level of feedback and challenge received.

Individual operating companies also continue to strengthen their environmental assessment and management. In 2020, British Airways and Vueling achieved Stage 1 certification for the IATA Environmental Assessment (IEnvA)[1] management system in 2020 and have begun working towards Stage 2. Aer Lingus and Iberia are working towards Stage 1 certification in 2021. To date, 12 airlines worldwide have achieved IEnvA Stage 1 certification.

Reporting standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement, which is third-party verified to limited assurance and in line with ISAE3000[2] (Revised) standards.

IAG aligns sustainability reporting with current and emerging disclosure standards to ensure the Group discloses relevant and meaningful data on sustainability performance.

This includes compliance with obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, and the 2018 UK Streamlined Energy and Carbon Reporting (SECR) regulation. IAG voluntarily aligns reporting with the Task Force on Climate-related Financial Disclosures (TCFD) guidance, the Sustainability Accounting Standards Board (SASB), and the IATA Airlines Reporting Handbook. IAG supported IATA and the GRI to develop the IATA handbook.

This report has been prepared in reference to GRI standards. Criteria for choosing specific GRI standards are based on compliance with Spanish Law 11/2018 and material issues. In cases where alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used. These are described in relevant sections.

A table showing alignment with external frameworks and GRI standards is included at the end of this sustainability section.

Data governance

Unless otherwise stated, the scope of environment performance data includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This scope is consistent with environment-related policies and KPIs. LEVEL (except jet fuel data), IAG Loyalty and IAG GBS functions are not in scope for environmental reporting as the environmental impacts of these business units are not material, but are in scope of policies and KPIs.

Unless otherwise stated, workforce and supply chain data include all IAG operating companies and support functions that are wholly or majority-owned.

Scope 1 emissions data related to intra-European flights is subject to further verification for compliance with the EU Emissions Trading Scheme (EU ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). British Airways emissions data is typically verified again, to reasonable assurance standards, within six months of the year end.

In cases where full year data was not available, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust.

Any restatements are indicated next to relevant metrics with reasons provided.

1 IEnvA is the airline industry version of ISO 14001, the international standard for environmental management systems. IEnvA is tailored specifically for airlines and is fully compatible with the International Organisation for Standardisation (ISO).

2 ISAE3000 is the assurance standard for compliance, sustainability and outsourcing audits, issued by the International Federation of Accountants (IFAC).

A.3. Supply chain governance and management

GRI 308-2, GRI 414-2, Supports SDG 12

IAG Global Business Services (IAG GBS) manages interactions with suppliers on behalf of the Group. During 2020, IAG GBS focused on minimising the negative impact of the COVID-19 pandemic and drove further consolidation of the number of active suppliers from 27,033 in 2019 to 22,947 in 2020. This consolidation enables IAG GBS to focus more attention on building strategic partnerships.

IAG GBS has a dedicated Procurement Sustainability Programme which consists of four key aspects relating to the supply chain:

- Code of Conduct
- Risk screening
- Corporate Social Responsibility (CSR) Audits
- Joint programmes to promote sustainability initiatives

In September 2020, IAG GBS launched a new Group-wide Supplier Code of Conduct and issued this to the existing supply chain. This Code clarifies the standards of behaviour expected from suppliers working with any part of the business and emphasises the importance of sustainability. It has also been integrated into the supplier onboarding process. IAG will only work with businesses which share our standards and ways of working.

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. In 2020, 1,043 suppliers received red flags on compliance issues during their bi-annual screening and 35 business-critical suppliers were highlighted to the operating companies in daily risk alerts. The Procurement and Compliance Teams assess any suppliers that are identified as having potentially higher levels of risk and implement a mitigation plan where necessary. Any issues are flagged to the risk owners within IAG to jointly take appropriate action.

IAG GBS carries out in-depth supplier audits as part of the Group's commitment to sustainability; these audits are based on potential geographical and procurement category risk. They are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2020, 25 audits were completed during the COVID-19 pandemic, with eight postponed until 2021. Of the audits carried out, 78 points were identified that required minor improvements in health and safety standards, and suppliers have implemented corrective actions.

In addition, joint programmes are in place with key suppliers to drive sustainable innovation and identify new ways to reduce carbon dioxide emissions and waste. Programmes include the continued development of SAF and carbon removal technology, as well as initiatives to use environmentally friendly packaging in lounges and inflight products.

In 2021, IAG GBS will continue to further consolidate and permanently right-size the Group supply chain with no more than 15,000 suppliers across all operating companies; pivoting the business to focus more on key partnerships in order to improve supply chain performance; and drive specific projects to deliver upon IAG's sustainability commitments.

Year	Total number of suppliers	Suppliers screened	Suppliers with additional compliance assessment	Critical suppliers under regular risk monitoring	Independent CSR audits in year
2020	22,947	22,947	1,818	35	25
2019	27,033	18,369	2,912	n/a	28

A.4. Ethics and integrity

GRI 102-16, 102-17, 205-1, 205-2, 205-3

All Directors and employees are expected to act with integrity and in accordance with the laws of the countries in which they operate.

IAG's Group Code of Conduct, which is approved by the Board, sets out the general guidelines that govern the conduct of all Directors and employees of the Group when carrying out their duties in their business and professional relationships. Training and communications activities are carried out for Directors, employees and third parties on a regular basis to maintain awareness and understanding of the principles that govern the conduct of the Group.

If any employee has a concern about unethical behaviour or organisational integrity, they are encouraged to first speak with their manager or a member of the Legal, Compliance or Human Resources teams. Similarly, suppliers are encouraged to contact their primary contact within the business. IAG maintains Speak Up channels provided by independent third-party providers, Safecall and Ethicspoint, where concerns can be raised on an anonymous basis. These Speak Up channels are available to members of staff as well as suppliers, with information on how to access published in the Code of Conduct and Supplier Code of Conduct respectively.

The IAG Audit and Compliance Committee reviews the effectiveness of the Speak Up channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; process and responsibility for follow-up; emerging themes and lessons; and any issues raised of significance to the financial statements or other areas of compliance.

In 2020, a total of 193 Speak Up reports were received compared with 282 in 2019. This decrease is believed to be largely due to the slowdown in business activity and furloughing of staff brought on by the COVID-19 pandemic. These reports concerned issues relating to employment matters (63 per cent), dishonest behaviour/reputation (17 per cent), health and safety (18 per cent) and regulatory matters (2 per cent). Of the dishonest behaviour/reputation reports, none related to corruption matters versus two reports in 2019. All reports were followed up and investigated where appropriate.

Anti-corruption and anti-money laundering

IAG and its operating companies do not tolerate any form of bribery or corruption. This is made clear in our Group Code of Conduct and supporting policies which are available to all Directors and employees. Our anti-bribery policy statement is also set out in our Supplier Code of Conduct.

Each Group operating company has a Compliance Department responsible for managing the anti-bribery programme in their business. The compliance teams from across the Group meet regularly through Working Groups and Steering Groups, under the leadership of the IAG Group Compliance Director, and annually they conduct a review of bribery risks at operating company and Group level.

In 2020, the main risks identified were unchanged from the previous year and relate to the use of third parties, operational and commercial decisions involving government agencies, and the inappropriate use of gifts and hospitality. No compliance breaches were identified in 2020.

Anti-bribery and corruption training is mandatory for all IAG operating companies, Group functions and the Board and takes the form of e-learning supplemented by face-to-face sessions as necessary. Individual training requirements are set by each operating company and function, and are determined by factors such as the level and responsibilities of an employee. The Group-wide anti-bribery e-learning, which was rolled out in 2019, has a recurrence of three years. In 2020 a total of 1,984 employees completed the anti-bribery and corruption e-learning course, compared with 7,933 in 2019.

To identify, manage and mitigate potential bribery and corruption risks, IAG uses risk-based third-party due diligence which includes screenings, external reports, interviews and site visits depending on the level of risk that a third party presents. Any risks identified during the due diligence process are analysed and a mitigation plan put in place as necessary. Certain risks could result in termination of the proposed or existing relationship with the counterparty. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

There were no legal cases regarding corruption brought against the Group and its operating companies in 2020 and management is not aware of any impending cases or underlying issues.

IAG has processes and procedures in place across the Group, such as supplier vetting and management, Know Your Counterparty procedures and financial policies and controls which help to combat money laundering in the business.

A.5 Sustainability risks and opportunities

GRI 102-11, 102-15

Overview

Since 2019, sustainable aviation risks have been identified as a principal risk to IAG. Climate-related risks are considered and assessed under the Group Enterprise Risk Management (ERM) framework which is presented to the Board. More details on risk management procedures, and how Group risks inter-relate, can be found in the 'Risk Management and principal risk factors' section.

Sustainability risks and opportunities, including climate-related risks and opportunities, are also identified and assessed by the Group Sustainability team, in conjunction with the Group ERM team. This assessment includes risks over medium-term (two to five years) and long-term (greater than five year) timescales. These risks are bi-annually reported to and reviewed by the IAG Management Committee and the IAG Audit and Compliance Committee, and regularly reported to the IAG Chief of Staff who reports to the IAG CEO. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business.

IAG allocates significant resources to environmental risk management. This includes a strategic commitment to invest US$400 million (€360 million) over 20 years in SAF development, production and supply, along with a dedicated sustainable fuels team. This also includes a significant and continued investment over five years in the Honeywell GoDirect Flight Efficiency software, to manage risks related to operational efficiency, with dedicated representatives within operating companies to manage operational efficiency programmes. In addition, each of the Group's four main airlines are working towards IEnvA[1] accreditation and have invested in people and IT resources to enable this.

IAG is committed to mitigating the impacts of hazards which have uncertain but potentially highly negative outcomes, on the environment or people, if they occur. As such, IAG adopts precautionary measures to mitigate these hazards, an approach known as the precautionary principle. The precautionary principle is applied to the planning of operations and the development and launch of new services, by integrating climate considerations into business plans and financial forecasts and aligning activities with the Flightpath Net Zero programme. Detailed risk mitigation measures are outlined in the tables on the following pages.

TCFD-aligned climate-related scenario analysis

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidance on climate-related scenario analysis and climate-specific risk assessments. In 2018, IAG followed the TCFD six-step process and analysed the implications of climate change on business activity in 2030. This analysis helped in reviewing the resilience of IAG's business strategies in the context of climate change and was instrumental in the 2019 design and adoption of IAG's Flightpath Net Zero climate strategy.

The 2018 exercise included two climate scenarios and the impacts of these scenarios on IAG's costs of inputs, operating costs, revenues, supply chain, and business interruption. Outputs included an initial qualitative assessment of how IAG could respond in terms of adapting the business model, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

The scope of the exercise included:

- a two-degree Celsius temperature rise scenario (Representative Concentration Pathway (RCP) 2.6), consistent with the goals of the 2015 Paris Agreement;
- a four-degree temperature rise scenario (RCP 8.5), as an alternative high-emission scenario;
- stakeholders from IAG Strategy, Treasury, ERM, Investor Relations, Digital Innovation, Procurement and Sustainability as well as environmental and fuel efficiency managers from our operating companies; and
- 2030 as a long-term timeframe but an intermediate milestone enroute to 2050.

A key finding was that IAG would incur additional operating costs under both climate scenarios. Under a two-degree scenario, most of this increase would result from carbon prices or climate-related policy interventions. Under a four-degree scenario, IAG was more likely to face increased costs from operational disruption as a result of extreme weather events becoming more frequent.

1 See Sustainability Governance section for IEnvA definition.

The results of this scenario analysis raised climate change awareness internally and have informed specific changes to IAG's business operations and strategy:

- design and adoption of the industry-leading Flightpath Net Zero climate strategy;
- identifying and disclosing several new climate-related risks and opportunities;
- identifying "sustainable aviation" risks as a principal risk;
- deeper integration of climate considerations into internal business planning and financial planning processes; and
- embedding a sustainability category into the Hangar 51 accelerator programme to support low-carbon innovation.

During 2020 IAG updated internal assessments of climate-related risks, by testing and revising assumptions on post-pandemic business growth and the regulatory context and future carbon price for all operating airlines. Forecasting of climate-related regulatory impacts is integrated into IAG's business and financial planning process.

In 2021 IAG plans to repeat climate-related scenario analysis in line with the latest TCFD recommendations and guidance.

Summary of risk impacts and mitigation

IAG categorises climate-related risks in line with Task Force on Climate-related Financial Disclosures (TCFD) guidance. Specific risks are mitigated though existing processes, additional investments, or specific strategies as outlined in the table below. IAG uses internal carbon prices based on current EU ETS prices, the UK Department for Transport (DfT) Aviation Forecast, and International Energy Agency (IEA) CORSIA price forecasts. In 2020, EU ETS prices of €26/tonne and CORSIA prices of $17/tonne were used to forecast the compliance costs of international flights.

Trend key[1]: Increase | Stable | Decrease | S short-term (1-2 years) | M medium-term (2-5 years) | L long-term (greater than 5 years)

Summary of risk impacts and mitigation

Key climate-related risks

TCFD risk category: Regulatory (current)

Risk title	Risk description	Potential financial impacts	Mitigating actions
Higher carbon price and stringent policy mechanisms M	A rising cost of carbon in regulatory market-based schemes such as the UK ETS and EU ETS would add to our operating costs.	EU ETS prices rose 55% between 2018-20, from €16 to €25/tonne CORSIA unit prices were expected to rise at least 65% between 2020 and 2030[2]	• Via the Flightpath Net Zero programme, setting and working towards ambitious climate targets to minimise the IAG footprint and exposure to climate regulation • Lobbying for effective global regulation and robust and fair policies to meet global climate goals • Factoring carbon price forecasts into business decisions on fleet planning and investment • Continuing investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency • An effective procurement strategy for carbon credits to protect against price volatility • Driving and supporting low-carbon innovation via the Hangar 51 accelerator programme

1 Risk and opportunity trends as assessed by IAG Sustainability in relation to external changes, rather than mitigating actions.
2 Pre-pandemic.

Key climate-related risks

TCFD risk category: Regulatory (emerging)

Risk title	Risk description	Potential financial impacts	Mitigating actions
A global patchwork of uncoordinated national and regional climate policies	Several countries and the EU have already adopted or are considering carbon taxes. The UK is establishing a UK ETS. Use of regional instruments such as taxes or mandates may lead to increased compliance costs, increasing regulatory complexity, and inequitable costs causing competitive distortion. Duplicate regulations and the inconsistent application of monitoring, verification and reporting requirements could have similar effects.	Revenue impact due to reduced demand as a result of higher pricing	• Lobbying for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022 • Allocating resources to engage with governments, trade associations, IATA and ICAO to help implement the UN CORSIA scheme, which represents a single effective global carbon-pricing solution for aviation • Supporting implementation and adoption of CORSIA, robust rules for monitoring and criteria for emissions reductions, and lobbying for universal adoption

TCFD risk category: Market

Risk title	Risk description	Potential financial impacts	Mitigating actions
Changing customer behaviour	Ethical and sustainability concerns being an increasing factor in consumer choices may mean some consumers choose to travel less frequently, less far, or choose different travel modes.	Potential revenue impact from reduced or changed travel behaviours and corporate travel budgets	• Using all available tools, as well as influencing global policy and driving industry-wide action, to minimise IAG's carbon footprint • Acting in advance of potential changes in behaviour by effectively communicating the Flightpath Net Zero programme to customers and suppliers and offering climate mitigation options such as voluntary offsetting

TCFD risk category: Acute physical

Risk title	Risk description	Potential financial impacts	Mitigating actions
Increased severity and frequency of extreme weather events and local climate-related circumstances	Increased frequency of high winds, fog events, storms, turbulence, sustained extreme heat events or stronger jet stream would increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs. Local climate-related circumstances such as fires, algal blooms and droughts could make destinations temporarily less attractive.	Costs of delays and operational disruption including turbulence	• Partnerships to mitigate operational disruption. For example, working with the UK National Air Traffic Service (NATS) and other air navigation service providers, a "Linear Holding" system called XMAN was launched at London Gatwick airport in 2019. If arriving aircraft are delayed by more than seven minutes, this system ensures they are slowed down, reducing stack holding and fuel burn and therefore CO_2 emissions

Other climate-related risks

TCFD risk category: Technology

Risk title	Risk description	Potential financial impacts	Mitigating actions
Sustainable aviation fuels mandates M	Scandinavian countries have introduced mandates for a proportion of SAF in aviation fuel, and the EU and Spain are considering mandates. Mandates would incentivise production but could force airlines to purchase SAF at an excessive price premium compared with conventional fuels. This could also create competitive distortion and lead to production of fuels with lower sustainability criteria.	SAF is currently three to four times the cost of fossil fuels	• Contributing to the 2020 World Economic Forum “Cleaner Skies for Tomorrow” initiative to develop scenarios on SAF uptake • Contributing to the 2020 EC ReFuelEU consultation, to ensure that any mandates do not create competitive distortion or carbon leakage • Working at UK and international levels to strengthen global climate regulations on SAF • Supporting policy incentives that help deliver SAF at prices competitive with conventional fuels through new technology development • IAG believes sustainable fuel mandates should preferably only be applied at a global level rather than a national or regional level to prevent competitive distortion *See ‘Sustainable Aviation Fuels’ case study*

TCFD risk category: Market

Risk title	Risk description	Potential financial impacts	Mitigating actions
Destinations becoming unattractive for visitors L	For example, extreme weather events and physical impacts of climate change such as flooding, drought, forest fires, heat waves, algal blooms, coral bleaching, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.	Potential revenue loss due to changing travel choices that affect markets IAG flies to e.g. Caribbean due to hurricanes, the Alps due to shorter ski seasons	• Ongoing lobbying and engagement in projects and initiatives designed to reduce the industry’s impact on climate change • Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes • Strategy to ensure aircraft and crew flexibility means we are prepared and able to respond to shifting demand patterns

TCFD risk category: Reputation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Potential target for direct action protests S	Direct action e.g. protests could disrupt flight operations and/or restrict staff and passenger access.	Operational disruption	• Close liaison with government agencies, airport operators and commercial organisations to assess challenges • Contingency and business interruption planning

Other climate-related risks

TCFD risk category: Reputation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Operational activities deemed to be inconsistent with low-carbon behaviours (NEW) M	Perceptions of our products and climate-related operational practices in relation to the IAG climate strategy and national and international climate goals.	Changes in corporate accounts or travel policies	• Minimising IAG's carbon footprint via the Flightpath Net Zero programme • Embedding sustainability considerations into business planning and operational decision-making • Engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns • Effectively communicating actions to customers and suppliers and offering climate mitigation options such as voluntary offsetting

TCFD risk category: Regulatory (emerging)

Risk title	Risk description	Potential financial impacts	Mitigating actions
Regulation on non-CO_2 impacts (NEW) L	New external research indicates the non-CO_2 impacts of aviation are at least as significant as CO_2. The EU is reviewing whether to incorporate these impacts into climate compliance schemes and climate-neutral objectives, which could increase compliance costs.	A potentially higher obligation for climate mitigation	• Via the Flightpath Net Zero programme • Working through trade associations and research partnerships to improve understanding of aviation's climate impacts • Engaging in research to better understand non-CO_2 benefits of SAF

TCFD risk category: Market

Risk title	Risk description	Potential financial impacts	Mitigating actions
Cost of capital tied to decarbonisation strategy (NEW) M	Governments, investors and lenders increasingly tying funding to decarbonisation strategies.	Potential for higher rates on lending or an increase in resources required to secure funding	• Quantifying the financial impacts of climate risks and opportunities • Robust and transparent external disclosures on climate impact and strategy • Engaging with financial stakeholders via IAG Investor Relations *See 'Stakeholder engagement' section*

TCFD risk category: Chronic physical

Risk title	Risk description	Potential financial impacts	Mitigating actions
Persistent drought-induced water scarcity in some destinations L	Drought-induced water scarcity at outstations could increase the need for potable water carriage due to volume and quality concerns.	Fuel costs due to increased potable water carriage	• Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes

Climate-related opportunities

TCFD category: Technology

Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Use of new aircraft technologies S	Use of latest generation aircraft can reduce fuel burn and carbon impact by 25 to 40 per cent compared with aircraft they replace.	Fuel savings and carbon cost savings	• Continually investing in fleet modernisation that supports business needs and aligns with the Flightpath Net Zero programme • Retirement of older, less-efficient aircraft • Investment to realise opportunity: aircraft purchases and engine changes
Use of lower-emission sources of energy (SAF) M	Commercial and environmental opportunity to source cost-effective sustainable fuel and reduce CO_2 emissions, thereby reducing compliance costs for CORSIA and the EU ETS.	Carbon cost savings from use of SAF/hydrogen	• Ongoing lobbying for support for the development of new SAF technologies at the global, EU and UK levels *See associated technology risk* • Investment to realise opportunity: direct investments in SAF production, offtake agreements

TCFD category: Market

Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Differentiate our brands M	To differentiate IAG brands by showing leadership, innovation and action to mitigate climate impacts, so attracting customers concerned about climate change.	Greater consumer loyalty	*See mitigation measures for associated risk* • Working with specific companies to help them reduce the impacts of their corporate travel • Investment to realise opportunity: communications campaigns and percentage of profit into sustainability

TCFD category: Regulatory

Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Higher carbon price and strong policy incentives M	Support stronger business case for investment in low-carbon technologies which accelerate decarbonisation progress.	Financial benefits from delivery of projects	*See mitigation measures for associated risk* • Investment to realise opportunity: internal people resource

Climate-related opportunities

TCFD category: Market

Opportunity title	Opportunity description	Potential financial impacts	Mitigating actions
Destinations becoming attractive for visitors (L)	Climate change could make certain destinations more attractive or accessible to visitors, for example a longer summer season.	More flights to more attractive destinations	*See mitigation measures for associated risk* • Investment to realise opportunity: n/a as incorporated into business planning

Other sustainability risks

Current regulation, Emerging regulation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Operational noise restrictions and charges (S)	Airport operators and regulators apply operational noise restrictions and charging regimes which may restrict airlines' ability to operate especially and introduce additional costs.	Reduced flying on specific routes due to UK night flight regulation	• Investing in new quieter aircraft as part of fleet modernisation • Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures • Internal governance and training and external advocacy in UK, Ireland and Spain to manage challenges

Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Supply chain sustainability compliance (S)	Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial, legal, environmental, social and/or reputational impacts.	Penalties from breaches of regulation e.g. modern slavery and potential reputational damage	*See 'Supply chain' case study* • IAG GBS procedures including Integrity, sanctions and CSR audits, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct • Internal governance on supplier management to identify challenges and mitigation actions • Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability

Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Environment regulation compliance (S)	An inadvertent breach of compliance requirements with associated reputational damage and fines.	Increasing regulation, increasing cost of compliance and increasing fines related to non-compliance	• Strengthening sustainability governance *See 'Sustainability Governance' section* • Embedding sustainability considerations into business plans, financial plans, and business cases *See 'Strategy' section* • Internal governance, training and assigning ownership for environmental compliance obligations • Engaging with carbon market advisers to understand and mitigate compliance challenges and identify future opportunities • IEnvA certification to improve internal compliance process

A.6. Stakeholder engagement

GRI 102-43, 102-44

In 2020 IAG continued to engage with a wide range of stakeholders specifically on sustainability issues. Reasons for engaging with eight key stakeholder groups are outlined in the tables below.

IAG is a member of multiple trade associations, listed on the next page, and is proactively driving trade association positions towards consistency with global 1.5°C climate ambitions. Internal governance processes ensure that stakeholder engagement is consistent with IAG's material issues and environmental goals. Where positions with trade associations are inconsistent, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stance and constructively move to alignment.

Summary of organisation and trade association activity in 2020

GRI 102-13

Organisation	Scope	Key leadership role/s	Key leadership action
UN	Global	IAG CEO was the only aviation CEO to speak at UN Climate Ambition Summit in December 2020 Member of Race to Zero campaign	First airline signatory to Business Ambition for 1.5°C pledge, which had 364 global signatories as of December 31, 2020.
ICAO	Global	Keynote panel speakers at ICAO Global CO_2 Stocktaking Event Member of Fuels Task Group	Supporting SAF sustainability standards Finalising rules for CORSIA scheme
SBTi	Global	One of sixteen airlines on the Technical Working Group for the aviation sector	Active in-kind support to develop criteria and guidance for 'science-based' aviation targets, which SBTi will launch in 2021
Jet Zero Council (JZC)	UK	IAG representative chairs SAF Delivery Group Member of fuels expert group	Supported efforts to ensure primary focus of JZC is on SAF and supported set-up of the SAF Delivery Group

Industry associations and alliances	Scope	Key leadership role/s	Key leadership action
IATA	Global	IAG representative chairs IATA Sustainability and Environment Advisory Council Representation on four key working groups – SAF, Fuels, Long-term Targets, Waste Keynote panel speaker for SAF symposium	Supporting moves for industry commitment to net zero emissions by 2050 Finalising rules for CORSIA scheme to enable carbon-neutral growth in international aviation
Air Transport Action Group (ATAG)	Global	Keynote panel speaker at Global Sustainability Aviation Summit	Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap
oneworld	Global	IAG representative co-chairs the environmental and sustainability best practice steering group British Airways representative leads waste workstream	Instrumental in delivery of **one**world net zero commitment in September 2020
Airlines 4 Europe (A4E)	European	Five staff contribute environmental expertise to working groups and consultations	Initiated EU aviation carbon roadmap and contributed expertise Created interactive decarbonisation roadmap to share with A4E airlines

Industry associations and alliances	Scope	Key leadership role/s	Key leadership action
Sustainable Aviation (SA)	UK	Member of SA Council Member of multiple working groups	Instrumental in delivery of net zero commitment and production of CO_2 and fuels roadmaps in February 2020 Hosted three workshops in 2019 to support the above
Royal Aeronautical Society (RAeS)	UK	IAG on Executive Committee of Greener by Design group	Supported RAeS Annual Climate Conference by sourcing eight speakers including British Airways CEO Sean Doyle
Coalition for Negative Emissions	UK	One of 11 member organisations to launch this coalition in 2020	Lobbying UK Government to support negative emissions technologies
Grupo Español de Crecimiento Verde	Spain	Iberia is one of 50 pioneering IBEX35 companies to join	One of 34 members to sign letter calling for green recovery

Unless otherwise stated, activities below relate to the Group. More details can be found in the indicated sections.

Stakeholders	Why we engage/key topics	How we engage
Industry associations	To develop common policy positions To improve lobbying effectiveness To ensure consistency between IAG sustainability goals and the goals of associations of which IAG or operating airlines are members To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment	See previous page Leading roles on task forces Contributing expertise to roadmaps Supporting relevant events/working groups Driving and supporting discussions on achieving net zero emissions and 1.5°C-aligned pathways
Government and other regulators	To support UK and EU commitments to net zero emissions To build support for a net zero emissions target for aviation through the UN aviation regulator ICAO To influence UK, Spanish, Irish, EU and global policies on taxes, SAF and carbon pricing, noise and airspace modernisation so that these policies are effective and fair To increase research and funding for low-carbon aircraft, SAF and carbon removal technologies	Contributing to public policy consultations Attending UN summits and working groups Through joint dialogue with trade associations Meetings with government officials, ministers and parliamentarians Senior representation on UK JZC and Airspace Board Exploring new policy options for producing SAF from non-biological sources Supported successful Sustainable Aviation bid for £18 million in funding for SAF development in 2020
Customers	To demonstrate IAG's sustainability commitments to action, initiatives and leadership To facilitate passenger action on the environment To stay attuned to changing customer demands To offer employment opportunities	Sharing Flightpath Net Zero material on the IAG website Offering websites for British Airways and Aer Lingus passengers to offset their flight emissions Social media communications Onboard communications e.g. in-flight entertainment Customer surveys Focus groups Meetings and interviews

Unless otherwise stated, activities below relate to the Group. More details can be found in the indicated sections.

Stakeholders	Why we engage/key topics	How we engage
Workforce	To align individual airline sustainability programmes with Group To share ideas and best practice To respond to demands from internal stakeholders To drive positive employee engagement To improve recruitment and retention opportunities	European Works Council (EWC) meetings for EEA staff Monthly IAG Sustainability Network meetings for sustainability staff Voluntary environmental and waste champions Staff awareness campaigns Connecting sustainability leads in the IAG operating companies to suppliers *See 'Workforce overview' section*
Suppliers	To minimise exposure to ESG risks To support manufacturers in improving aircraft efficiency To gain support for SAF To identify opportunities to reduce supplier emissions	Procurement processes Screening and on-site audits Joint projects Hangar 51 accelerator programme Industry conferences and supplier sustainability workshops *See 'Supply chain management' case study* *See 'Sustainable Aviation Fuel' case study* *See 'Innovation, research and development' case study*
Shareholders and other financial stakeholders	To understand their approach to ESG, to enable us to better align our programmes with their priorities To demonstrate action and leadership to external stakeholders on IAG initiatives To maintain and increase transparency To respond to legal obligations	Investor relations contact with groups including institutional investors and shareholders, debtholders, debt providers and credit rating agencies Conference calls with institutional investors Via corporate website Disclosures to external rating agencies CDP, TPI, Sustainanalytics, MSCI, Vigeo Eiris Surveyed investors on ESG preferences Emphasised sustainability strategy in half year and full year results presentations
Communities	To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near where airlines operate To increase IAG's positive wider impacts	Participating in airport community forums Community giving campaigns Engaging local schools in sports, charity and learning events *See 'Noise and air quality' case study* *See 'Community engagement and charitable giving' case study*
NGOs and academic institutions	For independent reviews of materiality To maintain an informed position on sustainability leadership To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment	Meetings and visits Industry conferences and workshops Contributing to NGO initiatives IAG staff on academic boards at Cranfield, Heriot Watt and Aston Supergen consortium IAG staff on steering board of Biotechnology and Biological Sciences Research Council (BBSRC)

B. Planet

B.1. Climate change impacts

GRI 301-1, 302-1, 305-1, 305-2, 305-3, 305-4, 305-5

IAG's impact on climate change reduced dramatically in 2020, primarily reflecting the significant drop in flying activity. Scope 1 emissions dropped by 64 per cent, Scope 2 emissions dropped by 54 per cent and use of renewable energy rose by 11 percentage points. Emissions are expected to rise as the Group recovers from the COVID-19 pandemic. However, growth is decoupling from emissions and internal forecasts suggest 2019 could represent peak emissions due to current and future use of a more fuel-efficient fleet and expanded use of SAF.

IAG calculates its impact on climate change by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report. UK Government GHG conversion factors are applied across the Group as these are deemed to be the most robust factors available. IEA national electricity emissions factors, and gCO_2/kWh factors from national agencies, are used to calculate Scope 2 emissions.

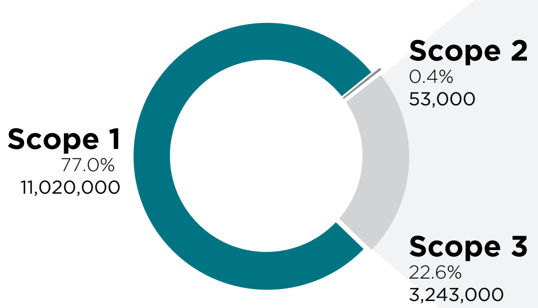
IAG consumed a total of 43 million MWh of energy in 2020 with 86 per cent of electricity use and 0.6 per cent of total energy use being from renewable sources. 66 per cent of this consumption is attributed to the UK, based on British Airways Scope 1 emissions and Group electricity use in UK-based offices.

IAG discloses its impact in terms of CO_2-equivalent emissions, which includes CO_2, CH_4, and N_2O. Scope 1 emissions in 2020 were:

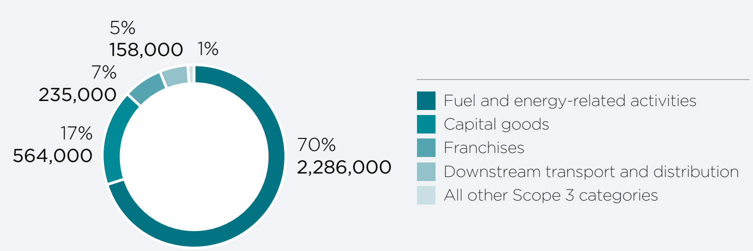
- 10.91 million tonnes (MT) carbon oxide (CO_2)
- 0.10 MT nitrous oxide (N_2O)
- 0.01 MT methane (CH_4)

This shows that CO_2 is 99 per cent of the Scope 1 impact. IAG only discloses CH_4 and N_2O as non-CO_2 GHGs, in line with the latest available UK Government GHG conversion factors.

Total GHG emissions in tonnes CO_2e[1]



Scope 3 GHG emissions in tonnes CO_2e[1 2]



Key Metric	Unit	vly	**2020**	2019	2018	2017	2016
Scope 1 CO_2e	MT CO_2e	-64%	**11.02**	30.78	29.99	28.76	28.26
Net Scope 1 CO_2e	MT CO_2e	-61%	**10.85**	27.60	27.22	26.17	*nr*
Scope 2 location-based	kt CO_2e	-23%	**52.6**	68.6	70.4	92.6	103.1
Scope 2 market-based	kt CO_2e	-54%	**10.0**	21.7[3]	40.7	61.9	92.9
Scope 3	MT CO_2e	-64%	**3.24**	9.04	8.79	7.88	7.64
Emissions intensity (jet fuel)	gCO_2/pkm[4]	+18%	**106.2**	89.8	91.5	92.3	94.8
Renewable electricity	%	+11pts	**86%**	75%[3]	54%	54%	*nr*

Note: "nr" means "not reported previously"
1 Values rounded to nearest thousand tonnes.
2 Only material Scope 3 categories are reported here. Other Scope 3 categories are approximately 1% of IAG's Scope 3 footprint, based on past analysis.
3 Restated using an updated methodology. More details provided on next page.
4 Definition of passenger-km provided on the next page.

Commentary on key metrics

Metric	Unit	Description	Commentary
Flight-only emissions intensity	gCO_2/pkm	Grammes of CO_2 per passenger kilometre is a standard industry measure of flight fuel efficiency. It is calculated by dividing total jet fuel use by total passenger-km, assuming 10 cargo-tonne-km is equivalent to one passenger-km. For accuracy, IAG excludes the jet fuel use of franchises and cargo freight on other airlines, and excludes no-show passengers. The passenger-km used in the 2020 calculation is 70,469 million and the cargo-tonne-km is 3,187 million.	The 2020 worsening of fuel efficiency is driven by much lower load factors. Passenger numbers dropped by 73.6% and load factors dropped 20.8 percentage points due to the COVID-19 pandemic. Between 2011 and 2019, IAG's average annual improvement in grammes of CO_2/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%. Group fuel efficiency is expected to be back on track by 2023.
Scope 1 emissions and net Scope 1 emissions	Tonnes CO_2e	Direct emissions associated with IAG operations including use of jet fuel, diesel, petrol, natural gas, and halon. Sources of emissions include aircraft engines, boilers, auxiliary power units and ground vehicle engines. These emissions are primarily CO_2 but other GHGs such as methane and nitrogen oxide are also reported as part of the CO_2-equivalent metric. Net emissions are calculated by subtracting the volumes of offsets voluntarily purchased, volumes of offsets purchased to meet CORSIA compliance obligations, and allowances purchased from other sectors as part of meeting EU ETS compliance obligations.	99.6% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future. While flying activity has decreased by 75%, Scope 1 emissions have only dropped by 64% due to the effect of continuing to fly aircraft with emptier loads. 2020 net emissions are reduced by 168kt due to British Airways domestic offsetting. EU ETS allowances purchased from other sectors equate to a net reduction as per European Commission guidance. IAG has been disclosing net emissions since 2017 using this methodology.
Scope 2 emissions (market-based/ location-based)	Tonnes CO_2e	Emissions associated with electricity use in, for example, offices, lounges, data centres and hangars. Market-based emissions are based on the carbon intensity of electricity purchased from suppliers. Location-based emissions are based on the carbon intensity of national electricity grids.	The 2020 decrease was driven by increased procurement of renewable electricity in Spain and at UK and Spanish airports, and higher use of renewables in national electricity grids. Where the electricity use of overseas offices was not avaiable, this was based on leased space in m^2, multiplied by relevant kWh/m^2 factors and IEA national electricity emissions factors.
Scope 3 emissions	Tonnes CO_2e	Indirect emissions associated with products IAG buys and sells. Analysis in 2018 and 2019 revealed that Scope 3 categories 2, 3, 9, and 14 represent approximately 99% of IAG's Scope 3 footprint. Other categories are calculated within six months of year-end.	The drop in Scope 3 emissions is related to the drop in activity of the fleet. 70% of Scope 3 emissions are from fuel and energy-related activities (see pie chart on previous page).
Renewable electricity	%	The share of electricity generated by renewable sources such as solar power and wind, based on volumes procured from renewable electricity suppliers. In cases where electricity sources were unavailable, the source of electricity is assumed to be the national grid.	The 2020 increase is driven by procurement of renewables in Vueling and Iberia and at UK and Spanish airports where we operate. The 2019 value has been restated using the latest verified data, more robust calculations of ground power, and national grid emissions factors published after year end.

Metric	Unit	% vly	**2020**	2019	2018	2017	2016
Emissions intensity (Scope 2)	gCO_2/pkm	+154%	**0.51**	0.20	0.22	0.28	0.35
GHG reduction initiatives	Tonnes CO_2e	-78%	**17.21**	77.39	65.66	*nr*	*nr*
Electricity	Mn kWh	-19%	**215.7**	267.7[1]	234.9	253.2	*nr*
Energy	Mn MWh	-65%	**42.5**	119.7[1]	119.4	114.4	108.4
Revenue per tonne CO_2e	€/tonne CO_2e	-15%	**705**	827	811	796	796
Jet fuel use	MT fuel	-64%	**3.45**	9.65	9.41	9.02	8.86
Fleet age	years	-7%	**10.6**	11.4	11.3	11.4	10.8

Note: “nr” means “not reported previously”'

1 Restated using a more robust methodology and latest electricity emissions factors. Descriptions and commentary on these metrics is available in the ‘Additional Disclosures’ section of the IAG Non-Financial Information Statement.

B.2. Climate change commitments – Flightpath Net Zero

Supports SDG 13

IAG will deliver net zero emissions across its global operations by 2050. This aligns with worldwide efforts to keep average global average temperatures below a 1.5°C rise. IAG was the first airline group to commit to this goal and the first airline group to sign the UN Business Ambition for 1.5°C pledge.

In this context, net zero emissions means that all CO_2 that IAG operations emit in a year will be balanced out by an equivalent amount of CO_2 removed from the atmosphere. The net zero commitment covers Scope 1 and 2 CO_2 emissions. IAG is committed to minimising non-CO_2 impacts as well, and will review targets on these when the science around them becomes more robust. The focus is on reducing use of fossil jet fuel, as this accounts for 99 per cent of the Scope 1 and 2 footprint.

The pioneering Flightpath Net Zero programme underpins the IAG commitment. This programme includes 2025 and 2030 Group-wide targets, financial incentives for senior managers explicitly tied to delivery of carbon intensity targets for both the Group and operating airlines (See ‘Sustainability strategy’ section), and a published 30-year roadmap for achieving net zero.

IAG will minimise gross emissions through a combination of fleet modernisation, operational efficiency and SAF. In 2050, any remaining emissions will be neutralised by use of GHG removal technology. IAG sees carbon offsets as a transitional measure and is advocating for government support for GHG removal technology via membership of the Coalition for Negative Emissions. Net emissions will be reduced in the short- and medium-term by use of carbon offset and removal projects and funding emissions reductions via the UK and EU ETS.

Group-wide climate targets remain the same and have been re-baselined to 2019 due to the pandemic:

- Net zero CO_2 emissions for British Airways UK domestic flights from January 1, 2020;
- 11 per cent improvement in fuel efficiency between 2019 and 2025, from 89.8g CO_2/pkm to 80g CO_2/pkm in 2025;
- 20 per cent reduction in net CO_2 emissions between 2019 and 2030, from 27.6 MT to 22 MT in 2030; and
- Net zero Scope 1 and Scope 2 CO_2 emissions by 2050.

IAG also had a target for a 10 per cent improvement in fuel efficiency between 2014 and 2020, from 97.5g CO_2/pkm to 87.3g CO_2/pkm. In 2019, IAG achieved 89.8gCO_2/pkm and was on track. The 2020 target was not met due to a drop in passenger load factors as a result of the COVID-19 pandemic.

Plans for fleet composition and capacity and operational efficiency initiatives should enable delivery of the 2025 fuel efficiency target of 80g CO_2/pkm. In light of the ongoing impact of COVID-19, IAG will review this target in the first half of 2021.

In 2020 IAG was an active participant in the SBTi Technical Working Group for aviation, to develop methodologies for aviation climate targets aligned with a global climate scenario of well below 2 degrees. Once the SBTi finalises a target-setting methodology for airlines in 2021, IAG plans to submit a target for approval.

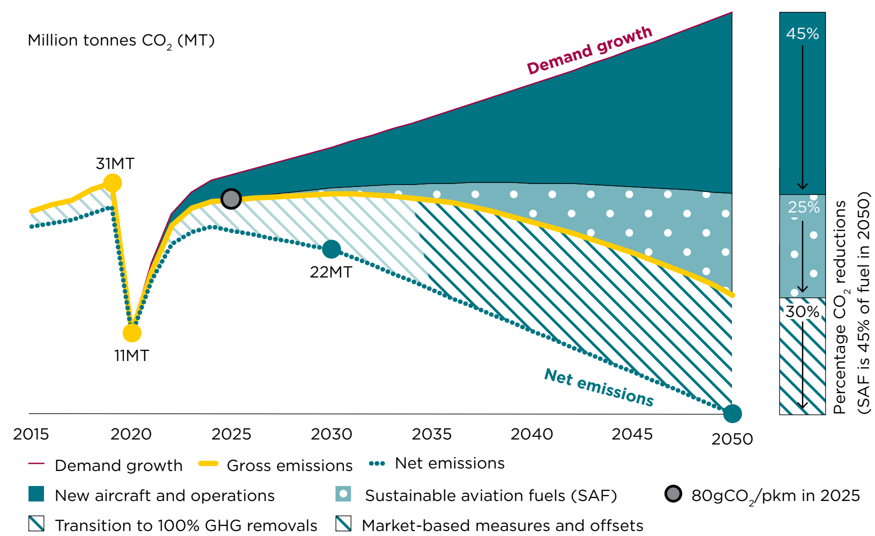
B.3. Climate change roadmap

IAG was the first airline group to publish a quantified roadmap to net zero emissions. This was based on comprehensive modelling.

An updated roadmap scenario for IAG is shown on the right. This assumes a recovery to 2019 levels of passenger demand by 2024, and then annual demand growth of approximately two per cent to 2050, in line with IATA industry forecasts. The recovery path between 2020 and 2023 is illustrative and will change, but IAG remains committed to its 2025, 2030 and 2050 targets.

The IAG ambition is for at least 45 per cent of fuel in 2050 to be from SAF, up from 30 per cent due to lower overall jet fuel use and continued policy support. Overall fuel efficiency will improve by at least 70% by 2050 compared to 2019 levels.

In 2021, IAG will update this 30-year decarbonisation plan to account for the latest recovery forecasts, any acquisitions, policy and technology developments, and target-setting methodologies.



Fleet modernisation

Supports SDGs 3,8,13

IAG continues to invest in next-generation aircraft and engine changes. These changes, along with fleet retirements, will play a major role in reducing emissions intensity per passenger.

2020 progress:

- Across the Group 34 new, more fuel-efficient aircraft were delivered and 62 older aircraft disposed of or retired;
- British Airways and Iberia retired their entire fleets of 32 Boeing 747s and 15 Airbus A340s respectively;
- British Airways now has 23 Airbus 320/321neos, eight Airbus A350s and 32 Boeing 787s, all of which are 25 to 40 per cent more fuel-efficient than the aircraft they replaced;
- Iberia now has eight Airbus A320neos, three Airbus A321neos, and nine Airbus A350s, which are between 15 to 35 per cent more efficient than the aircraft they replaced;
- Vueling has 25 Airbus A320neo aircraft, which achieve an 18 per cent reduction in fuel burn compared to the Airbus A320ceo; and
- Aer Lingus retired its last two Boeing 757 aircraft and received a new Airbus A321neoLR which achieves a 20 per cent reduction in fuel burn.

Operational efficiency

GRI 305-5
Supports SDGs 3, 13

IAG continues to develop annual programmes of operational and fuel efficiency initiatives for both aircraft and ground operations. Representatives within each airline are working to reduce onboard fuel consumption and fly aircraft as efficiently as possible, without negatively affecting flight safety, passenger service offerings or flight schedules where possible.

The Honeywell GoDirect Flight Efficiency software is in use across the Group to identify and monitor fuel-saving opportunities.

Examples of fuel efficiency initiatives implemented over the past two years include optimised engine washes, reducing the use of Auxiliary Power Units (APUs), landing light deployment, single engine taxi-in, continuous descent operations, lighter main wheels and reducing weight onboard.

2020 progress:

- IAG delivered 17,208 tonnes of CO_2e savings through GHG initiatives, a 78 per cent drop compared with the 77,386 tonnes delivered in 2019, however the drop primarily reflects the decline in flights and operations due to the pandemic;
- Vueling upgraded APUs to minimise energy consumption and is using lightweight trolleys to reduce weight onboard;
- Iberia installed more than 5,300 solar panels on its aircraft engine maintenance hangar in Madrid, working in partnership with specialist firm Getting Greener. From 2021 these solar panels will generate 80 million kWh a year for Iberia's hangars, workshops and offices;
- Aer Lingus fully replaced its hangar lighting with energy-efficient light-emitting diode (LED) units; and
- IAG Cargo planned trials of new electric vehicles at Heathrow and Dublin airports for 2021.

Sustainable Aviation Fuels

Supports SDGs 7, 8, 13

IAG is a leader in developing SAF by making direct investments in production capacity for "second generation" fuels, which use carbon-rich waste feedstocks, in addition to purchasing these fuels where mandates exist to do so. SAF is chemically almost identical to jet fuel from fossil fuels, but over its recent life cycle emits 70 to 100 per cent less CO_2 and according to recent research materially reduces particulate emissions and non-CO_2 effects. The Group's investments are backed up with SAF purchase agreements which are critical to the financeability of the new SAF production capacity.

The Group has committed to invest US$400 million in SAF production over the next two decades. IAG's dedicated sustainable fuels team is also leading efforts to influence domestic, regional and international policy to support uptake and production of these fuels.

See 'Stakeholder engagement' section

2020 progress:

- IAG's SAF programme is on track and £0.5 million was invested in the Altalto waste-to-jet fuel plant in Immingham, England, a partnership between British Airways and fuels technology company Velocys;
- Planning permission was secured for the Altalto project. Subject to financing, construction of the plant could start in late 2022 and it is planned to be operational in 2025, producing over 32,000 tonnes of SAF per year. This will be the UK's first dedicated sustainable jet fuels plant;
- British Airways contributed to the formation of the SAF development company Lanzajet, has recently invested in the business, and has also committed to purchase 7,500 tonnes of SAF a year from Lanzajet's first alchohol-to-jet fuel plant in Georgia, USA from late 2022. In addition, the deal involves funding the early stage development of a larger SAF biorefinery in the UK; and
- IAG contributed to the World Economic Forum "Cleaner Skies for Tomorrow" initiative to develop scenarios on global SAF uptake.

IAG continues to work with technology developers to establish a range of SAF supply options for the future.

Carbon offsets and removals

Supports SDGs 7, 9, 13

IAG recognises the need for carbon offset and removal projects as a transitional means of meeting carbon reduction goals and to support customers in mitigating the impact of their flights.

IAG voluntarily funds emissions avoidance and removal projects around the world, offering passengers the chance to do the same, and explores the use of carbon capture, utilisation and storage (CCUS) technology in our operations and SAF production. Since 2013, operating airlines have been funding emissions reductions in other sectors to meet compliance obligations under the EU ETS, and since 2019 have been participating in the UN CORSIA scheme to enable carbon-neutral growth on eligible international flights.

When IAG or operating companies choose to voluntarily invest in carbon avoidance and removal projects, they work in collaboration with key partners, carry out due diligence to select reputable providers, and select projects carefully to meet and align with verified quality standards.

2020 progress:

- IAG supported the change of CORSIA baseline to 2019 from 2020, due to the impact of the COVID-19 pandemic;
- Aer Lingus launched its carbon offsetting programme for passengers. Projects include rainforest protection in Cambodia and Peru and sustainable cook stoves for communities in Sudan;
- The British Airways Carbon Fund, in partnership with not-for-profit charity Pure Leapfrog, worked to deliver 14 high-quality carbon reduction projects in the UK and Africa. One example was delivering solar lighting systems and portable solar lights to 40 rural health clinics in Zambia and Malawi; and
- Vueling sponsored the not-for-profit GreenNova and their CAPTACO$_2$ research project to capture CO_2 from the air.

Since January 2020 British Airways has offset the carbon emissions on all flights within the UK. Equivalent emissions reductions have been achieved through British Airways' voluntary investment in a range of quality, Gold Standard- and Verified Carbon Standard (VCS)-verified carbon reduction projects. These projects include rainforest protection in the Congo Basin, energy-efficient cookstoves in Peru, renewable wind energy in Turkey and solar energy projects in India.

B.4. Waste

GRI 306-1 (2020), 306-2 (2020), 306-3 (2020)
Supports SDG 12

IAG has made great progress with waste tracking and waste initiatives over the past few years. For example, Iberia waste per passenger dropped 12 per cent from 2016 to 2019. Initiatives across the Group include reducing and recycling plastic, glass, metal cans, paper and food waste.

The COVID-19 pandemic has set back progress by making it harder to calculate a waste baseline, pausing or delaying some waste initiatives, and driving temporary re-introductions of plastic items for health and safety reasons. For example, progress on the 2020 British Airways target to remove 700 tonnes of onboard single-use plastic (SUP) was unable to be tracked as result of changes to flying volumes, onboard catering and internal resources.

However, in 2021 IAG plans to set new Group-wide waste reduction targets, update the Group Sustainability policy to place greater emphasis on waste, and comply with the EU SUP ban when it enters into force in July.

Onboard services are IAG's main source of waste. Key inputs include onboard meals and newspapers supplied to passengers, and key outputs include plastic packaging, leftover food waste, drinks cans, and cabin items such as wrappers. Waste is typically offloaded and processed at airports by third-party caterers, with some materials recovered on-site and other materials incinerated or sent to landfill. The majority of cabin and catering waste is processed at IAG's hub airports – London Heathrow, Dublin, Madrid and Barcelona.

Where possible, IAG acts to reduce food waste while maintaining customer choice. For example, British Airways runs a pre-flight top-up catering service for London flights, to meet late changes to onboard catering requirements whilst minimising over-catering which would increase food waste.

2020 progress:

- Integrated waste roadmaps into operating company forecasting and financial plans;
- A British Airways representative sits on the IATA global working group on reducing SUP and lobbying for effective global policies to support this;
- Iberia ran trials with environmental innovator Countalytics on using data analytics to help reduce food waste; and
- Vueling replaced napkins, plastic cups, coffee stirrers and cutlery for passengers with recycled or sustainable alternatives and launched the KEEP CLEAN project to engage staff in waste reduction initiatives.

Metric	Unit	vly	**2020**	2019
Total onboard waste at hub airports	millon tonnes	-56%	**8.2**	18.6
Shorthaul waste per passenger	kg/pax	+63%	**0.13**	0.08
Longhaul waste per passenger	kg/pax	+69%	**1.96**	1.16
Overall waste per passenger	kg/pax	+58%	**0.41**	0.26

Metric	Description	Commentary
Waste/pax	Onboard catering waste generated per passenger, net of recycling, and split between shorthaul and longhaul operations. Total includes cabin waste from Vueling as a split was unavailable. Passenger numbers are based on inbound passengers who have their waste processed at hub airports e.g. London Heathrow, London Gatwick, Madrid, Barcelona and Dublin. Shorthaul and longhaul flights are defined by distance and by onboard product.	Onboard waste at hub airports dropped 56 per cent. Onboard waste per passenger increased. Decreases, driven by reductions in onboard services and greater rates of recycling at hub airports, were offset by higher rates of cancelled bookings and greater use of disposable products for health and safety reasons.

B.5. Noise and air quality

GRI 305-7. Supports SDGs 3, 11

IAG is committed to reducing aircraft noise and air pollution, to minimise our impact on local communities near airports. The average noise per landing and take-off cycle (LTO) dropped by 10 per cent between 2015 and 2019.

Operating companies regularly monitor noise and air quality performance using national databases and global aircraft noise standards. They drive improvements through fleet modernisation and specific operational practices like continuous descents. They also engage with stakeholders such as community groups, regulators and industry partners and participate in research and operational trials.

2020 progress:

- Vueling grew its fleet of Airbus A320neos, which produce half the noise of Airbus A320ceos;
- Aer Lingus received an Airbus A321neoLR, which produces half the noise of Airbus A321ceos;
- Iberia participated in the AVIATOR project, funded by the EU Horizon 2020 programme, to develop sensors to monitor air pollution at airports; and
- IAG set a new Group target of a 10 per cent reduction in noise per LTO between 2020 and 2025.

Metric	Unit	vly	**2020**	2019	2018	2017	2016
Noise per cycle	QC per LTO	-3.5%	**0.96**	1.00	1.07	1.06	1.08
NO_x per cycle	kg per LTO	+6.6%	**9.84**	9.23	9.71	*nr*	*nr*

Note: “nr” means “not reported previously”’

Metric	Description	Commentary
Noise per LTO cycle	Average noise per flight considering arrival and departure noise for each aircraft type. Based on the number of flights of all aircraft which operated during the year, including leased aircraft. Quota Count (QC) values from the UK Government are used to create a relative categorisation based on certified noise levels. For example, for a single flight, a Boeing 747 would have a score of 6.0 while an Airbus A320 would have a score of 1.0.	The 2020 improvement is driven by the accelerated retirement of older aircraft such as the Airbus A340s and Boeing 747s.
NO_x per LTO cycle	Average emissions of the air pollutant nitrogen oxide (NO_x) as aircraft take off and land. The calculation considers the engine certifications and aircraft types of all aircraft which operated during the year, including leased aircraft, referencing information from the ICAO emissions database.	Year-on-year trends can fluctuate due to multiple factors. The 2020 increase is driven by a relative increase in longhaul versus shorthaul flying at British Airways, and use of A330s in the Aer Lingus fleet.

Over 98 per cent of the IAG fleet has met the ICAO Chapter 4 and ICAO CAEP 4 standards for several years so these are not disclosed in 2020. IAG typically reports on continuous descent (CDO) compliance but was unable to in 2020 due to limited data availability from the National Air Traffic Services (NATS).

2020 metric	Unit[1]	vly	**2020**	2019	2018	2017	2016
ICAO Chapter 14[2]	% at standard	+5pts	**58%**	53%	50%	46%	46%
CAEP Chapter 6[3]	% at standard	+2pts	**80%**	78%	74%	69%	68%
CAEP Chapter 8	% at standard	+5pts	**40%**	35%	29%	26%	25%

1 Based on the fleet position at the end of 2020, including parked aircraft and excluding leased aircraft
2 ICAO Chapter standards compare aircraft noise against standardised limits that are a combination of lateral, approach, and flyover noise levels. Higher standards are more stringent. Chapter 14 applies to new aircraft certified from January 1, 2017.
3 ICAO CAEP standards are for NOx emissions from aircraft engines. Higher standards are more stringent. The CAEP 6 NO_x standard applies to engines manufactured from January 1, 2008, and the CAEP 8 standard applies to engines manufactured from January 1, 2014.

B.6. Innovation, research and development

IAG leads the aviation industry in engaging with global sustainability innovators. As part of Hangar 51, IAG's core innovation platform, the Group continues to attract the world's top emerging technology companies working on sustainability solutions.

Types of engagement include supporting applications for grant funding, running accelerator programmes, incubation, investment opportunities, university collaborations, active pilots, and research and development consortiums. IAG representatives also sit on academic boards and public-private partnerships to support new technologies and innovation.

Since 2019, sustainability has been one of the eight core challenge areas within the Hangar 51 structured ten-week accelerator programme. The Group has increased its engagement with global tech communities focused on sustainability and has seen a six-fold increase in the number of active projects in this area.

2020 progress:

- Hangar 51 held its first virtual programme and attracted applications from top innovators around the world;
- Eight operating companies explored groundbreaking environmental pilots which include commercialisation of hydrogen powertrains with ZeroAvia, carbon-to-jet fuel technology, food waste reduction using artificial intelligence (AI) and machine vision, and managing sustainability within the IAG supply chain;
- IAG partnered with other energy and travel companies to invest in i6 Group, a leading fuel management software company; and
- Iberia, together with the Politécnica de Madrid University (UPM), has created La Cátedra Iberia with the goal of finding ways to decarbonise the air transport industry.

In 2021 the Group will continue to engage with a range of emerging green technology disruptors. More details are available on the dedicated Hangar 51 website.

C. People and Prosperity

C.1. Workforce overview

GRI 403-4, 408-1, 409-1
Supports SDG 12

IAG aims to create an environment in which employees feel motivated, safe and able to thrive as this is central to the continued success of the Group. Core principles in the Code of Conduct include fair and equal treatment, non-discrimination, fairness and respect for human rights. This Code applies to all Directors, managers and employees of the Group and e-learning training to support it is mandatory and applicable to all employees and Directors. Individual operating companies have responsibility for policies and procedures relating to their employees, including appropriate reward frameworks to ensure they can continue to attract and retain the best talent for every role.

At the end of 2020, 57,928 people were employed across the Group in 82 countries, a decrease of 20 per cent in the year. Our voluntary turnover rate for 2020 was 15 per cent compared with 7 per cent in 2019, a change that reflects the unfortunate but necessary resizing of the business.

In response to the COVID-19 pandemic, British Airways has worked closely with its trades unions to reach agreements to save jobs and reduce costs. In some areas this has reduced the need for redundancies by a significant number or even altogether. This has been coupled with voluntary measures such as unpaid leave and part-time working to reduce the size of the workforce as the demand for flying remained significantly reduced. Where redundancies have been necessary, a large proportion of these have been achieved through voluntary measures.

For those employees who were made redundant, support has been offered to help them find alternative employment and explore redeployment opportunities. In British Airways, for instance, retention pools have been created to support redundant employees back into the workplace, should the situation improve.

Measures to support employee satisfaction and talent management are primarily managed within operating companies. Each operating company has its own established methods of measuring employee satisfaction. IAG is currently working to align the talent management framework across the Group, focusing at Group level on the IAG Management Committee and their direct reports. IAG has a good track record of retaining and promoting talent into senior roles, as evidenced by the Management Committee appointments during 2020.

IAG has employees based in European countries which comply with the conventions of the International Labour Organization (ILO), covering subjects that are considered as fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Outside of the EU, IAG recognises trade unions in many jurisdictions, has collective agreements and meets/exceeds all relevant labour standards.

IAG has a European Works Council (EWC) which brings together employee representatives from the different European Economic Area (EEA) Member States in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA Member States. During 2020, IAG hosted one full meeting of the EWC (compared with two in 2019) and eight Select Committee meetings, which have all been held virtually since March.

Within the Group, individual operating companies have responsibility for the policies and procedures relating to their employees, including reward frameworks to ensure they can continue to attract and retain the best talent for every role.

Due to the diverse nature of Group businesses, both in terms of jurisdictions and operations, all training policies and programmes are implemented at operating company level. Each is responsible for determining the specific courses offered within their organisation, the frequency with which training courses must be completed, and the employees required to attend. However, across the Group, all operating companies are required to run the following mandatory corporate training courses for their employees:

- Code of Conduct
- Compliance with Competition Laws
- Anti-bribery and Corruption Compliance
- Data Privacy, Security and Protection.

C.2. Health, safety and wellbeing

Supports SDG 3

IAG is committed to the health and safety of our employees, customers and all others affected by our activities. This means operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. Health and safety are fundamental to our business, whether in the air or on the ground. It is our highest priority.

IAG has robust governance processes in place led by the safety committees in each operating company. The IAG Board Safety Committee, chaired by the Group Chief Executive Officer, monitors all matters relating to the operational safety of IAG's airlines as well as to the systems and resources dedicated to safety activities across the Group.

IAG's customers travel on aircraft and through buildings and environments that are subject to regulations applicable to health and safety in each country. Procedures, systems and technology used in our operations are designed to protect employees and customers alike.

As IAG continued to deal with the COVID-19 pandemic, the Group has followed expert guidance from bodies such as the IATA Council Aviation Recovery Taskforce (CART), the WHO, Public Health England and Spanish and Irish authorities. New hygiene measures have been introduced for all employees and customers. All these measures have been carefully thought through alongside the latest advice from public health authorities and aviation regulators.

To support employee wellbeing across the Group, each operating company created new websites and internal resources to support mental health and COVID-19 safety. For example, British Airways built on existing resources throughout 2020 and issued daily press updates which included wellbeing signposts, such as information about its Employee Assistance Programme and the UNMIND mental health digital application. The latter includes webinars, interviews and other resources and access was extended to family members of employees in the second half of 2020.

C.3. Inclusion and diversity

GRI 406-1

Supports SDG 5

IAG has a Group-wide Equal Opportunities policy to address and eliminate discrimination and promote equality of opportunity regardless of age, gender, disability, ethnicity, religion or sexual orientation. At Group level, IAG also has a Directors Selection and Diversity Policy that sets out the principles that govern the selection process and the approach to diversity on the Board of Directors and the IAG Management Committee. These policies have been approved by the Board of Directors.

In terms of gender diversity and equality, IAG has set a target to reach 33 per cent women across senior executive levels by 2025 and has put in place an extensive programme of action to help deliver on this target. IAG monitors and reports on progress, including on the management pipeline across the Group.

Iberia and Vueling have Equality Plans covering all employees in Spain. Vueling implemented this in 2014 and Iberia published an integrated plan in 2018 covering pilots, cabin crew and ground staff agreements. Both plans will be revised in 2021 to align with new legislation.

2020 progress on gender diversity:

- 45 per cent women on the IAG Board, up from 33 per cent in 2019[1];
- 30 per cent women in senior executive levels (15 per cent on the Management Committee), maintaining the proportion reached in 2019;
- British Airways held a 'Power of Mentoring' event, with participation of other Group operating companies, to inspire and equip employees interested in mentoring with tools and guidance;
- Aer Lingus achieved the "Investors in Diversity" Bronze accreditation; and
- Iberia was awarded by Ellas Vuelan Alto (EVA) association for corporate commitment to promote gender equality and diversity.

The Iberia "Quiero Ser" programme, to attract and promote female careers in the aviation industry, was postponed in 2020 due to the pandemic and plans to restart in 2021.

Ethnic diversity is an issue of particular importance for British Airways. 18 per cent of British Airways UK staff have declared a Black, Asian or Minority Ethnic (BAME) background, up from 16 per cent in 2019, and compared with 14 per cent of the UK population. UK employees represent 50 per cent of the Group total.

British Airways aims to improve BAME representation in senior roles and 2020 achievements were:

- Continuing its reverse mentoring and cross-company mentoring trial, in collaboration with Business in the Community and an internal BAME network group; and
- Dialogue with BAME colleagues following the Black Lives Matter campaign, with feedback being shared with the management team and used to help create a race action plan.

1 This reflects the changes in Board composition made on December 31, 2020 in response to the outcome of Brexit as well as to meet the new Spanish Corporate Governance Code recommendation of at least 40 per cent female Director representation on the Board by 2023.

C.4. Human rights and modern slavery

Supports SDGs 3, 4, 5

IAG had no known cases of human rights violations across the Group during 2020. IAG GBS screens suppliers to identify and mitigate potential incidences of human rights violations, and modern slavery clauses feature in all new supplier contracts as well as contract renewals.

IAG is taking steps to prevent incidences of modern slavery within the Group and across its supply chains. In terms of policies associated with human rights, IAG asks suppliers to adhere to the third IAG Group Slavery and Human Trafficking Statement, which was published in 2019. This statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA). IAG also supports the 2018 IATA resolution denouncing human trafficking and reaffirming a commitment to tackle this issue.

Human trafficking is of particular concern to IAG and to the wider aviation industry, as the Group transports millions of passengers every year and has tens of thousands of suppliers across the world. To prevent human trafficking, operating airlines work closely with governments and the airports in which they operate to ensure that any suspected trafficking on our flights is identified, reported and dealt with appropriately.

Operating airlines train staff to recognise the signs of potential human trafficking situations, and provide procedures for reporting where any cases are suspected. This training is managed at airline level.

British Airways, Aer Lingus and Vueling run training for pilots and cabin crew on identifying and responding to human trafficking, and Iberia will refresh such training in 2021. Guidance and procedures for flight crew and cabin crew are also included in the Aer Lingus and Vueling Operations Manuals. In 2020, Vueling supported the Spanish police in locating and arresting members of an organisation which trafficked women.

Key risks associated with human rights matters are included in the 'Sustainability risks and opportunities' section. In 2021, IAG plans to review the assessment of human rights risks within the business.

C.5. Community engagement and charitable support

Supports SDG 11, GRI 201-1, 102-13

IAG operating companies have long-standing partnerships to support community causes both locally and around the world.

In 2020, €4.6 million was raised across the Group[1], a 19 per cent decrease from the €5.7 million raised in 2019 and an impressive contribution given reduced business activity. Sources were:

- 40.1% from customer contributions;
- 35.5% from company donations;
- 19.5% from employee contributions; and
- 4.8% from in-kind donations.

Key partnerships:

- Since 2019, British Airways has had a partnership with the British Red Cross focusing on support for UK community preparedness and crisis response work;
- Since 2016, Vueling has been working with Save the Children and is the second-largest sponsor of this NGO in Spain;
- Since 2013, Iberia has been contributing to the UNICEF children's vaccination programme. This programme has paid for the vaccinations for more than a million children in Chad, Angola and Cuba;
- Since 2011, Aer Lingus staff have an annual "Make a Difference" day for staff volunteering. While this did not go ahead in 2020, Aer Lingus was a significant contributor to the COVID-19 global response via flights of medical equipment between Europe and China; and
- Since 2010, British Airways has been working with the "Flying Start" global charity programme, in partnership with Comic Relief. This programme has helped over 824,000 people in some of the world's poorest communities.

1 British Airways total based on January-November. The Group 2019 value has been restated due to the expansion of the scope of reported contributions.

C.6 Workforce measures

GRI 102-7, 102-8, 401-1, 405-1

Metric	Unit	Sub-category	vly	**2020**	2019	2018	2017	2016
Employment	Average manpower equivalent[1]		-8.2%	**60,612**	66,034	64,734	63,422	63,387
Headcount	Number of people[2]		-19.8%	**57,928**	72,268	71,134	*nr*	*nr*
Composition	% headcount by employment type	Full-time:	+5pts	**79%**	74%	75%	*nr*	*nr*
		Part-time:	-5pts	**21%**	26%	25%		
Composition	% headcount by employment contract	Permanent:	+3pts	**97%**	94%	94%	*nr*	*nr*
		Temporary:	-3pts	**3%**	6%	6%		
Composition	% headcount by employee categories	Cabin Crew:	-4pts	**31%**	35%	35%	*nr*	*nr*
		Pilots:	+2pts	**13%**	11%	11%		
		Airport:	-1pts	**25%**	26%	26%		
		Corporate:	+3pts	**20%**	17%	18%		
		Maintenance:	0pts	**11%**	11%	10%		
Employees by country	Number of people	UK:	-4pts	**50%**	54%	*nr*	*nr*	*nr*
		Spain:	+3pts	**34%**	31%			
		Ireland:	+1pts	**8%**	7%			
		India:	0pts	**2%**	2%			
		USA:	0pts	**1%**	1%			
		Other:	0pts	**5%**	5%			

Note: "nr" means "not reported previously".

1 The mean of the manpower equivalent captured quarterly to reflect seasonality. This is not adjusted for time not worked whilst under COVID-19 job retention schemes and it reflects normal contractual hours.
2 Actual number of people employed across the Group at December 31, 2020.

C.6 Workforce measures

GRI 102-7, 102-8, 401-1, 405-1

Metric	Unit	Sub-category	vly	**2020**	2019	2018	2017	2016
Gender diversity	% women at Board level		+12pts	**45%**	33%	33%	25%	25%
Gender diversity	% women at senior executive level		0pts	**30%**	30%	27%	24%	23%
Gender diversity	% women at Group level		-1pts	**43%**	44%	45%	44%	44%
Age diversity	% of managerial staff in each age band	<30	-1pts	**3%**	4%	7%	6%	
		30-50	+2pts	**57%**	55%	57%	65%	*nr*
		50+	-1pts	**40%**	41%	36%	29%	
Age diversity	% of non-managerial staff in each age band	<30	-3pts	**18%**	21%	22%	17%	
		30-50	+4pts	**54%**	50%	50%	51%	*nr*
		50+	-1pts	**28%**	29%	28%	32%	
Workforce turnover	% voluntary and non-voluntary	Voluntary	+9pts	**16%**	7%	8%	8%	*nr*
		Non-voluntary	+3pts	**5%**	2%	3%	2%	
Workforce turnover	Overall % by age group	<30	-21pts	**16%**	37%	35%		
		30-50	-3pts	**33%**	36%	34%	*nr*	*nr*
		50+	+24pts	**51%**	27%	31%		
Workforce turnover	Overall % by gender	Women	+5pts	**52%**	47%	51%	*nr*	*nr*
		Men	-5pts	**48%**	53%	49%		

Additional workforce metrics

GRI 102-41, 403-9, 404-1

Metric	Unit	vly	**2020**	2019	2018	2017	2016
Social dialogue and trade unions	% covered by collective bargaining agreements	+2pts	**89%**	87%	86%	88%	88%
Average hours of training	Average hours per employee per year	-45.4%	**26.4**	48.4	41.1	45.8	34.9
Lost Time Injury (LTI) frequency rate	LTI per 200,000 hours worked	-44.5%	**2.41**	4.34[1]	4.20[1]	*nr*	*nr*
LTI severity rate	Average days lost per LTI	+67.0%	**37.80**	22.64	21.12	*nr*	*nr*
Fatalities		0pts	**0**	0	1	*nr*	*nr*

Note: “nr” means “not reported previously”. In the table above this can refer to multiple years.

1 The 2018 and 2019 LTI frequency rates have been restated due to change in standardising factor to better align to GRI standards.

Description and commentary for key workforce metrics

Metric	Unit	Description	Commentary
Employment	Average manpower equivalent	Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.	The 8.2% decrease reflects the employee restructuring at British Airways and Aer Lingus. This measure accounts for employees' contractual schedule of work and therefore does not account for the impact of COVID-19 job retention scheme.
Headcount	Number of people	Headcount is the actual number of people employed across the Group (employees) at December 31, 2020.	Overall headcount decreased over the year by 19.8%. This reflects the employee restructuring at British Airways and Aer Lingus.
Composition	% headcount by employment type, contract and employee categories	Composition is a breakdown of headcount as at December 31, 2020. Definitions of full-time and part-time vary across the Group. A temporary employment contract has a defined end date. The employee category breakdown portrays the distribution of the major groups within IAG's workforce "in the air" – Pilots and Cabin Crew – and "on the ground" – Airport, Corporate and Maintenance.	A higher proportion of temporary employee leavers in 2020 increased the ratio of permanent employees to 97%. The employee category, where business restructuring had the highest impact, was cabin crew which explains the decrease in its proportion of all Group employee categories. Airport employees, the second most-reduced category, combined with cabin crew represents over 80 per cent of all part-time employees which explains the increase of the proportion of full-time Group employees.
Employees by country	Number of people	This metric depicts the distribution of the Group's employees according to the country in which they are based.	The decrease in the proportion of Group employees based in the UK is due to the redundancies at British Airways. At the end of 2020 IAG had employees based in 82 countries.
Gender diversity	% women at Board, senior executive, and Group level	The share of women as a proportion of all staff at specific levels of seniority across the Group. IAG has published objectives for 33% women on the Board by 2020 and 33% women across the Group's senior executive levels by 2025.	There were 193 senior executives as at December 31, 2020. IAG maintained the proportion of women in senior executive levels – 30% by the end of 2020. IAG achieved its 2020 Board target in 2018 and has increased the proportion of women on the Board to 45%. A decrease in the proportion of women across the whole Group is explained by 48% of total turnover made up of cabin crew, which was composed of 71% women in 2019.
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group. The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to Captains and Cabin Service Managers.	The decrease in the proportion of employees over 50 years of age is explained by the higher uptake (over 50%) of voluntary redundancy measures in this age band. The decrease in the proportion of employees under 30 years of age is explained by the end of temporary contracts.
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal). The table on the previous page shows the overall breakdown of turnover by age and gender.	The overall annual turnover in 2020 was 21% – a total of 13,654 employees, of which 3,456 were non-voluntary leavers. This compares to 9% in 2019, a total of 6,206 of which 1,372 were non-voluntary leavers. The increase in turnover was due to the unfortunate but necessary resizing of the business due to COVID-19. A recruitment freeze across the Group in 2020 also impacted turnover. Over 88% of total Group turnover was at British Airways, the largest employer within the Group, mostly through voluntary measures.

Summary of alignment with external frameworks

Key: **Green** is GRI CORE

Sustainability section	Sustainability subsection	GRI Standard	Other frameworks
Governance	Sustainability strategy, governance	**102-43, -44, -46, -47, -48**	
Governance	Supply chain governance and management	308-2, 414-2	
Governance	Ethics and integrity	**102-16,** 102-17, 205-1, -2, -3	
Governance	Sustainability risks & opportunities	**102-11,** 102-15	
Governance	Stakeholder engagement	**102-13, 102-43, -44**	
Planet	Climate change impacts, commitments, roadmap	305-1, -2, -3, -4, -5 See next table	UK SECR TR-AL-110a1, -a2
Planet	Noise and air quality	305-7	
People and Prosperity	Workforce overview	403-4, 408-1, 409-1	
People and Prosperity	Inclusion and diversity	406-1	
People and Prosperity	Community engagement and support	**102-13,** 201-1	

Relevant Planet metrics	Partial/full alignment with GRI standard	SASB
Scope 1	305-1	TR-AL-110a1
Scope 2	305-2	
Scope 3	305-3	
Emissions intensity	305-4	
Electricity, energy	302-1	
Jet fuel use	301-1	
GHG reduction initiatives	305-5	
Waste	306-1 (2020), 306-2 (2020), 306-3 (2020)	

Relevant People metrics	Partial/full alignment with GRI standard	
Employment	**102-7**	
Headcount	**102-7**	
Employment composition	**102-8**	
Employees by country	**102-8**	
Gender diversity	405-1	
Age diversity	405-1	
Workforce turnover	401-1	
Social dialogue and trade unions	**102-41**	TR-AL-310a1
Hours of training	404-1	
Lost Time Injury (LTI) frequency rate	403-9	
Fatalities	403-9	

Task Force on Climate-related Financial Disclosures (TCFD) – recommended disclosures

See below for where relevant information can be found in the Annual Report.

TCFD section	TCFD recommendation
Governance	
Disclose the organisation's governance around climate-related risks and opportunities.	a. Describe the Board's oversight of climate-related risks and opportunities. b. Describe management's role in assessing and managing climate-related risks and opportunities.
Strategy	
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term. b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
Risk management	
Disclose how the organisation identifies, assesses and manages climate-related risks.	a. Describe the organisation's processes for identifying and assessing climate-related risks. b. Describe the organisation's processes for managing climate-related risks. c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.
Metrics and targets	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks. c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Section of the Annual Report	TCFD-related information in the section	Page reference
Chairman's letter and Q&A	Strategy (b)	*See pages 3-5*
Business model	Strategy (b)	*See page 11*
Engaging with our stakeholders	Strategy (b)	*See pages 12-17*
Sustainability A.1. Strategy	Strategy (b)	*See pages 46-48*
Sustainability A.2. Governance	Governance (a, b)	*See page 49*
Sustainability A.5. Sustainability risks and opportunities	Governance (b), Strategy (a, b, c), Risk (b, c), Metrics (a, b)	*See pages 52-58*
Sustainability B.1. Climate impacts	Metrics (a, b, c)	*See pages 62-64*
Sustainability B.2. Climate change commitments	Metrics (a, b, c)	*See page 64*
Sustainability B.3. Climate change roadmap	Metrics (a, b, c)	*See pages 65-67*
Risk Management and principal risk factors	Governance (a, b), Risk (a, b, c)	*See pages 78-88*

Managing risk in an extremely challenging and uncertain environment

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. The Board has oversight of the Group's operations to ensure that internal controls are in place and operate effectively. Management is responsible for the effective operation of the internal controls and execution of the agreed risk mitigation plans.

The Group has an Enterprise Risk Management (ERM) policy which has been approved by the Board. This policy sets the framework for a comprehensive risk management process and methodology, ensuring a robust identification and assessment of the risks facing the Group, including emerging risks. Enterprise risks are assessed and plotted on an Enterprise risk map (with individual risk maps produced for each operating company and relevant function, such as IAG Tech and IAG Group Business Services, and for the overall Group). This process is led by the Management Committee and best practices are shared across the Group.

This year, in response to the pandemic crisis, the risk management framework has further evolved to: develop the Group's assessment of the interdependencies of risks; built on scenario planning to quantify risk impact under different assumptions; and consider the risks within the Group's risk map that have increased either as a result of the external environment or as a result of decisions made by the business in response to the external environment. The process adopted this year has helped the Board and management to respond quickly to the new and rapidly changing risk landscape, enabling clear understanding and identification of emerging risks arising from the impact of the pandemic and of how the pandemic has affected existing risks included within the Group's existing risk maps.

Approach and process

Across the Group, risk owners are responsible for identifying potential risks and appropriately managing the related business decisions within their area of responsibility. As the Group transforms, the level of change and agility required creates risks and opportunities. For these business transformational risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders. All risks are assessed for likelihood and impact against the Group's three-year Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans. Where risk treatments require time to implement, short-term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every principal risk has clear Management Committee oversight.

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends, competitor actions, regulations, governments' interventions, or business disruptors that could impact the Group's business strategy and plans. These emerging risks are monitored within the overall risk framework as 'on watch' until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact over the next two to three years can be made, and appropriate mitigations can be put in place. Following the pandemic impact, consideration of other high-impact, low likelihood risks have been discussed.

IAG considers risks to the Strategic Business Plan over the short term up to two years, medium term from three to five years and in the longer term beyond five years. Risk outcomes are quantified as the potential cash impact to the business plan over two years, as well as potential brand reputation, regulatory scrutiny and share price considerations.

The risk management framework is embedded across the Group. Risk maps are discussed, and risk potential impacts assessed for each operating company and Group functions that support the business, such as IAG Tech and IAG GBS, and at the Group level, and the enterprise risk function ensures consistency over the risk management process.

Risk maps are reviewed by each operating company's management committee, which considers the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Where the Group's operating companies have a reliance on other parts of the Group for services delivery, risks are reflected appropriately across risk maps to ensure accountability is clear. Each operating company's management committee confirms to its operating company board as to the identification, quantification and management of risks within its operating company as a whole at least annually.

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

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. The IAG Management Committee reviews risk during the year including the Group risk map semi-annually in advance of reviews by the Audit and Compliance Committee in accordance with the 2018 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Board of Directors discusses risk and considers the risk environment as part of wider Board discussions at every meeting in addition to the bi-annual risk map review, including a review of the assessment of IAG's performance against its risk appetite, scenarios for assessment of viability and the outputs from the viability modelling. The Board has ongoing early sight of management consideration of potential scenarios to enable it to challenge subjectivities and confirm rationale.

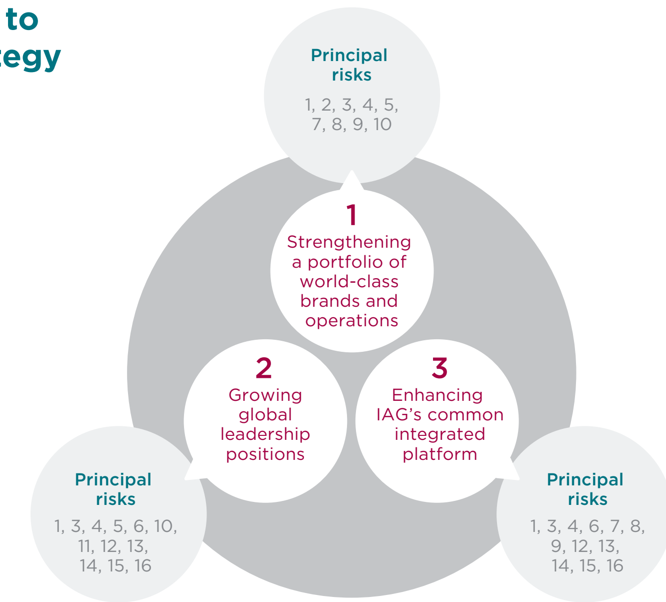
IAG has a risk appetite framework which includes statements informing the business, either qualitatively or quantitatively, of the Board's appetite for certain risks. Each risk appetite statement formalises how performance is monitored either on a Group-wide basis or within major projects. The framework remained in place throughout the year, with the Board assessing its appetite to tolerance of certain risks through additional reviews with management. The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. 2020 has heightened IAG's exposure to certain of these risks as a result of the COVID-19 pandemic's unprecedented impact on the travel and aviation industry. Management remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government restrictions over travel and movement of their citizens, governance requirements and regulations, external events causing operational disruption including civil unrest, adverse weather or pandemic, volatility in the markets and availability of funding and changes in the competitive landscape.

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

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

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below. No new principal risks were identified through the risk management discussions across the Group's businesses this year. Where the existing principal risks have been reconsidered to reflect the challenges faced by the Group following the COVID-19 pandemic impact, these are highlighted by the 'C19' symbol in the table below. Additional key business responses implemented by management are also set out.

Link to strategy



See our Business model and Strategic priorities sections

See our Sustainability section

Key: Risk trend

Increase · Stable · Decrease · C19 Affected by COVID-19

The list is not intended to be exhaustive but does reflect those risks that the Board and Management Committee believe to be the most likely risks to have a material impact on the Group.

Strategic

Open competition and markets are in the long-term best interests of the airline industry and consumers. The Group seeks to mitigate the risk from government intervention or changes to the regulations that can have a significant impact on operations.

1. Airports, infrastructure and critical third parties

C19 · 1 2 3

Status The pandemic resulted in restrictions being imposed, which have required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The operations of the Group's suppliers, including aircraft manufacturers, have also been impacted by the pandemic, which has increased the risk of significant business interruption, delays or disruptions, such as a temporary suspension of operations, a lack of availability of labour to support supplier operations and/or longer-term problems in maintaining supply, whether as a result of suppliers entering insolvency or otherwise. This may lead to shortages of business-critical services and/or increased costs to secure such services.

The Group continues to lobby and raise awareness of the negative impacts of ATC airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly through a future recovery period.

The Group relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities. A third runway expansion proposal at London Heathrow and additional facilities at Dublin Airport are among examples where the Group supports solutions that are efficient, cost effective and of value to our customers.

Risk description	Strategic relevance	Mitigations
IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and support the delivery of the Group sustainability programme. IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports. IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled. IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. The impact of the pandemic on the Group's supply chain will also impact the Group where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services.	Any sub-optimal service delivery or asset supplied by a critical supplier can impact on the Group airlines' operational and financial performance as well as disrupting our customers. Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control. London Heathrow has no spare runway capacity. An uncontrolled increase in the planned cost of expansion could result in increased landing charges. Airport charges represent a significant operating cost to the airlines and have an impact on operations.	• The Group mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements. • The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports. • The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive. • The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary. • The Group procurement function has led an ongoing review of all critical contracts across the Group's businesses.

Strategic continued

2. Brand reputation

C19 1

Status The Group's ability to attract and secure bookings, and therefore revenue depends on the public recognition of the Group's airlines' brands and their associated reputation. The Group's airlines brands are, and will continue to be, vulnerable to adverse market or customer perception. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. IAG remains focused on strengthening its customer-centricity to ensure that its operating companies continue to adapt and focus their business models to meet changing customer expectations. The Group's airlines have implemented strict hygiene and social distancing measures to ensure customer and employee safety in line with EASA regulations. British Airways was awarded a Skytrax 4-star Airline Safety rating in November, the first airline to receive such a rating.

Risk description

Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.

If the Group is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.

Strategic relevance

The Group's brands are well positioned in their respective markets and have significant commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.

IAG will continue to focus on its customer propositions to ensure competitiveness in its chosen priority customer demand spaces and to ensure that it adapts to meet changing customer expectations.

The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.

Mitigations

- All IAG airlines are considered within the brand portfolio review.
- Brand initiatives for each operating company have been identified and are aligned to the Strategic Business Plan.
- Product investment to enhance the customer experience supports the brand propositions and is provided for in the Strategic Business Plan.
- All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.
- IAG Customer Steering Group meets monthly and shares initiatives.
- New hygiene protocols are being adopted across the Group's airlines to address regulatory requirements resulting from the pandemic.
- Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.
- The Group's global loyalty strategy builds customer loyalty within IAG airlines.
- The Group's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.
- Robust portfolio process to determine the right investments across the Group.

3. Competition, consolidation and government regulation

C19 1 2 3

Status The scale of governmental support and aviation-specific state aid measures have varied by market and the potential consequential impact to the competitive landscape is under continuous assessment. Governmental restrictions, introduced to address the pandemic risk, have been fragmented and volatile and have required significant agility within our networks to manage the impact on our customers and business.
The Group announced plans in 2019 to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In November 2020, the Group reached an amended agreement with Globalia, which is still subject to the satisfactory negotiation with Sociedad Estatal de Participaciones (SEPI) regarding the non-financial terms associated with the financial support provided by SEPI to Air Europa in 2020. The acquisition is still subject to approval by the European Commission.

The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).

Risk description

Competitor capacity growth in excess of demand growth could materially impact margins.

Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.

Governments' support schemes for the aviation sector create distortionary effects across the markets in which IAG's airlines operate.

Strategic relevance

The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.

Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

Mitigations

- The IAG Management Committee meets weekly. Additional Management Committee meetings, to address strategic issues arising from the responses of regulators and governments to the pandemic, were convened throughout the year.
- The Board of Directors discusses strategy throughout the year and dedicates two days per year to undertake a detailed review of the Group's strategic plans. Similar to the additional Management Committee meetings, additional Board meetings were convened throughout the year.
- The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.
- The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.
- The Group maintains rigorous cost control and targeted investment to remain competitive. The Group Procurement function has led an ongoing review of all critical contracts.
- The Group has restructured its businesses and operations to meet the challenge of the current environment.
- The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.
- The IAG Management Committee regularly reviews the commercial performance of joint business agreements.
- The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.
- The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.

4. Digital disruption

Status The Group has established an IAG Tech function which brings together the digital and IT departments from across the Group under the Group's Chief Information Officer (CIO). All of the Group's businesses have a Chief Digital and Information Officer (CDIO) who represents their business within IAG Tech. This has strengthened IAG Tech's focus on understanding business requirements, helping to transform the Group's businesses and deliver a digital customer experience, which together with the Group's exploitation of technology, reduces the impact digital disruptors can have.

Risk description	Strategic relevance	Mitigations
Technology disruptors may use tools to position themselves between our brands and our customers.	Competitors and new entrants to the travel market may use technology more effectively and disrupt the Group's business model.	• IAG Tech is responsible for digital and IT. • Operating companies' CDIOs are members of the IAG Tech management committee. • The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee. • IAG Customer Steering Group. • The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels. • IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

5. Sustainable aviation

Status IAG was the first airline group to commit to a target of net zero carbon emissions by 2050, including adding management targets in current incentive arrangements. Sustainable Aviation, **one**world and Airlines for Europe have also all now committed to net zero emissions by 2050. There is an emerging trend of introduction of aviation "eco taxes" globally. The Group has accelerated the retirement of its aged fleet of Boeing 747s and Airbus A340s during 2020, in response to the pandemic. The Group also maintained its plans and initiatives to meet climate change commitments.

IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. During 2020 the Group has updated its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. The Group has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes.

While 2020 was a year of unprecedented disruption and uncertainty due the pandemic, other key aspects of aviation policy continued to be developed in relation to sustainability. In July the European Commission published a roadmap for its legislative initiative aimed at implementing the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), alongside the EU Emissions Trading Scheme.

See the Sustainability risk and opportunities section

Risk description	Strategic relevance	Mitigations
Increasing global concern about climate change and the impact of carbon affects Group airlines' performance as customers seek alternative methods of transport or reduce their levels of travel. New taxes and increasing price of carbon impact on demand for air travel. Customers may choose to reduce the amount they fly.	IAG is committed to being the leading airline group in sustainability. This means that environmental considerations are integrated into the business strategy at every level and the Group uses its influence to drive progress across the industry.	• IAG climate change strategy to meet target of net zero carbon emissions by 2050. • British Airways offsets all UK domestic flight carbon emissions. • Fleet replacement plan will introduce aircraft into the fleet that are up to 40 per cent more carbon efficient. • IAG investment in sustainable aviation fuels of US$400 million, including British Airways' partnership with Velocys. • Management incentives aligned to IAG's targets. • Partnering with ZeroAvia to explore hydrogen-powered aircraft technology. • Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.

Business and operational

The safety and security of customers and employees is a fundamental value to the Group.

6. Cyber attack and data security

C19 2 3

Status The risks from cyber threats has been heightened in the year as many of the Group's employees and suppliers' employees moved to working-from-home arrangements in line with governments' advice and restrictions, requiring analyses of security arrangements and authentications over access to corporate environments. More widely, the external environment saw an increase in the frequency of phishing attacks as cyber criminals attempted to take advantage of remote working practices.

The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. The Group airlines are subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).

In relation to the theft of customer data in 2018 the UK Information Commissioner's Office issued a final penalty notice to British Airways.

Despite significant reductions in the Group's capital expenditure, in response to the liquidity impact of the pandemic, investment in cyber security systems remained at levels originally planned.

Risk description

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.

If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.

Changes in working practices and environments for the Group's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.

Strategic relevance

The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.

The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning. This is regularly reviewed by the IAG Audit and Compliance Committee, IAG Management Committee and the IAG Tech leadership.
- There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure, and regulations are adhered to.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews their own cyber projects on a quarterly basis.
- The IAG Chief Information Security Office supports the Group businesses providing assurance and expertise around strategy, policy, training and security operations for the Group.
- Threat Intelligence is used to analyse cyber risks to the Group.
- Data Protection Officers are in place in all operating companies, coordinated through a Group wide Privacy Steering Group.
- 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.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.

7. Event causing significant network disruption

C19 1 3

Status The outbreak of the pandemic in 2020 resulted in an unprecedented level of disruption to the aviation sector, as well as global economic impacts. Other potential high-impact, low-likelihood events have been considered that could have the potential to disrupt IAG and/or the aviation sector. Many of these events remain outside of the Group's control such as adverse weather, another pandemic, civil unrest or terrorist event seen in cities served by the Group's airlines.

Risk description

An event causing significant network disruption or the inability to promptly recover from short term disruptions may result in lost revenue, customer disruption and additional costs to the Group.

The COVID-19 pandemic is likely to continue to have an adverse effect on the Group over the period of the Business Plan, as would any future pandemic outbreak or other material event that results in the imposition of governments' restrictions on travel and the movement of its populations.

Strategic relevance

The Group's airlines may be disrupted by a number of different events.

A single prolonged event, or a series of events in close succession, impact on the Group's airlines' operational capability and brand strength.

The Group needs to adhere to local governments' restrictions and regulations especially related to safety and public health and is therefore sensitive to any consequential impact to demand.

Mitigations

- Management has business continuity plans to mitigate this risk to the extent feasible with focus on operational and financial resilience and customer and colleague safety and recovery.
- Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.

8. IT systems and IT infrastructure

Status The Group recognises the importance of technology across the business and has brought all of its digital and IT resources together into IAG Tech, reporting to the Chief Information Officer, a member of the IAG Management Committee. The IAG Tech management committee has established a new governance structure that is mirrored across into the Group's businesses to ensure that IT investment and operating company requirements are appropriately prioritised and delivered. There is an increased focus on service delivery and services management as the Group addresses its legacy environment. Plans and investment to upgrade or transform away from obsolete systems or architecture have been subject to ongoing review in the light of the pandemic.

Risk description	Strategic relevance	Mitigations
The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue. The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed. Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation, particularly if the Group needs to defer investment to preserve cash.	IAG is dependent on IT systems for most key business processes. Increasingly, the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure e.g. airport baggage operators.	• IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability. • Operating companies' IT Boards are in place to review delivery timelines. • IAG Tech leadership and professional development framework. • Reversion plans are 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. • Robust portfolio process to determine the right investments across the Group.

9. People, culture and employee relations

Status Additional safety procedures have been introduced to protect the Group's staff and customers, in line with industry recommendations. Where possible, the Group's staff are working from home and in line with governments' recommendations.

Employee consultations have been undertaken as required and appropriate in relation to restructuring necessitated by the pandemic. Where possible, the Group has utilised government wage support schemes. In November 2020, the Unite union representing the Group's cargo handling business in the UK balloted its members for industrial action in December. An agreement was reached in January 2021 between the union and the cargo business.

The resilience and engagement of our people and leaders has been critical through the pandemic period to ensuring the Group is best positioned to resume operations and adapt as needed to the uncertain external environment. As the Group rapidly transforms all its operations to adjust for the new environment, the engagement and support of the Group's employees is going to be a critical enabler.

In 2021, the Company will be bringing a new remuneration policy to shareholders for approval that will be closely aligned to the Company's strategy and will support the aim of attracting and retaining exceptional talent across the Group.

All Operating Companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description	Strategic relevance	Mitigations
Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.	The Group has a large unionised workforce represented by a number of different trades unions. IAG relies on the successful agreement of collective bargaining arrangements across its operating companies to operate its airlines. The right skillsets and culture are needed to transform our businesses at the pace required.	• Collective bargaining takes place on a regular basis with the operating companies' human resources specialists, who have a strong skillset in industrial relations. • Operating companies' people strategies. • Succession planning within and across operating companies. • IAG Tech refresh of professional development framework. • Operating companies' engagement surveys and subsequent action plans. • IAG Code of Conduct.
Our people are not engaged, or they do not display the required leadership behaviours. The Group businesses fail to attract, motivate, retain or develop its people to deliver service and brand excellence. Digital and agile skillsets are not in place to execute on the required transformation and drive the business forward.		

Business and operational continued

10. Political and economic environment

C19

1

2

Status The pandemic has resulted in governments around the world implementing, at very short notice, numerous, differing and wide-ranging measures in an attempt to contain the spread of the virus, such as travel restrictions, curfews, quarantines, lockdowns and restrictions on non-essential services. This has led to an unprecedented decrease in the demand for both domestic and international air travel and has also resulted in severe economic downturns and rising unemployment levels in a number of countries and regions. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status.

There can also be no certainty as to the level of demand for the Group's services after any restrictions are lifted; the Group anticipates that global passenger demand will not return to 2019 levels until at least 2023.

Wider macroeconomic trends are being monitored such as tensions between the US and China, particularly over the terms of the trade deal and how the new administration in the US plans to engage with the Chinese government. The imposition of tariffs by the EU on the US in response to the findings of a WTO review could also result in an escalation of application of tariffs elsewhere. The stress of the pandemic could have further far-reaching impacts including currency devaluations, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies.

Following the referendum decision in 2016, the UK left the EU on December 31, 2020 under the terms of the Trade and Cooperation Agreement between the EU and the UK. This agreement includes all arrangements for aviation that would otherwise be covered by a typical air services agreement and the business has made all necessary adjustments.

See the Regulatory environment section

Risk description	Strategic relevance	Mitigations
Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility. Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group. Political decisions to respond to the pandemic impact economies across all markets, causing longer-term economic stress.	IAG remains sensitive to political and economic conditions in the markets globally.	• The Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts (frequently during 2020). • Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity. External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring. • IAG Government Affairs function and the Group's operating companies have been in discussions with governments regarding restrictions and approaches for the implementation of consistent, customer-centric testing regimes.

11. Safety or security incident

2

Status The IAG Safety Committee of the Board continued to monitor the safety performance of IAG's airlines. Safety and security responsibility lies with each Group airline in accordance with its applicable standards. See the Safety Committee report.

Risk description	Strategic relevance	Mitigations
A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact the Group's brands, operations and financial performance.	The safety and security of our customers and employees are fundamental values for the Group.	• The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. • Incident centres respond in a structured way in the event of a safety or security incident or intelligence. • The Board's Safety Committee shares best practices between Group airlines.

Financial

IAG balances the relatively high business and operational risks inherent in its business through managing liquidity and financial risks so as to protect the Group.

12. Debt funding

Status Despite disruption in the financial markets since the spread of the pandemic, the Group has proactively focused on protecting liquidity by renewing and extending credit facilities and agreeing new aircraft leases, together with agreeing additional one-year funding facilities in advance of a future improvement in market conditions. Aircraft were successfully financed on long-term arrangements during the year and the additional one-year facilities were repaid. The Group also raised additional equity, with net proceeds of €2.7 billion received in early October. In December British Airways announced that it had received commitments for a 5-year Export Development Guaranteed term loan for £2.0 billion underwritten by a syndicate of banks, partially guaranteed (80 per cent) by UK Export Finance (UKEF).

Risk description	Strategic relevance	Mitigations
Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans. New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.	The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions, financial institutions' appetite for secured aircraft financing and the financial market's perceptions of the future resilience and cashflows of the Group.	• The IAG Board and Management Committee have reviewed the Group's financial position and financing strategy on a very frequent basis (often weekly) throughout the period of the pandemic. • The Group has maintained clear focus on protecting liquidity. • Additional funding arrangements entered into, including raising additional equity.

13. Financial and treasury-related risk

Status The financial markets were impacted by the uncertainty derived from the pandemic. The imposed travel ban resulted in reduced jet fuel consumption. The Group's reduced capacity in addition to sharp decline in jet fuel prices in the first half of 2020 amounted to an exceptional loss on fuel and foreign exchange hedges.

The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography have all been re-evaluated this year to ensure the Group responds to the rapidly changing financial environment appropriately. Details are set out in the Group financial statements.

Risk description	Strategic relevance	Mitigations
Failure to manage the volatility in the price of oil and petroleum products.	The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.	• Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite. • All airlines hedge in line with the Group hedging policy under the Group Treasury oversight. • The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions. • Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives. • All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation. • The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments. • The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis. • The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts.
Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies in currencies other than the airlines' local currencies of euro and sterling.	The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.	
Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.	The volatility in floating interest rates can have a material impact on the Group's operating results.	
Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.	The Group is exposed to non-performance of financial contracts that may result in financial losses.	

Financial continued

14. Tax

C19 2 3

Status Tax is managed in accordance with the Tax Strategy, found in the Corporate Policies section of the IAG website. Further information about taxes paid and collected by IAG is set out in note 9 of the Group financial statements.

Risk description	Strategic relevance	Mitigations
The Group is exposed to systemic tax risks arising from either change to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation. Businesses and consumers may be subject to higher levels of taxation as governments seek to recover the national debts arising from pandemic support measures. The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.	Payment of tax is a legal obligation. Changes in the tax regulatory environment, including changes in tax rates, may result in additional tax costs for the Group and in additional complexity in complying with such changes. The Group's tax strategy aims to balance the needs of our key stakeholders, recognising that tax is one of Group's positive contributions to the economies and wider societies of the countries in which IAG operates.	• The Group adheres to the tax policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities. • Tax risk is managed by the operating companies in conjunction with the IAG Tax Department. • Tax risk is overseen by the Board through the Audit and Compliance Committee. • The Group seeks to understand its stakeholders' expectations on tax matters e.g. cooperative working with tax authorities and its interaction with non-governmental organisations.

Compliance and regulatory

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

15. Group governance structure

2 3

Status Following the referendum decision in 2016, the UK left the EU on December 31, 2020 under the terms of the Trade and Cooperation Agreement between the EU and the UK. IAG initiated the remedial plans on the ownership and control of its European airlines that were agreed with all national regulators in 2019. The Group will continue to encourage stakeholders in the UK and EU to normalise ownership of airlines in line with other business sectors.

See section 10

Risk description	Strategic relevance	Mitigations
The governance structure the Group has in place includes nationality structures to protect Aer Lingus', British Airways' and Iberia's route and operating licences. IAG could face a challenge to its ownership and control structure.	Airlines are subject to a significant degree of regulatory control. In order for air carriers to hold EU operating licences, an EU airline must be majority-owned and effectively controlled by EU nationals. British Airways is a UK carrier and not subject to the same requirement.	• IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

16. Non-compliance with key regulation and laws

2 3

Status The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year. As employees have exited the Group businesses following restructuring, access to systems and processes has been reviewed and removed from these employees in a timely manner.

Risk description	Strategic relevance	Mitigations
The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.	Carrying out business in a compliant manner and with integrity is fundamental to the values of the Group, as well as the expectation of the Group's customers and stakeholders.	• The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. • There are mandatory training programmes in place to educate Board members and employees as required for their roles in these matters. • Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses. • IAG Code of Conduct framework and training. • Data Protection Officers are in place in all operating companies. • IAG Compliance Steering Group.

Viability assessment

The business model and strategic priorities are set out in the Business Model and Strategic Priorities section. The impact of the COVID-19 pandemic on the business is also set out in the Chief Executive Officer's review and the Financial review.

As part of the review of the business model and assessment of Group strategy alignment to the external environment, the Directors have assessed key threats and trends faced by the industry, emerging risks and opportunities arising from the pandemic as well as other structural industry risks and non sector-specific risks over a timeframe beyond the plan period, for example climate change risk. These are considered in the light of how they could impact our business model and relevance, our operations or our customers and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities and technology trends and infrastructure developments that could impact our operations, as well as more existential threats to the aviation industry.

When developing the Group's three year Business Plan ('Business Plan'), longer-term considerations have been assessed by the Management Committee in conjunction with the priorities faced by the business during the next three years in responding to the impact of the pandemic crisis on the Group's businesses. The Board has also conducted its annual strategy session in addition to increased review meetings during the year, where these longer-term considerations have been assessed in parallel with the near-term priorities and adaptions required by the Group. Following this process, short-, medium- and longer-term plans, challenges and opportunities have been identified and actions agreed.

The Group has undertaken extensive analysis, forecasting and scenario modelling over the last 12 months. It has refined the models and developed the depth of the analysis to ensure that the stresses considered reflected specifics to markets and regions across Aer Lingus, British Airways, Iberia and Vueling as well as the analysis completed at the Group level. Assumptions have been refined based on the impact of the pandemic on the airlines and other businesses through 2020 and into 2021. The modelling was refreshed in February 2021 for the latest available information and predictions. This refresh of the Business Plan formed the Base Case ('Base Case') for the purposes of the Viability (and Going Concern) assessment.

During 2020 and in January and February 2021, the Board reviewed, on many occasions, scenarios stressing the financial plans for both the second half of 2020 and for the period to December 2023. These exercises leveraged the existing processes and models used for viability assessment within the Group. When considering the viability of the Group, for the purposes of this report, the Directors have evaluated the risk landscape facing the Group and recommended plausible but severe downside scenarios that could impact the Group's refreshed three-year Business Plan (the 'Base Case') to determine the Group's resilience to such impacts. The results of these severe but plausible downside scenarios (as described below) on the Base Case have been presented both pre and post an assessment of the likely effectiveness of the mitigations that management reasonably believes would be available over this period (and not already reflected in the Base Case).

The scenarios have been defined by management and designed to consider principal risks that could materialise over the viability period and weaken the Group's liquidity position. Each scenario considered the impact on liquidity, solvency and the ability to raise financing in an uncertain and volatile environment. When considering the mitigations, management has assessed mitigations that are available to the business beyond operating cost reductions including further financing, capital expenditure plans and potential disposals. Options that may not have been previously considered as mitigations were presented with recommendations for the Board to review. In assessing the potential mitigations, the Board considered, amongst other matters, the expected speed of implementation in response to the uncertainty and the future flexibility required for the Group to adapt further as needed.

Sensitivities in the scenarios' assumptions have been highlighted by management and challenged by the Board. In addition, the Board reviewed the results of reverse stress testing, which demonstrated the level of revenue decline (before mitigations) that would result in the Group using all available cash balances and compared this to the outputs from the scenarios analyses.

Management has assessed and the Board considered the longer-term sustainability and climate-related risks, applying scenario analysis techniques as set out by the Task Force on Climate-related Financial Disclosures (TCFD) process, and their potential impact on the Group's viability over the next three years.

For more details of the Group's sustainability risks and opportunities, see Sustainability section.

Scenarios modelled

No.	Title	Link to principal risks
1	A Downside Case considering the impacts of delays in the removal of government restrictions beyond the assumptions in the Base Case in 2021, further delaying recovery based on demand sensitivity experienced in 2020. This could be caused by factors such as the slower than expected pace of roll out of vaccines and/or governments' risk appetite to remove restrictions and allow movement of their populations. The Downside Case modelled significant capacity ASK reductions by airline and by region, including adjustments to non-passenger revenues. Passenger yield assumptions were also significantly reduced to reflect the constantly evolving and changing governmental restrictions that adversely impact the airlines and, therefore, customers' willingness to fly. As part of the modelling, consideration was given to some of the key factors that could influence the evolution of cash in the Downside Case. Cost mitigations were considered across all operating cost lines, including sensitivities around the impact of cost variability being lower than that assumed. Fuel was modelled directly, based on fuel curves and hedging plans. Working capital and capital expenditure adjustments were applied within the scenario. Capacity recovery modelled by geographical region saw capacity gradually increasing from a reduction of 79 per cent versus 2019 in quarter 1 of 2021 to 18 per cent in quarter 1 of 2022. Across the Viability period to December 2023, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines. Travel corridors between countries are assumed to be introduced from quarter 3 2021. The capacity reduction equates on average, to a Group passenger revenue stress of over 10 per cent across the total three year period compared to the Base Case. Sensitivities around mitigating actions were presented to allow the Board to challenge the ability of the Group to respond to the range of potential outcomes. The impact of a further delay in recovery was also considered, with a setback in early 2022, which could be linked to further resurgence of COVID-19, delays in vaccination, or the need to modify vaccines leading to restrictions being re-introduced in the early months of 2022. The period to March 2022 of this Downside Case scenario has also been applied as the Downside Case set out in the going concern analysis (see note 2 of the Group financial statements).	3, 7, 10, 12, 13
2	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period resulting from the attack, impacting customers and operations of the affected airline.	6, 7, 8
3	A revenue stress on shorthaul operations across the Group to reflect changes in customer behaviours towards shorthaul travel where other travel options exist or taxation regimes impact demand. Increasing global concern about climate change and the impact of carbon is expected to grow in future years especially with the potential implementation of new taxes and eco-initiatives (see Sustainable aviation section 5). This scenario was not considered to be severe by management but allowed the Board to understand the potential impacts of the Sustainability agenda on the Group's future financial performance.	5

Viability Statement

The Directors have assessed the viability of the Group over three-years to December 2023 considering the ongoing impact of the pandemic on the external environment and aviation industry and the assumptions adopted in the refreshed Business Plan ('the Base Case' for the purposes of this Statement), the strategy of the Group and the Board's risk appetite. Although the prospects of the Group are considered over a longer period, the Directors have determined that a three-year period is an appropriate time frame for assessment as it is aligned with the Group's strategic planning period (as reflected in the Base Case) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and regularly unexpectedly change. The Board recognises the pace of change required within the Group to further adapt and respond to this environment in addition to the rapidly changing competitive landscape and wider global macroeconomic conditions.

The Group has modelled the impact of mitigating actions to offset further deterioration 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 it would pursue in the event of adverse liquidity experience.

Further details on debt financing can be found in the Going Concern disclosures in note 2 of the Group financial statements.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due and raise financing as required over the period to December 2023. However, this is subject to a number of significant factors related to the pandemic that are outside of the control of the Group. In reaching this assessment the Directors have made the following assumptions when considering both the Base Case and the Downside Case:

- the Group will continue to have access to funding options and that the capital markets retain a level of stability and appetite for funding within the aviation sector;
- the Group can implement any further structural changes required in agreement with any union consultation processes and regulatory approvals;
- the pandemic does not result in further prolonged and substantial capacity reductions and groundings into H2 2022 or beyond; and
- any new virus strain or threat to public health that emerges during the viability period can be managed within vaccination and testing regimes and do not result in new government regulations that further significantly affect our airlines' operations.

Due to the uncertainty created by the COVID-19 pandemic and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at February 25, 2021. The Group has been successful in raising financing since the outbreak of COVID-19, however the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur.

Regulatory environment

Overview

Regulatory matters assumed more than their usual level of prominence and scrutiny in 2020 with two topics dominating the policy agenda: the introduction of regulations around the world to restrict international air travel in response to the spread of COVID-19 and the continuing Brexit negotiations as the transition period for the UK's departure from the European Union (EU) came to a close at the end of December.

Throughout the year, IAG's airlines contributed directly to the development of rules in respect of responses to the COVID-19 pandemic that impacted aviation and travel in order to maintain operations to the greatest extent possible while ensuring customer and staff safety. The Group also provided input during 2020 to the Brexit discussions in support of a positive negotiated settlement to benefit UK and European citizens.

IAG also worked with regulators and authorities around the world on key policy areas such as sustainability in order to try and secure the best long-term outcomes for its customers.

COVID-19

When the COVID-19 pandemic emerged, states around the world began to close their borders to different degrees, leading to a dramatic impact on worldwide traffic volumes.

IAG aimed throughout 2020 to work constructively with regulators and contributed to their deliberations wherever possible on how to respond to the virus to allow safe, continued operations and to demonstrate the inherent safety of air services themselves.

In Ireland, Spain and the UK, IAG's airlines worked with national regulators as they developed their policies to ensure these were practically deliverable and balanced so as to allow air transport to continue safely and that guidance to industry and restrictions on travel were, where possible, measured and workable. British Airways made a significant contribution to the development of the ICAO's Council Aviation Recovery Task Force (CART) process, running trial protocols and becoming the first airline worldwide to be assessed against its criteria. Similarly, working directly, and with industry association Airlines for Europe (A4E), IAG experts helped the European Union Aviation Safety Agency (EASA) develop guidelines on aviation health safety protocols. However, where IAG believed measures were severely detrimental to its own and its customers' interests, and provided no health benefit, the Group also acted. This included working with other airlines in the UK to bring a Judicial Review challenge to the UK Government's imposition of blanket quarantine measures. These measures were ultimately amended to satisfy the Group's objections at the time.

As the crisis endured, IAG worked with partner and competitor airlines as well as with academic partners to provide data on the efficacy of different approaches to COVID-19 testing. The Group also operated programmes to trial different approaches for testing in support of enabling states to safely remove quarantine policies that restrict travel. IAG staff continue to take every opportunity to work with national regulators and policy makers as the spread of the virus and the deployment of vaccines influences changes to regulatory requirements. In particular IAG continues to promote the need for a digital solution to the sharing and verification of personal data, health certificates and other requirements for travel. This includes working with individual developers, for example the VeriFly app successfully trialled by British Airways and contributing to potential industry-wide solutions such as those being promoted by IATA.

Brexit

The UK formally left the EU on January 31, 2020 remaining bound by the EU's laws and benefiting as if it were a member state in a transition period running until December 31, 2020.

During 2020 there was therefore no change to air services between the EU and the UK. Throughout the year IAG engaged with regulators and policy makers in the UK, Brussels and a number of EU Member States to ensure that the needs of IAG's customers after Brexit are understood and, in particular, that policymakers recognise the economic and social importance of uninterrupted air services between the EU and the UK.

After protracted negotiations the UK and the EU agreed an overall trade deal that includes air transport. This agreement ensures that all IAG airlines' flights could continue as they did before Brexit. The only change is a very minor limitation on codeshare arrangements.

During 2020, the UK Government also finalised agreements with all other countries with which it needed to replace existing EU-wide arrangements for air services, including formally signing on November 17, 2020 the agreement reached in 2018 with the US.

IAG implemented plans to ensure that its EU-licensed airlines continue to comply with EU ownership and control rules following Brexit. These remedial plans were approved by national regulators in Spain and Ireland. The plans include the implementation of a national ownership structure for Aer Lingus and changes to the Group's longstanding national ownership structure in Spain.

It is notable that the Brexit agreement recognises the potential benefits of the continued liberalisation of ownership and control of air carriers and commits the EU and UK to examining options in that area during 2021. The Group will continue to encourage regulators around the world to normalise ownership of airlines in line with other business sectors.

Other policy areas

While 2020 was a year of unprecedented disruption and uncertainty due to the COVID-19 pandemic, other key aspects of aviation policy continued to be developed in particular in relation to sustainability. In July the European Commission published a roadmap for its legislative initiative aimed at implementing the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

With its strong credentials in this field, IAG provided key input to the joint product of the European aviation industry, initiated by A4E, "Destination 2050, aviation's roadmap to carbon neutrality by 2050." Published in December, this roadmap shows how European aviation can reduce emissions through new aircraft and engine technology, operational efficiency, sustainable aviation fuels, economic measures (such as CORSIA) and greenhouse gas removal technology.

IAG continued to highlight the need for reform of the European air traffic management system and airport charges legislation to make the industry fit for a new future. The Group continues to demonstrate the economic and social value of aviation, through trade, tourism and bringing families together as tools to support economic recovery from the pandemic.

Overseeing a time of fundamental change

Javier Ferrán
Chairman

"2020 was an unprecedented year for IAG and for the Board, as we tackled the huge and disruptive challenges of the COVID-19 pandemic and made significant changes in our leadership."

This is my first report as the Chairman of IAG and I want to begin by thanking Antonio Vázquez, our outgoing Chairman, for the magnificent job he has done since the Group was created in 2011 to create such solid foundations for our corporate governance structure. I am also indebted to him for the tremendous support he has given me during the transition process.

It's a great honour to lead the IAG Board and to have the trust of my fellow directors in carrying out this role.

I come into the post at the end of an unprecedented year for the Group, faced with the incredible disruption to our business caused by COVID-19 but also in the midst of the most fundamental changes in our executive and Board leadership in ten years, including the appointment of five new Board members.

Despite these extraordinary times, the Board's role remains the same – to create long-term sustainable value for shareholders and our wider stakeholders.

In a crisis, however, the guidance we provide to the management team is more important than ever and our focus on the long term and on the interests of different stakeholders is right at the forefront of our thinking. This year, we were particularly focused first and foremost on confronting this crisis, overseeing the different initiatives for cash preservation and securing liquidity, as well as considering allocation of capital and risk management matters, while issues around the acquisition of Air Europa and Brexit were also high on our agenda.

I am very proud of the work and commitment shown by the Board in our response to the pandemic. We held a total of 42 Board meetings during the year as well as carrying out extra work to challenge, support and advise the management team. It's in times like these when a Board really proves its worth and I think that the Board rose to the occasion on contribution, availability and commitment.

As I've said the interests of stakeholders have been to the fore. But I would highlight one group in particular - the great people who work for our Group. Their wellbeing and ability to adapt to new ways of working have been central to our thinking, particularly when difficult decisions have had to be taken and sacrifices made. Efforts by our airlines to make sure customers remain safe at every point of travel during this overwhelming health emergency were also a big focus for the Board.

Board and committee changes

Effective succession planning is a vital element of good corporate governance. We faced some huge challenges here, which tested the resilience of our governance framework.

For any company, no change in leadership is greater than the appointment of a new chief executive. We were glad, at the start of the year, to announce the appointment of an internal candidate, Luis Gallego, to succeed Willie Walsh in the role. Luis' knowledge of the Group and of our industry is proving extremely valuable in these trying circumstances. I would like to thank Willie for his fundamental contribution to IAG and for his commitment from the inception of the Group right through to his last day with us, and particularly for agreeing to stay on for an extra six months in 2020.

Kieran Poynter, an IAG non-executive director since 2011, stepped down from the Board at our shareholders' meeting in September, having been an outstanding chair of the Audit Committee. We thank him for his great contribution to the Group from its inception. We also said farewell to Marc Bolland, who decided not to seek re-election, and he goes with our great gratitude also.

To fill these vacancies, Giles Agutter and Robin Phillips were elected to the Board, having been proposed by our largest shareholder, Qatar Airways. Both are valuable recruits to our team – Giles with a background in aviation, and Robin with his long experience in the financial sector.

As Antonio mentioned in his opening letter to this report, we had to make other significant changes in relation to Brexit to meet the requirement of having a majority of independent, EU non-executive directors. Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down in December 2020 to help us fulfil this requirement and we thank them for their flexibility and their contribution. Steve's executive duties as Chief Financial Officer remain unchanged and he will continue to attend Board meetings.

We appointed Peggy Bruzelius, Eva Castillo and Heather Ann McSharry to fill these positions and are grateful for the perspective and experience they bring – Peggy, with a background in financial services and project finance; Eva, with deep knowledge of telecoms and finance; and Heather Ann, with a career spent in pharmaceuticals and healthcare, financial services and consumer products. They are all well versed in governance having all served as non-executives before.

It's particularly pleasing to note that with their appointment female representation on the Board now stands at 45 per cent, with women also chairing two of our Committees. We remain committed to improving ethnic diversity in line with current best practice.

We have also refreshed the membership of the Board's Committees, including appointing new chairs in each case.

You can find further details of all these changes and appointments in the Nominations Committee report.

Management changes

In addition to approving the appointment of a new Chief Executive, the Board also considered the appointments of Javier Sánchez-Prieto, replacing Luis as Executive Chairman and CEO of Iberia, and Marco Sansavini moving over to lead Vueling. These appointments were delayed, along with Luis' elevation, until September to make sure we had stability in the early days of the pandemic.

The Nominations Committee also approved the following further significant changes in our leadership team:

- Sean Doyle, as the new British Airways Chief Executive;
- Donal Moriarty as acting interim Chief Executive of Aer Lingus;
- Fernando Candela in a new Management Committee role of Chief Transformation Officer; and
- David Podolsky as the new IAG Chief Strategy Officer.

All these appointments with the exception of David, who was previously at Bain & Co, were internal – yet again proving the superb pipeline of talent we have within the Company.

Board evaluation and inductions

We carried out an internal evaluation of the Board during the year. Although it was a limited exercise because of the amount of change in the Board and committees composition, it came to some useful conclusions, allowing us to draw on the experience of former directors and committee members. The process was overseen by the Nominations Committee and led by Antonio and me, with the support of the Board Secretariat. You can read more about it further on in this report.

We are making a special effort to introduce our new colleagues to the business as quickly and efficiently as possible. Obviously the induction programme has had to be adjusted to contend with the current environment, ensuring it brings new directors up to speed on current matters being debated by the Board and its committees. Details of the induction process are provided further on in this report.

Culture, employee and stakeholder engagement

Last year, given the challenging environment and the travel restrictions, work on culture and employee engagement was led by the operating companies. The IAG Board was regularly and closely informed of these initiatives. Particular focus was given to the wellbeing, health and safety of our employees.

In addition, in the last quarter a major and deep study was undertaken using common methodology with the help of McKinsey to evaluate culture for each business unit. This comprehensive study constitutes an excellent base to identify opportunities and establish action plans to continue to make sustainable progress in this critical area.

Restructuring plans were also shared with the Board, and the Board could confirm the rigour with which the different companies approached these difficult processes. We are extremely proud of the commitment, resilience and flexibility shown by people right across the Group during these very challenging times.

Finally, as a result of a review of our governance architecture, the Board has decided to retain direct oversight of culture and governance matters, giving it a greater priority by involving all Board members in this task. In addition, the remit of the Safety Committee was expanded to include environment and corporate responsibility, with a new composition fully meeting governance requirements. It will help improve the Board's oversight and involvement on sustainability and all related matters, sharpening our focus in this crucial area.

Outlook

I cannot say how proud I am of how people at every level of the Group have performed in these most difficult of times. Our employees, our various leadership teams and the Board itself, have all shown remarkable strength, endurance and adaptability.

That gives me great confidence that we will emerge from this crisis – not only stronger, but also ready to transform IAG into a more sustainable business for the future.

Javier Ferrán
Chairman


Javier Ferrán


Luis Gallego


Alberto Terol


Giles Agutter

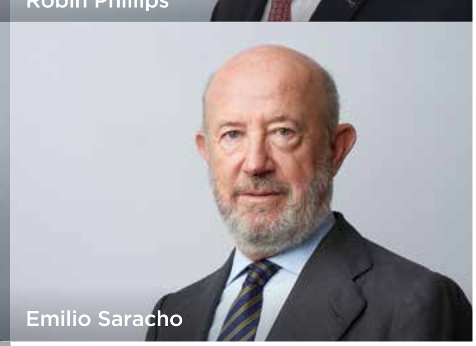

Peggy Bruzelius


Eva Castillo


Margaret Ewing


Robin Phillips


Heather Ann McSharry


Emilio Saracho


Nicola Shaw

Javier Ferrán N

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

Current external appointments:
Chairman, Diageo Plc. Senior advisor to BlackRock Long Term Private Capital and director of investee company.

Previous relevant experience:
Non-executive director, Coca Cola European Partners Plc 2016-2020. Chairman of Supervisory Board, Picard Surgelés 2010-2020. Member, International Advisory Board ESADE 2005–2019. Non-executive director, Associated British Foods plc 2005–2018. Non-executive director, SABMiller plc 2015–2016. Vice Chairman, William Grants & Sons Limited 2005–2014. Non-executive director, Louis Dreyfus Holdings BV 2013–2014. Non-executive director, Abbott Group 2005–2008. Non-executive director, Desigual SA. Non-executive director, Chupa Chups SA. Partner, Lion Capital LLC 2005–2018. President EMEA, President and CEO, Bacardi Group 1992-2004.

Luis Gallego S

Key areas of experience:
Airline industry

Current external appointments:
Member of the Board of Governors and Member of the Chair Committee, IATA.

Previous relevant experience:
Chairman and CEO, Iberia 2013-2020. CEO, Iberia Express 2012-2013. Chief Operating Officer, Vueling 2009-2012. Founder of Clickair 2006-2009.

Alberto Terol R A N

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

Current external appointments:
Vice Chairman, Lead Independent Director and Chair of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Non-executive director, Schindler España. Independent Director Varma, S.A.. Patron of Fundación Telefónica. Executive Chairman of various family owned companies.

Previous relevant experience:
Chairman of the Supervisory Board, Senvion GmbH 2017–2019. Non-executive director, OHL 2010–2016. Non-executive director, Aktua 2013–2016. Non-executive director, N+1 2014–2015. International Senior Advisor, BNP Paribas 2011–2014. Member, Global Executive Committee Deloitte 2007–2009. Managing Partner, EMEA Deloitte 2007–2009, Managing Partner Global Tax & Legal, Deloitte 2007–2009. Member, Global Management Committee Deloitte 2003–2007. Managing Partner, Latin America Deloitte 2003–2007, Integration Andersen Deloitte 2002–2003, Managing Partner EMEA, Arthur Andersen 2001–2002, Managing Partner Global Tax & Legal, Arthur Andersen 1997–2001, Managing Partner, Garrigues-Andersen 1997–2000.

Giles Agutter (N) (S)

Key areas of experience:
Airline industry

Current external appointments:
CEO, Southern Sky Ltd. Director, JSX Airlines.

Previous relevant experience:
Non-executive director, LATAM Airlines Group 2017-2020. Non-executive director, Air Italy 2017-2020.

Peggy Bruzelius (A)

Key areas of experience:
Financial services, corporate finance

Current external appointments:
Chair, Lancelot Holding AB. Non-executive director and Chair of the Audit Committee, Lundin Energy AB. Non-executive director and Chair of the Investment Committee, Skandia Mutual Life Insurance. Member, the Royal Academy of Engineering Sciences.

Previous relevant experience:
Chair, Swedish National Agency for Higher Education 2008-2011. Member Board of Trustees, Stockholm School of Economics 2000-2011. Various Corporate Boards, Trygg Hansa Liv AB, Celsius AB, AB Ratos, Scania AB, The Body Shop Plc, Axel Johnson AB, Axfood AB Husqvarna AB 1992-2019. Senior Independent Director, AB Electrolux 1996-2012. Non-executive director, Syngenta AG 2001-2014. Non-executive director, Diageo plc 2009-2018. Non-executive director, Akzo Nobel nv 2007-2019. Executive Vice President, Head of Asset Management Skandinaviska Enskilda Banken 1997-1998. CEO, ABB Financial Services AB 1991-1997.

Eva Castillo (A) (R)

Key areas of experience:
Financial sector, telecoms sector

Current external appointments:
Non-executive director, Bankia. Non-executive director, Zardoya Otis. Member of the Council for Economy of the Holy See (Vatican), Member of the Board of the Comillas ICAI Foundation. Member of Entreculturas Foundation. Member of JAMS Foundation.

Previous relevant experience:
President and CEO Merrill Lynch Capital Markets, Spain 1999-2006. President and CEO, Merrill Lynch, Wealth Management EMEA 2006-2009. President and CEO, Telefónica Europe 2012-2014. Non-executive director, Old Mutual Plc 2011-2013. Non-executive director, Telefónica, S.A. 2008-2018. Non-executive director VISA Europe Plc 2014-2017. Chair Telefónica Deutschland AG. 2012-2018.

Margaret Ewing (A) (N)

Key areas of experience:
Professional services, financial accounting, corporate finance, strategic and capital planning, corporate governance, risk management

Current external appointments:
Senior Independent Director and Chair of the Audit and Risk Committee, ConvaTec Group Plc. Non-executive director and Chair of the Audit and Risk Committee, ITV Plc.

Previous relevant experience:
Trustee and Chairman of the Finance and Audit Committee, Great Ormond Street Hospital Children's Charity 2015-2020. Non-executive director, Standard Chartered Plc 2012–2014. Non-executive director, John Lewis Partnership Plc 2012–2014. Non-executive director, Whitbread Plc 2005–2007. Vice Chairman, Managing Partner, Public Policy, Quality and Risk and London Practice Senior Partner, Deloitte LLP 2007–2012. Director, Finance, BAA Ltd 2006 and Chief Financial Officer, BAA PLC 2002–2006. Group Finance Director, Trinity Mirror PLC 2000–2002. Partner, Corporate Finance, Deloitte & Touche LLP 1987–1999.

Robin Phillips

Key areas of experience:
Finance, airline industry and transportation

Current external appointments:
Chairman, Development Funding Board, Pancreatic Cancer UK. Senior Advisor, Circadence Corporation (US). Board member, IR - Scientific (Canada).

Previous relevant experience:
Global Head/Co-Head of Corporate and Investment Banking, Head of Global Banking and Markets (Hong Kong), Group Head Climate committee, Head of Global Industries Group, Head of Transport, Services and Infrastructure, HSBC 2003-2019. Global Co-Head of Transport & Infrastructure Group, Citigroup 1999-2003. Executive Director, Transportation and Aviation Investment Banking, UBS Warburg 1992-1999. Assistant Director, Capital Markets, Kleinwort Benson 1985-1991.

Heather Ann McSharry (N) (R)

Key areas of experience:
General management, pharmaceuticals/health care, financial services, consumer products, food and construction industry sectors, governance

Current external appointments:
Non-executive director, Chair of Remuneration Committee, CRH plc. Non-executive director, Chair of Nominations and Governance Committee, Jazz Pharmaceuticals Plc.

Previous relevant experience:
Non-executive director, Greencore plc 2013-2021. Non-executive director, Uniphar Plc 2019-2020. Non-executive director, Bank of Ireland Plc 2007-2011. Chairman, Bank of Ireland Pension Fund Trustee Board 2011-2017. Managing Director, Reckitt Benckiser Ireland 2004-2009 Managing Director, Boots Healthcare Ireland 1998-2004.

Emilio Saracho (R)

Key areas of experience:
Banking, corporate finance, investment management

Current external appointments:
Director, Altamar Capital Partners. Non-executive director, Inditex.

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

Nicola Shaw (R) (S)

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

Current external appointments:
Executive Director, National Grid plc. Director, Major Projects Association. Director, Energy Networks Association and Energy UK.

Previous relevant experience:
Member of the Audit and Risk Committee, English Heritage 2015–2018. Non-Executive Director Ellevio AB 2015–2017. CEO, HS1 Ltd 2011–2016. Non-Executive Director, Aer Lingus Plc 2010–2015. Director and previously other senior positions FirstGroup plc 2005–2010. Director of Operations and other management positions at the Strategic Rail Authority 2002–2005. Deputy Director and Deputy Chief Economist, Office of the Rail Regulator (ORR) 1999–2002.

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

Statement of compliance with applicable corporate governance codes

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. In accordance with Spanish legal requirements, this Corporate Governance report includes information regarding compliance with the Spanish Good Governance Code of Listed Companies (which was updated and published in June 2020), as well as other information related to IAG's corporate governance. This report is part of the IAG Management Report.

At the same time, as IAG has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council ("FRC") as amended from time to time. A copy of the current version of the UK Corporate Governance Code applicable to this reporting period (updated and published in July 2018) is available at the website of the FRC (www.frc.org.uk).

IAG has prepared a consolidated Corporate Governance Report responding to both Spanish and UK reporting requirements. This Corporate Governance Report is available on the Company's website (www.iairgroup.com), and it is also available on the Spanish Comisión Nacional del Mercado de Valores (CNMV) website (www.cnmv.es). Pursuant to the CNMV regulations, this report has been filed with the CNMV accompanied by a statistical annex covering some legally required data.

In addition, and as required by the LSE Listing Rules, this Corporate Governance Report includes an explanation regarding the Company's application of the principles of the UK Corporate Governance Code. In effect, the disclosures in this Corporate Governance section of this Annual Report, including the different Board committees' reports, have been grouped into each of the five areas in which the Code is divided with the objective of helping shareholders and investors to assess how IAG has applied the Code principles during the reporting period.

During 2020, IAG fully complied with almost all the applicable recommendations of the Spanish Corporate Governance Code with the following exceptions, in relation to which the Company is reporting partial compliance:

- Recommendation number 1 regarding the existence of share ownership restrictions in the Company's bylaws, as IAG is required to have such restrictions due to applicable legal and regulatory requirements of the aviation sector.
- Recommendations number 4, 42, 45 and 54; in relation to the amendments introduced to these recommendations in June 2020, the Company was not able to update the relevant internal policies and the Board of Directors Regulations before December 31, 2020. The IAG Board will consider the relevant amendments and policy changes to bring the Company in line with these requirements within the first quarter of 2021.
- Recommendation number 52 regarding the rules on the composition and operation of non-mandatory board committees, because IAG's Safety Committee is chaired by an executive director, the Group Chief Executive, and not by an independent director as recommended by the Code. In this respect, on February 25, 2021 the Board reviewed its regulations and approved separate regulations for each Board advisory committee. As part of this review, it was decided to combine the support provided to the Board over safety matters with those related to environmental and corporate responsibility matters under a new Safety, Environment and Corporate Responsibility Committee. The composition of this Committee is fully compliant with the recommendation 52 of the Spanish Code.

As far as the 2018 UK Corporate Governance Code is concerned, the Company considers that it has complied with almost all of the Code provisions. The Company considers it is not in alignment with Provision 36 of the Code, as it has not developed a formal policy for post-employment shareholding requirements, but as explained in the Directors' Remuneration Report, it will approve such a policy as part of the changes to be introduced in the revised remuneration policy that it is due to be submitted to shareholders for approval during 2021.

Over the past year, work on culture and workforce engagement was primarily carried out at the level of the Group's various companies. Both the challenges posed by the COVID-19 pandemic and changes in the Group's leadership have led to a reconsideration of these matters both within the Board of Directors and the Management Committee itself.

Following the review of its corporate governance framework, the Board will have direct oversight over corporate culture and governance to support and monitor these matters at main board level.

At the same time, it has been agreed to reallocate oversight of environmental and corporate responsibility matters from the Audit and Compliance Committee to the new Safety, Environment and Corporate Responsibility Committee, thus alleviating the workload of the former and providing a closer and more specialised monitoring environment.

In addition, within the Management Committee, a new position has been created with responsibility for culture, talent and sustainability to promote and coordinate these areas at Group level.

In taking these steps, IAG's Board and Management Committee are reinforcing their commitment to ESG, especially at a time when the Group is seeking to rebuild itself as it overcomes the crisis created by the COVID-19 pandemic.

Key principles of the 2018 Corporate Governance Code

Board Leadership

IAG governance framework

IAG, as the Group's parent company, is responsible for the Group's strategy and business plan. It centralises the Group's corporate functions, including the development of its global platform. IAG sets the long-term vision for the Group, defines portfolio attractiveness and makes capital allocation decisions. Further details on the Group structure and corporate governance framework is included further on in this report.

The IAG Board is collectively responsible for the long-term sustainable success of the Group. As stated in its Regulations, the Board shall endeavour to reconcile the corporate interest with the legitimate interests, as applicable, of the employees, suppliers, customers and other stakeholders that might be affected, also taking into consideration the impact of its activities on the community as a whole and on the environment. Examples of this long-term focus and consideration of stakeholders' interest are discussed further on in this report and in the stakeholder section. In addition to this, each operating company has an individual brand and cultural identity, is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plans.

The IAG Board

The Board has delegated the day-to-day management of the Company to the Group Chief Executive and the Group's management team but it has reserved for itself the authority on a number of matters detailed in article 3.4 of the Board Regulations, which are available on the corporate website (www.iairgroup.com).

The Board's primary responsibilities are summarised further on in this report.

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

With support from the General Counsel and the Board Secretary, the Chairman sets a carefully structured agenda for each meeting in consultation with the Chief Executive Officer. The Board has a 12-month rolling planner including both standard items and specific topics. During 2020, the Board activities and oversight of the business was adjusted to respond to the COVID-19 pandemic. The key activities of the Board in 2020 are detailed in the Board activities table further on in this report.

Board composition

The IAG Board currently comprises eight independent non-executive directors, two proprietary non-executive directors and one executive director, IAG's Chief Executive Officer. The biographies of each member of the Board are set out in the Board of Directors section.

At the Shareholders' Meeting on September 8, 2020, Luis Gallego was appointed as an executive director of the Company and its Chief Executive Officer following the retirement of Willie Walsh. Giles Agutter and Robin Phillips were appointed as proprietary non-executive directors at the proposal of Qatar Airways, IAG's biggest shareholder, with Kieran Poynter and Marc Bolland retiring from the Board.

As part of the plans implemented to ensure that the Group's EU licensed airlines continue to comply with EU ownership and control rules following Brexit, the composition of the IAG Board of Directors was changed so that it has a majority of independent EU non-executive directors. To this effect, on December 31, 2020 Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down from the Board and Peggy Bruzelius, Eva Castillo and Heather Ann McSharry were appointed as new members. Steve Gunning's executive functions as Chief Financial Officer remain unchanged.

As set out in the Company's Bylaws the Board shall comprise a minimum of nine and a maximum of 14 members. As of December 31, 2020, the Board composition was:

Name of Board Member	Position/Category	First appointed
Antonio Vázquez	Chairman	May 25, 2010[1]
Luis Gallego	Chief Executive	September 8, 2020
Alberto Terol	Senior Independent Director	June 20, 2013
Giles Agutter[2]	Director (Proprietary)	September 8, 2020
Peggy Bruzelius	Director (independent)	December 31, 2020
Eva Castillo	Director (independent)	December 31, 2020
Margaret Ewing	Director (independent)	June 20, 2019
Javier Ferrán	Director (independent)	June 20, 2019
Heather Ann McSharry	Director (independent)	December 31, 2020
Robin Phillips[2]	Director (Proprietary)	September 8, 2020
Emilio Saracho	Director (independent)	June 16, 2016
Nicola Shaw	Director (independent)	January 1, 2018[3]

1 Antonio Vázquez retired from the Board on January 7, 2021. As previously announced, Javier Ferrán succeeded him as Chair.
2 Appointed on proposal from Qatar Airways (Q.C.S.C) a significant shareholder of IAG.
3 The appointment of Nicola Shaw as a non-executive director was approved by the Shareholders' Meeting on June 15, 2017 but did not become effective until January 1, 2018.

Further details of Board appointments during 2020 are set out in the Nominations Committee report.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P, and the Deputy Secretary is Lucila Rodríguez. The Group Chief Financial Officer, Steve Gunning, and the Group General Counsel, Chris Haynes, attend all Board meetings.

Board Committees

The Board has four advisory committees to support its oversight on a number of areas, and exercises a direct supervision over the Group strategy, culture and governance. As a general rule, copies of the minutes of all committees' meetings as well as the documents made available ahead of each committee meeting are made available to all Board members.

The roles, memberships and activities of these committees during 2020 are described in their individual reports within this corporate governance report.

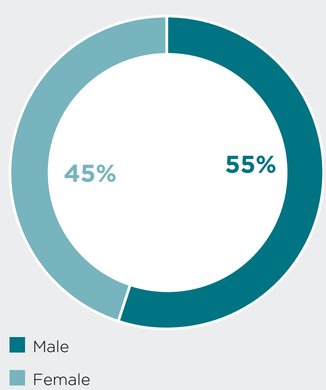
- Audit and Compliance Committee
- Nominations Committee
- Remuneration Committee
- Safety Committee

The Board decided in 2020 that it should reinforce its focus on ESG matters, assigning these responsibilities to an advisory Board committee. Following the Board evaluation and the review of the Board and committees' remits, it was decided to include sustainability matters within the existing Safety Committee, reviewing its remit and composition. The Board approved new and separate regulations for each one of the Board committees in its February 2021 meeting. These regulations are available on the corporate website.

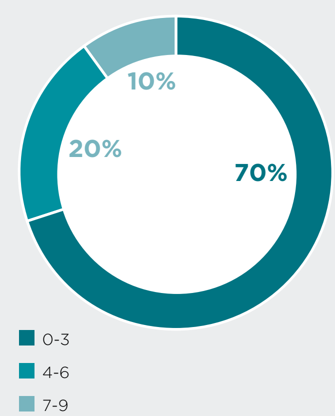
Board diversity[1]

Nationality

Gender



Tenure[2]



Core areas of expertise[2]

1 Analysis completed on current Board composition.
2 Non-executive directors only.

Board and committee meetings

The Board was scheduled to meet nine times during the year along with its annual two-day strategy meeting scheduled for September 2020. Due to the COVID-19 pandemic from April the Board held weekly/bi-weekly meetings bringing the total meetings held during the reporting period to 42.

Some of these meetings were needed to be held at short notice in order to properly monitor business developments, support management during this difficult period and to make critical decisions in response to the COVID-19 pandemic. This illustrates director's individual and collective commitment to the Company.

The annual two-day strategy meeting was postponed and held in December allowing the new Chief Executive Officer and the management team to present their initial consideration on the required transformation of the Group.

During 2020, the Chairman and the non–executive directors met privately following each scheduled Board meeting. In addition to this, the Senior Independent Director also met with the non-executive directors, without the Chairman, as part of the chair succession planning process.

As stated in the Board Regulations, directors shall make their best efforts to attend Board meetings. If this is not possible, they may grant a proxy to another director, although non-executive directors may only grant their proxy to another non-executive director. These proxies need to be in writing and specifically granted for each meeting. No director may hold more than three proxies, except for the Chairman, although he cannot represent more than half of the Board members. As far as possible, proxies should be granted including voting instructions. Due to the extensive number of additional Board Meetings held during the year due to the COVID-19 pandemic some directors due to other commitments, were not able to attend all meetings.

Meetings attended by each director of the Board and the different committees during the reporting period are shown in the table below. The Board is listed as at date of this report:

Director	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
Total in the period	**42**	**12**	**9**	**9**	**2**
Current directors					
Javier Ferrán[1]	40/42		4/4	6/7	0/1
Luis Gallego[2,3]	12/12				1/1
Giles Agutter[2,4]	12/12		4/4		1/1
Peggy Bruzelius[5]	1/1	1/1			
Eva Castillo[5]	1/1	1/1			
Margaret Ewing[6]	42/42	12/12			
Heather Ann McSharry[5]	1/1				
Robin Phillips[2]	12/12				
Emilio Saracho[7]	42/42		5/5	9/9	
Nicola Shaw	35/42			8/9	2/2
Alberto Terol[8]	42/42	12/12	9/9		
Former Directors					
Antonio Vázquez[9]	42/42		9/9		1/2
Willie Walsh[10]	29/30				1/1
Marc Bolland[10]	29/30		5/5	6/6	
Steve Gunning[11]	42/42				
Deborah Kerr[11]	42/42	10/11	7/8	3/3	
María Fernanda Mejia[11]	41/42	11/11		9/9	
Kieran Poynter[10]	29/30	7/7			1/1

1 Appointed chair and member of Nominations Committee on September 8 2020; stepped down from the Remuneration and Safety Committees on September 24, 2020; appointed Chairman of the Board on January 7, 2021.
2 Appointed on September 8, 2020.
3 Luis Gallego was due to take over from Willie Walsh as Chief Executive on March 26, 2020. Due to the COVID-19 pandemic and the exceptional circumstances facing the airline industry it was decided that Willie Walsh would remain as Chief Executive and delay his retirement. Luis Gallego attended Board Meetings as a guest until his official appointment at the Shareholders' Meeting held on September 8, 2020. Appointed chair and member of the Safety Committee on September 8, 2020.
4 Joined the Nominations Committee and the Safety Committee on September 24, 2020.
5 Appointed on December 31, 2020. Heather Ann McSharry joined the Nominations Committee. Peggy Bruzelius and Eva Castillo joined the Audit and Compliance Committee. Eva Castillo and Heather Ann McSharry joined the Remuneration Committee.
6 Appointed chair of the Audit and Compliance Committee on September 8, 2020, having been a member since June 20, 2019; joined the Nominations Committee on January 28, 2021.
7 Joined the Remuneration Committee on September 8, 2020; stood down from the Nominations Committee on September 24, 2020.
8 Appointed chair and member of the Remuneration Committee on December 31, 2020.
9 Retired on January 7, 2021.
10 Retired from the Board on September 8, 2020.
11 Stepped down from the Board on December 31, 2020.

Board activities

2020 has been an unprecedent year for the Group, as it faced, and continues to face, the biggest challenge the airline industry has ever encountered. The Board activity clearly reflects these circumstances. The key areas of Board activity during 2020 both on standard items and on COVID-19 pandemic oversight are outlined herein:

Strategy and planning

- Joint Board/ Management Committee two-day strategy session, including:
  - IAG TSR drivers and performance
  - COVID-19 scenarios and IAG ambition
  - Recovery plan and priorities
  - Operating companies plans
  - Culture and talent
  - Analysis of key strategic questions
- Update on strategy with respect to the US market
- LEVEL's strategy
- 2021 financial plan
- €2.74 billion capital increase

Performance and monitoring

- Operating companies regular reporting
- Quarterly and full year financial reporting
- Monthly financial report (reviewed at the relevant meeting or distributed to all Board members)
- Review of different joint business agreements and franchise agreements.
- Update on the UK Information Commissioner's Office enforcement proceedings against British Airways

Board oversight – COVID-19 Crisis

MARCH

Number of meetings

3

- Initial impact of the pandemic (first lockdowns and reduction of operations)
- Engagement with key stakeholder groups
- Initial cash preservation initiatives
- COVID-19 crisis governance
- Briefing on Board responsibilities (I)
- Delay of leadership succession plans / salary/Board fee reduction measures adopted

APRIL

Number of meetings

6

- Operational and financial monitoring updates
- Cancellation of 2019 dividend
- Delay of Annual Shareholders' Meeting
- Financing initiatives (Spanish ICO Loans)
- Pre-release of 2020 first quarter results
- Report on workforce related measures

MAY

Number of meetings

4

- Operational and financial monitoring updates
- Financial plan: phase II initiatives and balance sheet repair exercise
- Engagement with key suppliers
- Briefing on Board responsibilities (II)
- Regulatory and governmental engagement activities (quarantine measures)
- Update on the restart of passenger operations
- Report on workforce related measures
- Evaluation of funding alternatives

JUNE

Number of meetings

4

- Operational and financial monitoring updates
- Regulatory and governmental engagement activities
- Report on workforce related measures

JULY

Number of meetings

6

- Operational and financial monitoring updates
- Preparation for capital increase (announced July 31)
- Briefing on Board responsibilities (III)

Significant transactions, investments and expenditures

- Air Europa acquisition proposal and renegotiation of terms
- Launch of new products and fleet reconfigurations (Q1)
- Significant aircraft acquisitions, lease-backs and aircraft-related financing arrangements
- Financing arrangement for the acquisition or lease of aircrafts
- Disposals/write-off of aircraft and deferral agreements

Risk management and internal controls

- Review risk map and risk appetite performance and statements
- Approve going concern and viability statements
- Effectiveness review of the internal control and risk management systems
- Updates regarding Brexit process
- External auditor yearly report to the Board
- Recommendation to appoint KPMG as external auditor for the period 2021 to 2024

Shareholders, stakeholders and governance

- Sustainability update
- Review feedback from institutional shareholders, roadshows as well as analyst reports
- Board and management succession planning
- Remuneration matters
- Shareholders' meeting call notice and proposed resolutions
- Review of the Board committee's composition
- Board and committees effectiveness evaluation, and agreed improvement priorities
- Corporate governance updates

AUGUST

Number of meetings

2

- Initial impact of the pandemic (first lockdowns and reduction of operations)
- Preparation for capital increase

SEPTEMBER

Number of meetings

4

- Financial markets and IAG trading updates
- Annual Shareholders' Meeting
- Capital increase (launched on September 9)
- Capital allocation framework

OCTOBER

Number of meetings

3

- Financial markets and IAG trading updates (including revenue/pricing framework analysis)
- Pre-release of 2020 third quarter results
- Capital allocation update
- Financing update

NOVEMBER

Number of meetings

4

- Operational update
- Financing and capital allocation proposals
- Update on impact of new lockdowns measures

DECEMBER

Number of meetings

3

- Operational update
- Financing and capital allocation proposals
- Update on impact of new lockdowns measures

Culture and stakeholder engagement

During 2020, IAG continued working under the same framework, based on its vision 'to be the world's leading airline group, maximizing sustainable value creation for our shareholders and customers' and the values that derive from the Code of Conduct approved in 2019. This Code that applies to all directors and employees of the Group, establishes simple integrity and compliance values applicable across the Group while respecting the different cultures and values existing in each of the operating companies.

Although compliance and training activities were carried out to support awareness of the principles detailed in the IAG Code of Conduct, the COVID-19 pandemic and the delay in the change of leadership, postponed some of the Group's plans in this area, but each of the operating companies continued with their own programmes and initiatives during the year. The IAG Board was regularly and closely informed of these initiatives. A specific case study regarding IAG Tech, a crucial area for the Group which works across the different business units, is provided opposite.

In the last quarter of 2020, a Group wide exercise was completed with external support. The survey has been designed to help understand the key leadership and cultural elements that are required to build a consistently high performing organisation. As the Group seeks to recover from the COVID-19 pandemic, the survey sought to identify strengths to build on, opportunities for improvement, and obstacles standing in the way of IAG being the leading airline group. The results and initial conclusions from this exercise were shared with the Board during the two-day strategy meeting held in December, during a session devoted to culture and talent.

The Audit and Compliance Committee has also reviewed and reported to the Board on the effectiveness and functioning of the confidential speak up channels available throughout the Group, where concerns can be raised on a confidential basis, and the number and nature of incidents reported to the speak up channels during 2020.

The Board continued to be updated throughout 2020 in relation to each operating company's employee matters as part of the report each company presents to the Board, in addition to specific matters that were conveyed as part of the COVID-19 pandemic ongoing reporting. In particular, information was shared with the Board on the COVID-19 specific measures adopted across the Group to support employee safety and wellbeing.

IAG Tech culture journey

IAG Tech was launched at the end of 2019, following my appointment as IAG CIO, bringing together over 1,500 digital and IT professionals across the Group, with a renewed mission to accelerate business performance, enable employees and protect the business through the use of technology and data.

IAG Tech has refocused around a common vision of bringing Technology Excellence to everything we do and started a transformative journey, where a single identity and a common vision purpose and values are key. These common values are innovation, empowerment, professionalism, transparency and agility.

During 2020, we have redefined the IAG Tech operating model and placed people at the heart of everything we do. As part of this effort, we have appointed our own Head of People and Culture emphasising the importance of nurturing culture and providing a focal point to hold everyone accountable.

When recruiting externally as well as when promoting people, there is a special focus to ensure the continuity and consolidation of IAG Tech's common values. Our own leadership academy is playing a key role in ensuring the right values and culture, as well as the right behaviours are fostered.

IAG Tech's targeted culture is underpinned by five people themes:

- *Engagement to ensure people are motivated, energised, happy, healthy and fulfilled. This is driven by widespread communication to capture our employees voice so we can include their views in any decisions we take, a focus on mental and physical wellbeing, encouraging a positive work/life balance, embracing diversity in every way, making everyone feel included and valued, being strong advocates for environment, social and governance activities inside and outside work, a strong and supportive network of IT/Digital professionals, and fostering the right working environment.*
- *Talent Management aiming to ensure IAG Tech has the best people with the right skills at the right time. A strategic resource plan will be prepared in 2021 contemplating talent acquisition and onboarding, a new graduate and apprentice programme, a pipeline to identify and develop our people, succession and retention plans, and opportunities for growth and progression.*
- *Recognition framework allowing us to identify and celebrate great performance and examples of people living our values and behaviours.*
- *Performance Management directly linking everyone's objectives to our goals and targets, and KPIs and metrics so our people understand how they are personally contributing to achieving our vision, purpose and the business outcomes. We believe in fair, transparent and continual feedback.*
- *Learning and Development enabling us to have the right capabilities, skills and competencies needed to deliver the business outcomes and our vision of Technology Excellence whilst ensuring that our people feel they can grow and progress.*

IAG Tech participated in the Group's Organisation Health Index and other employee satisfaction surveys in 2020. Although we are still analysing the feedback received from the Organisation Health Index completed in December 2020, we acknowledge that we are only at the start of a long journey to create a world class culture. In order to support our journey, we have a robust plan as part of Project Magna (IAG Tech transformation programme) to continue to define, embed and nurture our culture. To complete this effort and to measure progress, we have planned an internal audit of our culture in 2021.

John Gibbs
IAG CIO

Shareholders

Shareholders' interests have always been present in the Board's considerations. The Board engages directly in active dialogue with shareholders and investors mainly through the Group Chief Executive Officer, the Group Chief Financial Officer and the Chairman, who regularly meet with shareholders and investors. In addition, the Senior Independent Director has attended meetings at the request of certain shareholders. In January to March 2020, meetings were conducted in person, but from April onwards meetings have been conducted by telephone or by virtual means.

The Board is regularly appraised of shareholders' feedback and the main issues discussed with or raised by shareholders and investors. During 2020, the Company's brokers and other financial advisors gave a number of presentations to the Board to report on specific topics, including the capital increase, as well as the macro economic environment.

In July 2020, the IAG Board proposed the execution of a capital increase, which was approved at the 2020 Annual Shareholders' Meeting and was completed in October 2020. As part of this, a full roadshow was held with major shareholders on the day of the announcement and the subsequent days, and also several meetings were conducted in the month of September with numerous members of IAG's shareholder base and key potential investors, mainly across Europe and the US.

In addition, a wide campaign was launched to ensure retail shareholders were duly informed and provided the opportunity to participate exercising their pre-emptive rights or selling the corresponding subscription rights. As the capital increase was conducted under Spanish law, which differs from the UK rules, the Company launched a retail campaign in relation to its UK retail shareholders to ensure they were made aware of the process, of the relevant key dates to participate in the capital increase, as well as the fact that those who took no action would not be entitled to receive compensation for any unused and expired subscription rights and that their shareholding will be diluted, this being an important difference in relation to UK practice.

This retail campaign included contact centres both in the UK and Spain which provided support with shareholder queries in relation to the process, and the preparation of a shareholder guide including frequently asked questions which was made available on the corporate website, as well as media campaigns both in the UK and Spain.

At the 2020 Shareholders' Meeting, the 2019 report on directors' remuneration (resolution 8) was passed with 71.60% of the votes. As publicly stated, while the Board welcomed the majority support for this report, it was disappointed that 20.56% voted against this resolution. In accordance with the UK Corporate Governance Code recommendation, the Company completed an analysis of the voting results in order to identify those shareholders in the Top 100 who voted against or abstained on this resolution. Following this, a consultation process was launched in November 2020, including the main proxy advisory firms and more than 30 institutions that represent approximately half of the dissenting vote.

The main conclusion drawn from the conversations held were, while it was recognised that bonuses were determined at the end of February 2020 and paid in respect of the financial year to December 2019, these investors would have expected the implementation of exceptional measures in light of the financial situation of the Company and also to reflect the stakeholder experiences of employees and shareholders. They welcomed the salary reduction and other measures put in place by the Company and did not express any concern regarding IAG's current remuneration policy.

Considering stakeholders' interests

As explained in the stakeholder section of the report, IAG's engagement framework is articulated in accordance with the Group's business model. In line with this, the relationship with certain stakeholders is managed at an operating company level, as is the case of customers, employees, and, to a certain extent in the case of airline partners and industry associations, or governments and regulators. This ensures that the relationship is established as closely as possible and within the relevant cultural and business context. This does not preclude that the Group coordinates certain activities and sets minimum standards or guidance as far as this is deemed appropriate.

In addition, the relationship with shareholders and investors is conducted at IAG level, mainly through the investor relations department, the Group Chief Financial Officer, the Group Chief Executive Officer and the IAG Chairman. Engagment with debt and operating lease providers is also done at IAG level to ensure a strategic and consistent approach across the Group.

IAG GBS provides a centralised procurement function for the Group and generally manages supplier engagement.

As far as sustainability matters are concerned, these are coordinated at Group level, covering the Group policies and objectives, governance structure, risk management, strategy and targets on material issues, sustainability performance indicators, communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy. In 2020, the Board decided to reinforce its focus on this important area assigning this responsibility to a separate Board committee which can provide a closer oversight and support to this function. In February 2021, the Board decided to enhance the remit of the existing Safety Committee to fulfil this objective as a new Safety, Environment and Corporate Responsibility Committee. Further details on IAG's sustainability governance and engagement with stakeholders on sustainability can be found in the 'Sustainability' section.

The following graph details how the Board is kept informed in relation to IAG's key stakeholders.

IAG Key Stakeholders

Shareholders and other financial stakeholders

The Board has been regularly informed about shareholders considerations and concerns. As an example, the IAG Head of Investor Relations and the Company brokers were invited to the January 2020 Board meeting to inform about investors' comments following the Company's recent announcements in relation to the removal of the restrictions for non-EU shareholders, as well as regarding the retirement of the Group Chief Executive and the appointment of Luis Gallego as his successor. In addition, an analysis was shared with the Board on the market and investors' reaction to the announcement of the removal of these capital restrictions.

The Board was also regularly informed about engagement efforts with institutional shareholders as well as with retail shareholders in relation to the capital increase, from the preparation of the transaction until its completion in early October. The Board placed particular emphasis on retail shareholders to ensure they were informed of their rights, the process to be followed and the calendar of the capital increase.

The Board was also kept informed during 2020 about engagement with both debt and lease providers, as well as with respect to the different governmental support programmes in the context of the COVID-19 crisis.

Employees

The Board has been regularly informed about each operating company initiatives with respect to their workforce during the COVID-19 pandemic. In particular, a session at the annual strategy meeting was devoted to the analysis and discussion of the results and initial conclusions from the employee survey completed in the Group.

Customers

The Board has always paid special attention to issues related to customers and brands, and the focus on customer issues has always been present in Board discussions. During 2020, the Board has been regularly provided with customer information as part of its standard performance and monitoring activities. During this difficult period, the Board has been informed about the activities undertaken by the Group airlines to respond to COVID-19 pandemic customer expectations and changes introduced in the flying experience, as well as the measures adopted to support consumer confidence.

Suppliers

The Board receives regular updates regarding key supplier relationships, relevant developments and engagement activities, including updates received through internal audit and risk management reporting. Within the context of the COVID-19 crisis, the Board received regular reports on the engagement with the Group strategic suppliers, including airframe manufacturers and engine maintenance providers.

Governments and regulators

The Board is kept informed of any relevant issues within the regulatory and political context. In 2020, the Board was regularly informed about Brexit developments and the engagement with the relevant authorities at EU and Member State level.

In addition to this, through the frequent meetings held during 2020, the Board was kept updated on the different engagement workstreams open with regulators and policy makers in relation to the COVID-19 pandemic. Contributing on how to respond to the virus to allow safe, continued operations and to demonstrate the inherent safety of air services and at the same time highlighting to those stakeholders IAG believed measures were severely detrimental to it and its customers' interests and provided no health benefit.

Airline partners and industry associations

As part of its usual work, the Board reviewed the Group's existing partnerships and joint business agreements and was frequently informed of the most relevant matters affecting the industry, particularly in the context of environmental matters. In addition to this, the Board was kept updated on the different initiatives put in place through cooperation with airlines partners and industry associations in the context of the COVID-19 crisis.

Division of Responsibilities

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

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

The different Company roles and their respective responsibilities are detailed in the Board Regulations as amended on February 25, 2021 (available on the corporate website).

Shareholders

Delegation

Accountability

IAG Board of Directors

The Board has ultimate responsibility for the long-term success of the Group and for delivering sustainable shareholder value as well as contributing to wider society

Key matters reserved to the Board are:

- submission of proposals to the shareholders' meetings
- approval of the Group's strategy, business and financial plans
- approval of the Group's general policies
- appointment and removal of senior executives
- determination of the policy on shareholders' remuneration
- approval of significant investment or divestment decisions
- approval of the risk management and control policy
- ensures effectiveness of the corporate governance system

Chairman
Javier Ferrán

- chairs shareholders' meetings
- leads the Board's work
- sets the Board's agenda and directs its discussions and deliberations
- main link with Chief Executive and management
- ensures effective communication with shareholders
- ensures the highest standards of corporate governance
- promotes the highest standards of corporate governance

Senior Independent Director
Alberto Terol

- acts as a sounding board for the Chairman and appraises his performance
- serves as intermediary for other directors when necessary
- is available to shareholders, if concerns not resolved through normal channels

Board Advisory Committees

- **Audit and Compliance**
- **Nominations**
- **Remuneration**
- **Safety, Environment and Corporate Responsibility**

IAG Management Committee

Led by the Chief Executive, is responsible for the day-to-day management of the Company. It is responsible for the performance of the Group and the implementation of the strategy approved by the Board

Group CEO
Luis Gallego

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

Updated to the corporate governance framework approved by the Board on February 25, 2021

Non-executive directors

The role of non-executive directors is to hold management to account in respect of the Group's performance. They should provide guidance and advice but also a constructive challenge to the executive team.

The Board, as reported by the Nominations Committee, is satisfied that those directors classified as independent are free from any business or other relationship that could materially interfere with exercising an independent judgement, both as a question of character and judgement. Directors are required to provide the Nominations Committee with relevant information regarding potential conflict of interest that may arise, any positions that they hold or activities they perform at other companies or entities, as well as any substantial change that may affect their independence.

The shareholders' meeting held on September 8, 2020 approved the appointment of Giles Agutter and Robin Phillips as non-executive proprietary directors as proposed by IAG's significant shareholder Qatar Airways Group (Q.C.S.C.). Qatar Airways, a Middle East air carrier headquartered in Doha, has been the single largest shareholder of IAG since 2016, owning, as of the date of this report, 25.1% of the share capital of the Company. Throughout this period there has been a long-standing business and commercial relationship between Qatar Airways and the airlines of the IAG Group. This close relationship of commercial cooperation, which has always been undertaken on an arms-length and commercial basis, significantly reduces the potential existence of permanent conflicts of interest between Qatar Airways and the Group's airlines. Any potential conflict of interest that might affect the new proprietary directors is managed by applying the duty to abstention in accordance with the procedure for managing conflicts of interest described below.

As far as the relationship of the proprietary directors with the significant shareholder who proposed their appointments is concerned, it should be noted that Giles Agutter is the owner and Chief Executive of the consultancy services firm Southern Sky Limited, one of whose material clients is Qatar Airways Group, and that Robin Phillips has no relevant connection with Qatar Airways Group.

All schedule Board meetings include a private session for non-executive directors to meet with the Chairman.

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

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

According to article 21 of the Board Regulations, directors have an obligation to adopt the measures necessary to avoid conflict of interest situations. These include any situation where the interest of the director, either directly or through third parties, may conflict with the corporate interest or with his duties to the Company. In the event of conflict, the affected director must inform the Company and abstain from participating in the discussion of the transaction referred to by the conflict. For the purposes of calculating the quorum and voting majorities, the affected director would be excluded from the number of members in attendance.

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

The execution of these type of transactions or any transaction which may entail a conflict of interest need to be reported to the Audit and Compliance Committee to ensure that they are carried out at arm's length and with due observance of the principle of equal treatment of shareholders. In the case of transactions that fall within the ordinary course of business and are customary or recurring in nature and following a report by the Audit and Compliance Committee, the Board may grant a general authorisation as long as they are executed under certain terms and conditions. This authorisation needs to be endorsed by the shareholders' meeting in those cases established in the Spanish companies' legislation and, in particular, in any transaction with a director valued at more than 10 per cent of corporate assets.

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

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

Board information and training

All Board and committee meeting documents are available to all directors, including the minutes of each meeting. All directors have access to the advice of the Board Secretary and the Group General Counsel. Directors may take independent legal, accounting, technical, financial, commercial or other expert advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in the 2020 financial year.

In 2020 the Board received specific briefings on key developments, such as the ongoing negotiations regarding the UK's exit from the EU, and specific briefings regarding directors' duties and liabilities under Spanish and UK law, as well as regarding corporate governance developments both in Spain and the UK.

Directors are offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Directors are consulted about their training and development needs and given the opportunity to discuss training and development matters as part of their annual individual performance evaluation.

Appointment, re-election, resignation and removal of directors

The selection and appointment process is described in detail in the Nominations Committee report.

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

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

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

Notwithstanding the above, a director must resign in the cases established in article 17.2 of the Board Regulations, among other things when the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company or when his or her remaining on the Board might affect the Company's crediibility or reputation or otherwise jeopardises its interests.

According to article 24.2 of the Board Regulations, directors have a number of disclosure obligations, including the duty to inform the Company of circumstances that might harm the Group's name or reputation. In particular, if they become subject to any judicial, administrative or other proceedings. In such circumstances, the Board would consider the case as soon as practicable and adopt the decisions it deems fit, taking into account the corporate interest. As stated previously, if remaining on the Board would affect the Company's reputation, or otherwise jeopardise its interest, a director must place their position at the disposal of the Board and, at its request, formally resign.

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

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

The rules above have been updated according with the Spanish Corporate Governance Recommendations approved in June 2020 and incorporated in the Board Regulations approved in February 2021, and are available on the Company's website (www.iairgroup.com), and the website of the Spanish Comisión Nacional del Mercado de Valores (wwww.cnmv.es).

Other Statutory Information

Share issues, buy-backs and treasury shares

The Annual General Meeting held on September 8. authorised the Board, with the express power of substitution, for a term ending at the 2021 Annual General Meeting (or, if earlier, 15 months from September 8, 2020), to:

i reduce the share capital by means of reducing the par value of the shares by €0.40 each, to €0.10 per share.

ii increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by up to fifty per cent of the aggregate nominal amount of the Company's issued share capital resulting after the capital reduction of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation), through the issuance and placement into circulation of new shares (with or without a premium) the consideration for which shall be cash contributions;

iii issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,500,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than one-third of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation);

iv exclude pre-emptive rights in connection with the capital increases and the issuance of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances subject to an aggregate maximum nominal amount of the

Company's share capital

During the year the following changes to the share capital occurred:

Date of change	Share capital (euros)	Number of shares/voting rights
September 9, 2020	199,203,263.40	1,992,032,634
October 5, 2020	497,147,601	4,971,476,010

shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued share capital as at September 8, 2020.

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

a the maximum aggregate number of shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued share capital on September 8, 2020, the date of passing the resolution;

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

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

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

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

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

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

Capital structure and shareholder rights

As of December 31, 2020, the share capital of the Company amounted to 497,147,601 euros (2019: 996,016,317 euros), divided into 4,971,476,010 shares (2019: 1,992,032,634 shares) of the same class and series and with a nominal value of €0.10 each (2019: €0.50 each), fully subscribed and paid.

As of December 31, 2020, the Company owned 5,096,863 shares as treasury shares.

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

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2020 the equivalent of 40,957,218 shares was held in ADR form (2019: 6 million shares).

During 2020, the Company filed one treasury shares reporting statement with the CNMV as a consequence of the change of the number of shares of the Company, as required by Spanish regulations, communicating the transfer of a total of 3,117,151 shares and resulting in a total of 5,737,059 treasury shares owned by the Company as of October 2, 2020.

Following shareholder approval, the nominal value of the Company's shares was reduced from €0.50 to €0.10 per share.

On July 31, 2020 the Company announced its proposal to undertake a capital increase with pre-emptive subscription rights to raise gross proceeds of up to €2.75 billion which was approved by shareholders at the shareholder meeting held on September 8, 2020. Therefore, during the period, 2,979,443,376 ordinary shares in the Company were issued and allotted on completion of the capital increase.

The significant shareholders of the Company at December 31, 2020, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:

Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	**Percentage of capital**
Qatar Airways (Q.C.S.C)	1,249,999,997	–		1,249,999,997	**25.14%**
Invesco Limited	–	65,995,270	Various mutual pension funds managed by Invesco Ltd	65,995,270	**1.327%**
Lansdowne Partners International Limited	–	62,414,365	Funds and accounts managed by Lansdowne Partners (UK) LLP	62,414,365	**1.255%**
Allan & Gill Gray foundation	–	54,667,573	Funds managed by Orbis Investment Management Limited	54,667,573	**1.100%**

As reported to the Spanish CNMV on February 23, 2021, Lansdowne Partners International Limited's shareholding increased to 80,876,691 shares, representing 1.627 % of the Company's share capital.

Shareholders' meeting

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

Considering the COVID-19 pandemic circumstances as well as the recommendation of the 2020 Spanish Corporate Governance Code, the Company facilitated attendance and participation to the 2020 Annual Shareholders' Meeting using an online platform.

The Shareholder Meeting Regulations, which establishes the operating rules of the shareholder meeting, are available in the Corporate Governance section of the Company's website.

Disclosure obligations

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

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

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

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

Limitations on ownership of shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-qualifying shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital. If such a determination is made and notified to the stock market, no further acquisitions of shares by non-qualifying persons can be made.

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

Impact of change of control

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

- the brand alliance agreement in respect of British Airways and Iberia's membership of **one**world, the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company;
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third-party airline, or the parent of a third-party airline; and
- certain IAG financing and fuel arrangements allow for prepayment, redemption or early termination in certain circumstances if there is a change of control of the Company.

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

Directors' and Officers' liability insurance

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

Composition, Succession and Evaluation

Report of the Nominations Committee

Javier Ferrán
Nominations Committee Chair

Committee members

	Date appointed
Javier Ferrán (Chair)	September 8, 2020
Giles Agutter	September 24, 2020
Margaret Ewing	January 28, 2021
Heather Ann McSharry	December 31, 2020
Alberto Terol	June 20, 2019

Dear Shareholder

I am pleased to present my first report of the Nominations Committee, after taking the chair position on September 8, 2020.

The main focus of the Committee during the year was on Board and Board committee's composition. The oversight of the succession arrangements for both the Chief Executive and, as far as appropriate as this process was led by the Senior Independent Director, for the Board Chair position were also key areas of consideration. The Committee was also consulted on appointments to, and promotions within, the IAG Management Committee.

I have covered in detail all the changes made during the year in my introduction to the Corporate Governance Report. As far as the Board is concerned, I would add that after a year with significant changes, we are very pleased with the outcome, having a Board with very solid and diverse set of skills, experience and capabilities. We are especially satisfied to have reached a female representation of 45%, but we recognise that there is more to do in other areas, such as ethnicity, as well as to ensure the development of diversity in its broadest sense in senior management across the Group.

Following executive leadership changes, the Committee's key priority for 2021 will be to focus on IAG's succession and talent management plans, as well as to reinforce the diversity of our pipeline.

I am convinced that the Group starts this new phase of its development with a strong board and senior management team with the breadth of skills, experience, capabilities and perspectives necessary to respond to the demands and challenges the business and the Group faces.

Javier Ferrán
Nominations Committee Chair

The Nominations Committee

The composition, competencies and operating rules of the Nominations Committee are regulated by article 31 of the Board Regulations and by the Nominations Committee Regulations as approved by the Board on February 25, 2021. A copy of the Board and the new Nominations Committee Regulations can be found on the Company's website.

The Nominations Committee has overall responsibility for leading the process for appointments to the Board and to ensure that these appointments bring the necessary skills, experience and competencies to the Board, aligning its composition to the business strategy and needs. The Committee also reports to the Board on the proposed appointment of senior executives of the Company. It oversees Board and senior management succession planning and in general the development of a diverse pipeline for succession.

The Nominations Committee shall be made up of no less than three non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. A majority of the members must be independent directors that are EU nationals.

The Committee was chaired by Antonio Vázquez until September 8, 2020, when he was replaced by Javier Ferrán. Antonio Vázquez remained a member until he retired from the Board on January 7, 2021.

The former members of the Committee during 2020 were:

- Antonio Vázquez left January 7, 2021
- Marc Bolland left September 8, 2020
- Deborah Kerr left December 31, 2020
- Emilio Saracho left September 24, 2020

The Committee's responsibilities

The Nominations Committee's responsibilities can be summarised as:

- evaluating the mix of competencies, knowledge and experience necessary in the Board's membership and reviewing the criteria for the Board composition and the selection of candidates
- submitting the recommendation for appointment of directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairs
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner
- reporting to the Board on the appointment and removal of senior executives (which includes all IAG Management Committee members)
- ensuring that non-executive directors receive appropriate induction programmes
- setting diversity targets (gender, ethnicity and other criteria) both within the senior management and the succession pipeline
- ensuring that plans are in place for orderly succession of senior management positions whilst safeguarding the achievement of agreed diversity targets establishing a target for female representation on the Board which should adhere to the Company's Directors Selection and Diversity Policy
- coordinating the annual evaluation of the performance of the Board and its committees

The Committee's activities in 2020

The Committee met nine times during 2020, including five scheduled meetings and four *ad hoc* meetings. Directors' attendance at these meetings can be found in the Corporate Governance section. The Group Chief Executive is invited to attend the Committee's meetings as and when necessary. During 2020, the Group General Counsel also attended several meetings.

The Committee focused on the following activities during the year:

- Group Chief Executive succession and appointment of Luis Gallego
- Board Chair succession plan and appointment of Javier Ferrán
- the composition of the Board, including Brexit considerations
- reviewing the Board committees' membership
- annual evaluation of performance of the Board Chair and of the Chief Executive
- management succession plans
- talent management, pipeline and diversity
- overview of the Board annual evaluation process and conclusions, as well as that of the Nominations Committee
- changes to Group company boards

Throughout the year, Spencer Stuart provided recruitment consultancy services to the Committee. Spencer Stuart does not have any other connection with the Company or individual directors and is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms.

Board changes

The Committee regularly reviews the formal succession plan for the Board, including analysis of non-executive directors' length of tenure, skills and experience, and planning for succession of any areas that would require strengthening from a skills and succession perspective. The conclusions of this exercise helped to inform new directors' searches and the profile and skills required.

As foreseen in the Board refreshment plan, Kieran Poynter did not stand for re-election at the 2020 Shareholders' Meeting having served as an independent director of the Company for more than nine years. Marc Bolland also did not stand for re-election having considered his non-IAG commitments and increased demand of these commitments on his time during 2020. To fill the vacancies this created, Giles Agutter and Robin Phillips were appointed as non-executive proprietary directors in representation of the significant shareholder Qatar Airways Group (Q.C.S.C.), owner of 25.1% of the share capital of the Company. These appointments were reviewed by the Nominations Committee, taking into consideration the composition of the Board of Directors, as well as the suitability of the professional profiles and experiences of the proposed directors.

Having served nine years in office and as anticipated, Antonio Vázquez announced on July 31, 2020 his intention to retire from his position as a member and Chair of the Board of Directors. In accordance with the succession process outlined further on in this report, the Board unanimously approved the appointment of Javier Ferrán as his successor. Javier Ferrán met the independence criteria set out in the Spanish legislation and in the 2018 UK Code on appointment.

Due to the nature of our business and Brexit, IAG had to implement its plans to ensure that its EU licensed airlines continue to comply with EU ownership and control rules. In this context, the composition of the Board of Directors was changed so that it has a majority of independent EU non-executive directors. To facilitate these changes, on December 31, 2020 Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down from the Board, and Peggy Bruzelius, Eva Castillo and Heather Ann McSharry were appointed to fill these vacancies.

The search for these three new independent non-executive directors was initiated in 2019 by the Nominations Committee in accordance with the Board succession plan and was later redefined to identify suitable candidates to ensure that the Board had a majority of independent EU non-executive directors.

This process was completed in accordance with the IAG Directors Selection and Diversity Policy, respecting the following principles:

- Spencer Stuart was engaged to conduct this search.
- The search criteria was formulated following the evaluation of the balance of skills, experience, independence, diversity and knowledge on the Board. Based on these considerations, the role and capabilities required for these appointments were established, and the resulting criteria were included as an annex to the search firm's engagement letter.
- Two long-lists of candidates were reviewed during September and October 2020 and, following a detailed analysis of the profiles of the candidates included on both lists, it was agreed on a potential shortlist of candidates.
- This shortlist was reviewed and discussed by the Chair of the Nominations Committee, the Board Chair and the Senior Independent Director, and according to the conclusions reached and after hearing the feedback from a compliance perspective from the Group General Counsel, it was reported to the Nominations Committee.
- The interview process was completed between October and November 2020.

Following this, the three candidates identified were agreed, and submitted for approval at the Nominations Committee held on December 31, 2020. A final report was presented to the Board endorsing the three candidates' nominations.

Board positions and committee memberships

There has been a number of important changes to the Board composition and consequently to its committees, all of which have been overseen by the Nominations Committee.

Being a key position on the Board, succession for the chair of the Audit and Compliance Committee was carefully planned, ensuring an adequate handover process. Following the 2020 Shareholders' Meeting, Margaret Ewing succeeded Kieran Poynter in this position. Deborah Kerr and María Fernanda Mejía resigned as members of the committee with effect from December 31, 2020. This committee membership includes Alberto Terol, who has been an IAG director for seven years providing his expertise and knowledge of the sector. Peggy Bruzelius and Eva Castillo were appointed as members of this committee on December 31, 2020 given their respective backgrounds and experience.

Following his appointment as designated Chair, Javier Ferrán was appointed as Chair of the Nominations Committee. Antonio Vázquez, incumbent Chair, continued as a member of this committee until his retirement. Alberto Terol, as Senior Independent Director is also a member and was throughout 2020. Current membership also includes Giles Agutter, Margaret Ewing and Heather Ann McSharry ensuring a balanced composition as well as adequate cross-membership with other key committees.

On December 31, 2020 Alberto Terol was appointed as chair of the Remuneration Committee. In a challenging period for this committee, Alberto brings not only his experience as a current member of this committee, but also his experience of having chaired other listed companies' remuneration committees. This committee also includes Nicola Shaw and Emilio Saracho, and recently appointed members Eva Castillo and Heather Ann McSharry, all of them with relevant backgrounds.

On February 24, 2021 the Nominations Committee considered the composition of the new Safety, Environment and Corporate Responsibility Committee which was subsequently approved by the Board. This committee will be chaired by an independent non-executive director, Nicola Shaw, and it will be exclusively composed of non-executive directors with a majority of independent directors, thus conforming to the Spanish Code requirements.

Directors independence, performance and re-election

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

All proposals for the appointment or re-election of directors presented to the 2020 Shareholders' Meeting were accompanied by an explanatory report issued by the Board of Directors with the support of the Nominations Committee assessing the competence, experience and merits of each candidate. Following this review, the Committee was of the opinion that each non-executive director submitting him or herself for re-election continued to demonstrate commitment to the role as a member of the Board and its committees, discharged his or her duties effectively and that each was making a valuable contribution to the leadership of the Company for the benefit of all shareholders.

The Committee also reviews the time commitment of each non-executive director on at least an annual basis. During 2020, the commitment, support and availability demonstrated by all directors without exception during these difficult months has been and continues to be outstanding.

Each director is required to advise the Committee and seek its authorisation before accepting any external directorship or other significant appointment that might affect the time they are able to devote to the role as a director of the Company.

Management appointments and succession planning

At the beginning of the year, the Committee reviewed and finalised the succession plan for the Group Chief Executive, which culminated with the announcement, in January 2020, that Luis Gallego, the Chairman and Chief Executive of Iberia, would succeed Willie Walsh as Group Chief Executive.

In addition to this, and as proposed by both the incumbent and designated Chief Executive, the Committee considered the appointment of Javier Sánchez-Prieto, the then Chairman and Chief Executive of Vueling, as Chairman and Chief Executive of Iberia, and of Marco Sansavini, the then Commercial Director of Iberia, as Chairman and Chief Executive of Vueling.

Initially the appointments were due to take effect on March 26, 2020 but because of the impact of the COVID-19 pandemic on the Group's operations and the exceptional circumstances facing the airline industry, the Board decided to delay Willie Walsh's retirement as well as the relevant changes in the leadership of Iberia and Vueling to preserve management stability in the immediate response to the crisis. The appointments took effect following the Shareholders' Meeting held on September 8, 2020.

In addition, the Committee reviewed the following Management Committee appointments, which took effect on October 11, 2020, on the recommendation of the new Group Chief Executive:

- Sean Doyle, then Aer Lingus Chairman and Chief Executive, appointed to succeed Alex Cruz as British Airways Chief Executive.
- Donal Moriarty, then Aer Lingus Chief Corporate Affairs Officer, appointed interim Chief Executive in Sean's place.
- Fernando Candela, then Chief Executive of LEVEL, appointed to the Management Committee in a new role of Chief Transformation Officer.

In January 2021, the Committee also considered and reported to the Board on the appointment of David Podolsky as the new IAG Chief Strategy Officer.

In 2020 a formal review of the senior management succession plan was not undertaken by the Committee other than in respect of the changes outlined above. This will be an area of focus both for the Committee and the Group Chief Executive and its management team during 2021.

Diversity

The Nominations Committee and the Board are committed to achieving diversity in its broadest sense in the composition of the Board and senior management. Details of Board diversity can be found in the Corporate Governance section. Female directors currently represent 45% of the Board of Directors.

The Committee and the Board will be reviewing the Group's diversity and inclusion policies in 2021 to align to both the Spanish and UK Corporate Governance Codes' requirements as well as to current best practices. The Committee recognises that there is more to do in other areas beyond gender such as ethnicity and disability and will seek to further diversify the management and Board composition while recognising the difficulties it faces as far as the Board composition is concerned due to Spanish and UK governance and other relevant regulatory requirements.

IAG's approach to inclusion and diversity on the Board is set out in the Company's Director Selection and Diversity Policy, available on the corporate website. The procedure for the appointment of directors follows the principles established in this policy, and, as recommended by the Spanish Good Governance Code, the Nominations Committee reviews compliance with this policy on a annual basis.

When considering director appointments, the Committee follows a formal, rigorous and transparent procedure, designed to preserve this diversity value while ensuring that any appointment is made on merit, and taking into account the specific skills and experience needed at any point in time to ensure continuing Board balance and relevant knowledge. Gender diversity principles are followed throughout the process, while preserving the general diversity and merit-based appointment principles established in the policy. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

Searches are conducted by selected executive search firms, only engaging with those who are signatories to the UK Voluntary Code of Conduct for Executive Search Firms. During 2020, Spencer Stuart was engaged to conduct relevant searches on behalf of the Board. Spencer Stuart, received the accreditation in 2019 under the Enhanced Code of Conduct for meeting exacting performance criteria and best practice standards in gender-balanced selection for FTSE 350 boards.

To ensure IAG meets its diversity standards, it requires that the long-list of potential candidates includes adequate representation of female candidates, and candidates, as far as possible, from the widest possible diverse pool. IAG Board's aspiration to have 33% female representation on the Board by the end of 2020 is formally reflected in the Directors Selection and Diversity Policy. This target was met in 2018, and as of today female directors have a 45% representation on the Board.

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

Induction of directors

An induction programme was launched for Giles Agutter and Robin Phillips following their appointments in September 2020. The programme is based upon IAG's induction guidelines but has been adapted to take account of the COVID-19 pandemic constraints. Due to his appointment as IAG Chairman there has also been a further induction programme for Javier Ferrán, including specialised one-to-one sessions as well as meetings with the leadership teams of each operating company. Handover sessions were also facilitated with the current Chairman to ensure a smooth transition.

In January 2021, another induction programme began to incorporate the three newly appointed directors following the same guidelines. In this regard, meetings with management have been arranged to prioritise a rapid introduction to the Group and briefings on main current matters, leading to a second phase of

My induction experience

Having spent many years in the airline industry, the IAG induction programme was an extremely useful exercise to get a better understanding of the complexities of this successful airline group. IAG is such a broad group of leading brands that it will no doubt take many months to get to know better the people that will work together to lead the company out of the current pandemic. The induction programme has highlighted the quality of talent that exists within the organisation and strengthened my confidence in the people to successfully adapt this company to the changing environment in which we operate. It has become clear to me the sense of pride that exists within the team for the companies that they have built, and this will no doubt continue to be a crucial asset for the company. I am so pleased to have the opportunity to work with the team in the months and years to come to ensure that IAG remains a leader in the global airline industry.

Giles Agutter

Given the pandemic, the induction process was necessarily more restricted: there were no site visits for example, and evidently in some cases the discussions needed to be online. Luis Gallego had formally taken over as Chief Executive only weeks before, and with several new faces in his leadership team. With this background, and given the unprecedented challenges facing the team, I was extremely impressed and very appreciative of the time, engagement and commitment of all who presented to us. Importantly the sessions were highly interactive, and across the entire management team there was the preparedness to listen as well as speak. For those recently appointed, I sensed that our induction meetings also served as a platform to articulate some of their plans and aspirations in their new roles. There was consistently a good balance in the discussion between the immediate priorities in confronting the pandemic and at the same time the focus on medium and longer term strategic goals. Overall, the approach was very diligent and demonstrated a clear respect for and understanding of the importance of the role of the board.

The preparation for the induction was thorough: not only ensuring that the broader remit and complexities of the group were fully represented and balanced, but also showing sensitivity to the key emerging issues and risks, for example cybersecurity, sustainability/environment and Brexit.

I emerged from the induction with a rounded understanding of the group, both across the business verticals and functions, and felt confident as a result in being able to carry out my role on the board, and critically also knowing that I have had the time to start to develop personal working relationships with the management team as well.

Robin Phillips

customary meetings with all Management Committee members and other key positions within IAG.

The Committee annual evaluation

The annual performance evaluation of the Board and its committees was internally facilitated, having been carried out by an independent external facilitator in 2019. The evaluation concluded that the Committee operated effectively during 2020 and has successfully managed two key succession processes at Board level, while dealing with important changes to the Board and its committees composition in very difficult circumstances. Two key areas of focus for the Committee during 2021 will be:

- talent oversight and deeper review of management succession planning, so that the Committee has greater visibility of the bench across functions, and
- reinforcement of diversity and inclusion initiatives, ensuring that the Group builds a diverse talent pipeline aligned to its culture and values.

Chair succession

Last year's annual report stated that, having completed nine years as a non-executive director, the succession arrangement for the Chair of the Board was one of the priorities for the Nominations Committee for 2020. This process was led by the Senior Independent Director, involving all non-executive directors and executive directors. An internal potential candidate was identified very early in the process, and subsequently Alberto Terol decided to conduct the process jointly with the Chair of the Audit and Compliance Committee and long-serving director, Kieran Poynter. Within this process, the input from executive directors, and particularly that of the incumbent and designated Chief Executive, were sought as appropriate.

Several meetings with all non-executive directors were held where the role specification was discussed, including the skillset, experience and key leadership characteristics required to guide IAG throughout the next stage of the Group's development and to lead the Board and support management in confronting the challenges ahead. Spencer Stuart was engaged to complete a mapping exercise to identify potential chair candidates in accordance with the proposed role specification, which was also discussed and agreed with them. Following a first analysis of the long-list of potential candidates provided, a short list was prepared evidencing the existence of strong internal candidate. The short list was considered and discussed with all non-executive directors, excluding the already identified internal candidate. In addition the views of several major shareholders and advisors were also sought as part of the ordinary engagement contacts with these stakeholders.

The process resulted in a unanimous recommendation that Javier Ferrán was the most suitable candidate, and such proposal was discussed at the Nominations Committee meeting held on July 29, 2020 and submitted to the Board of Directors for approval. Javier Ferrán brings extensive board and governance experience, both in Spain and the UK, as well as a solid management expertise. Having been a director of the Company for more than a year at the date of approval of his appointment, the Board considered that his personal qualities and style perfectly matches the specifications required for the role.

Following Javier Ferrán's designation, the Committee considered the plan to induct him as Chair, working alongside Antonio Vázquez for the five months prior to his appointment.

Board and committee evaluation

The effectiveness of the Board and its committees is reviewed annually, with an independent, externally facilitated review being conducted every three years. The last external review was conducted in 2019, therefore an internal evaluation was completed for 2020.

The internal evaluation was led by both the incumbent and designated Chair and was conducted by the Board Secretary using a self-assessment questionnaire, complemented with an individual interview conducted by the new Chair with each of the non-executive directors. The report was presented to all Board members, together with the Group General Counsel and the Board Secretary and Deputy Secretary.

Considering the amount of change experienced by both the Board and the committees' composition during 2020, as well as the current circumstances, the exercise was inevitably more limited but more focused at the same time on the key challenges faced during the year. The overall conclusions of the review were positive, confirming that the Board and the committees continue to adequately fulfil their responsibilities. Directors considered that the two important succession plans completed during the year were handle in a very solid and professional manner, both in relation to the process and identification of suitable candidates as in the design and implementation of proper transition, acknowledging the compromise and collaboration of the departing Chief Executive and departing Chair. The planning of the Board succession and its execution was also positively commented on considering its relevance and depth in 2020. Specific questions were asked in the evaluation in relation to the Board's reaction to the COVID-19 crisis, both from a process and substance point of view. Directors concurred in considering that the engagement, support and oversight exercised by the Board during this difficult period has been outstanding. The strength of the different directors' profiles and their independent judgement was also put to test during this period and proved to be valuable.

The main focus for 2021 will be:

To accelerate and reinforce the induction programme for new directors, tailoring it to each director needs and profile, given the large amount of change in the Board's composition.

In view of the discussions held at the annual strategy session, to determine the strategic topics that should be covered in depth throughout the Board calendar.

The set up and functioning of the new Safety, Environment and Corporate Responsibility Committee.

Report of the Safety Committee

Luis Gallego
Safety Committee Chair

Committee members

	Date appointed
Luis Gallego (Chair)	September 8, 2020
Giles Agutter	September 24, 2020
Nicola Shaw	June 14, 2018

Dear Shareholder

I am pleased to share with you my first report as IAG Safety Committee Chair.

In addition to myself, we were pleased to welcome Giles Agutter as a member to the Committee after joining the Board as a non-executive director in September 2020.

During this year, the Committee's usual oversight over safety matters was understandably impacted by the COVID-19 pandemic, as the operations of the Group airlines diminished, and the normal safety activities adjusted to the new reality imposed by the pandemic.

According to the aviation regulatory framework, safety and security responsibility lies with the management of each Group airline under their respective operating licence and Air Operators Certificate. IAG's Safety Committee exercises a high-level overview of safety activities and fosters the discussion of common issues and the sharing of best practices between the Group airlines. This latter sphere of activity has proven very valuable in such unprecedented circumstances as it allowed us to share challenges, initiatives and best practices among the different Group airlines.

Luis Gallego
Safety Committee Chair

The Safety Committee

The Committee composition, competencies and operating rules were regulated by article 32 of the Board Regulations. Following the corporate governance review completed in February 2021, the remit of this Committee has been enhanced to cover environmental and corporate responsibility matters as a new Safety, Environmental and Corporate Responsibility Committee.

The Committee is made up of no fewer than three directors appointed by the Board, with the necessary dedication, capacity and experience.

In addition to Committee members, senior managers with responsibility for safety matters are invited to attend and report at Committee meetings as and when required. During 2020, representatives of the British Airways, Iberia, Aer Lingus and Vueling safety teams attended meetings.

The Committee's responsibilities

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

According to article 32 of the Board Regulations the Committee's duties included:

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

The Committee's activities during the year

During 2020 the Committee held two meetings. Directors' attendance at these meetings is detailed in the Corporate Governance report.

The Committee reviewed the relevant areas of each operating company's performance across the Safety Risk Management activities. Although the reporting period included some pre COVID-19 operations, in the first quarter of 2020, a significant amount of the Committee's time after that was dedicated to the activities undertaken to ensure the effective management of risk as a consequence of the pandemic by each airline. This reflected the scale and pace of change following the restrictions imposed across the global operations and the impact on colleagues' skills, health and wellbeing and the continued airworthiness of the fleets. A substantial amount of work by each of the airlines' safety teams had been undertaken to manage safety risk that supported both citizen repatriation operations and the provision of cargo only services the details of which were shared with the Committee.

Former members of the Committee during 2020 were:

- Willie Walsh left September 8, 2020
- Kieran Poynter left September 24, 2020
- Javier Ferrán left September 24 2020
- Antonio Vazquez left January 7, 2021

Audit, Risk and Internal Control

Report of the Audit and Compliance Committee

Margaret Ewing
Audit and Compliance Committee Chair

Committee members

	Date appointed
Margaret Ewing (Chair)	June 20, 2019
Peggy Bruzelius	December 31, 2020
Eva Castillo	December 31, 2020
Alberto Terol	August 2, 2013

Detailed biographies of all current Committee members are included in this Annual Report. Despite the changes in composition, the Board is satisfied that, throughout the year, the Committee has retained competence relevant to its overall responsibilities and a wide range of financial, audit, risk management and relevant sector and business experience amongst its members, providing the right mix of skills and experience to provide constructive challenge and support to management. In accordance with the FRC's 2018 Code, the Board has determined that Margaret Ewing has recent and relevant financial experience. The Board, through the Nominations Committee, will continue to review the Committee's membership to ensure the skills and experience of its members align with the business as it develops.

Dear Shareholder

I am pleased to present my first Report as Chair of the Audit and Compliance Committee. The unprecedented and significant challenges faced by the Group throughout the COVID-19 pandemic influenced the activities of the Committee during 2020. We ensured: the key challenges faced by the Group were reflected in the external and internal audit plans; effective controls remained in place; rapidly changing key and emerging risks were identified and effectively managed; continued compliance with all regulatory and legal obligations; and sound financial judgements and estimates continued to be made.

I would like to start by thanking Kieran Poynter who stood down from the Board and as Chair of the Committee in September 2020, after ten years as a Non-Executive Director. During his time on the Committee Kieran made a significant contribution, playing a key role in advocating considerable and continuous improvement in the Group's internal control, risk management and compliance practices across the Group and ensuring that management was held accountable for delivering these improvements.

Former members of the Committee during 2020 were:

- Kieran Poynter (Committee chair until September 8, 2020) left on September 8, 2020
- Deborah Kerr left on December 31, 2020
- María Fernanda Meijía left on December 31, 2020

As noted in the Governance Report, Peggy Bruzelius and Eva Castillo joined the Committee, replacing Deborah Kerr and María Fernanda Mejía, on December 31, 2020. I would like to thank Deborah and María Fernanda for their valuable contribution to the Committee and welcome Peggy and Eva, who are already making an important impact on the Committee's agenda. Despite the recent changes, the Committee continues to have strong and diverse membership. It is well placed to provide robust challenge to the internal and external auditors and management. It also has the capability and expertise required to respond effectively to the significant and emerging opportunities and challenges faced by the Group.

I would also like to take this opportunity, on behalf of the Committee, to acknowledge and express our significant gratitude to management and teams (including internal auditors) who have interfaced with and provided support to the Committee during this period. We are incredibly proud of the way they have responded to the crisis and worked relentlessly with such determination and a real sense of purpose.

The Committee held twelve formal meetings during 2020 (compared to eight in 2019) and members held numerous ad hoc and one-to-one meetings with finance team representatives, management and internal and external auditors, reflecting the Committee's increased level of support and constructive challenge to management as the impact of the pandemic and the risk landscape evolved rapidly. As restrictions impacting IAG's business emerged globally, the associated potential effects on the control environment, cyber security and Group funding arrangements resulted in the Committee providing additional oversight and seeking supplementary assurance. The Committee also focused on the significant operational, compliance and financial risks resulting from the pandemic impact and the potential implications for the Group's financial statements, non-financial information disclosures and compliance (including Task Force and Climate-related Financial Disclosures 'TCFD') and the Group's ability to execute and deliver its strategy, adapting our agenda and plans as appropriate as the year progressed.

Following the external audit tender in January 2020 and the Board's recommendation and shareholder approval at the Annual Shareholders' Meeting in September, KPMG will be the external auditor from, and including, the 2021 financial year. KPMG commenced its transition in November and liaised with IAG and operating company and functional management, as well as the incumbent auditor, EY, to be well placed to embark on the 2021 audit. We would like to thank the EY team members for their consistent delivery of quality audits. The smooth transition of the external audit remains a key priority of the Committee during 2021.

As we look forward to this current year, 2021, the Committee will continue to provide robust challenge of management and our new auditor as governments' responses to the COVID-19 pandemic continue to devastate the aviation sector and the risk environment consequently further evolves. In addition to the topics outlined above, the Committee will continue to target known and emerging risk areas for deep dives to ensure that the transformation occurring across the Group, as well as challenges posed by continuing economic, regulatory and political change, are appropriately reflected in the Group's accounting, internal control and compliance procedures. The Committee will also have regard to the developments in the UK Government's current initiatives on audit reform and will ensure that the Company develops appropriate plans to comply with any changes in regulatory requirements.

Following an external evaluation process in 2019, the Committee members completed an internally facilitated evaluation of the Committee's effectiveness during 2020. The findings were discussed and shared with the Board and indicated that the Committee continued to perform effectively and should focus in 2021 on the key matters noted above, including monitoring changing and emerging risks and their mitigations and increase our understanding and focus on evolving climate change and other non-financial information reporting regulations.

I hope that you find this report informative and can continue to take assurance from the work undertaken by the Committee during 2020 and planned for 2021. The Committee seeks to respond to shareholders' and other stakeholders' expectations in our reporting and we welcome feedback from and meetings with them on this Committee report or other related issues.

Margaret Ewing
Audit and Compliance Committee Chair

The Audit and Compliance Committee

The composition, competencies and operating remit of the Audit and Compliance Committee are regulated by article 29 of the Board Regulations. The Committee and Board approved revisions to Article 29 in February 2021 to reflect the latest guidance and regulatory requirements in Spain and the UK. A copy of these Regulations can be found on IAG's website.

The Committee's responsibilities and activities

The Committee's principal responsibility is to oversee and provide assurance to the Board with regards to the integrity and quality of financial reporting, effectiveness of audit arrangements and robustness and effective operation of internal controls and risk management processes.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Head of Group Audit (who reports functionally to the Chair of the Committee) and representatives from the external auditor. KPMG also attended all Committee meetings from November. Members of the management team, including the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller, were invited to attend specific agenda items as required and when relevant.

A summary of the Committee's activities during 2020 and until the date of this report is detailed below. The Committee meeting agendas are always flexed to allow for ad-hoc discussion and reviews as and when required.

A private session of the Committee members was held during each Committee meeting and, at least once a year, the Committee meets privately with each of the external and internal auditor.

Further detail on significant financial reporting matters and other significant topics is provided in this report.

Area of Committee focus	Activities
Financial reporting	• reviewing the financial statements and announcements of the Group to ensure integrity; • consideration of the process for confirming and recommending to the Board that the 2020 Annual Report and Accounts is fair, balanced and understandable; • reviewing and challenging significant accounting estimates and judgements applied in the financial statements of the Group and related reporting and disclosures; and • reviewing and challenging management's assessment of the going concern and viability of the Group.
External auditor	• completion of the competitive external audit tender and recommending the appointment of KPMG as the 2021 external auditor, review of KPMG's transition arrangements and plan and overseeing implementation progress; • approval of the 2020 external audit plan and strategy including consideration of scope, changes in approach and methodology, emerging industry- and Group-specific audit risks and materiality. Monitoring the audit plan's implementation, including receiving regular reports from EY on key judgement and audit matters and any significant weaknesses detected in the internal control environment; • performing evidence-based assessment of the effectiveness and independence of the current external auditor, including the quality of the 2019 and 2020 audits, and reviewing and approving the EY fees and terms of reference; and • reviewing and approving 2020 non-audit services expenditure against policy and previously determined limit guidance. Reviewing and approving non-audit services limit guidance and expectations for 2021.
Internal auditor	• reviewing and agreeing the internal audit 2020 plan and 2021 first 6 months plan (including resourcing and budget to appoint appropriate external specialist resource when required), amendments to the plan (as the internal auditor responded to the pandemic's impact on the Group) and effectiveness of the function; • reviewing key audit conclusions, discussing management's responses and monitoring the resolution of issues raised; • holding regular meetings during the year between the Committee, the Head of Group Audit and the external audit partner as well as ensuring the Head of Group Audit feels able to raise any concerns informally and directly with the Chair of the Committee; and • monitoring and protecting Internal audit's independence and standing within the Group, ensuring its ability to influence and engage at the most senior levels across IAG and all operating companies and functions and is closely involved in the Group's discussions on risk.
Internal Control over Financial Reporting (ICFR)	• consideration and challenge of management's analysis of risks in financial reporting and documentation of accounting processes; • monitoring the internal controls manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the individuals responsible for them; and • reviewing the results of the internal audits of ICFR, consideration of the external auditor's findings and conclusions on this matter and tracking the progress of implementation of internal and external ICFR audit recommendations.

Area of Committee Focus	Activities
Enterprise Risk Management	• reviewing the principal and emerging risks facing the Group, including gaining assurance as to the effectiveness of the internal control system, mitigations, and risk management process; • reviewing the performance of the Group against its risk appetite and confirming management's assessment that the Group has applied appropriate mitigations or other effective controls (such as frequent Board updates) to ensure that an appropriate risk appetite has operated throughout the period; • overseeing treasury risk management, including reviewing the Group's fuel and foreign exchange hedging positions and financial counterparty exposure, and consideration of the implications of the approved hedging profile given the unprecedented decline in demand and its continued appropriateness in managing these risks; and • overseeing tax risk management and considering the tax strategy before recommending to the Board for approval and publishing on the IAG website.
Legal and compliance	• reviewing the Group's anti-bribery, sanctions, competition, privacy and Spanish Criminal Code compliance programmes including the latest related risk maps, regulatory developments, the key programme activities during 2020 and priorities for 2021; • reviewing the design of the internal control framework to prevent and detect fraud, including consideration of the key controls and assurance activities provided across the Group in relation to financial and non-financial fraud; and • reviewing the Group's independent third party-facilitated whistleblowing procedures and the Annual Report on: incidents reported via the whistleblowing channels, by category and nature; timeliness and responsibility for follow-up; and investigations and actions taken to address substantiated reports; and • consideration of litigation status reports from the General Counsel including the status of remaining and potential civil litigation actions. Information relating to litigation is available in note 31 to the Financial statements.
Non-Financial Information	• reviewing the processes and integrity of information provided in the Group's Consolidated Statement of Non-Financial Information prepared to comply with the requirements of Law 11/2018, including information on environmental, social, employee-related, and human rights-related matters; and • reviewing the information prepared to cover the Group's longer-term sustainability and climate-related risks and opportunities, including the Group's alignment with the provisions set out by the TCFD process.

Governance and other matters	• reviewing and recommending to the Board the adoption of amendments to relevant policies. In 2020 this included:
	  • related party transactions policy;
	  • external auditor services policy (incorporating changes from the Revised FRC Ethical Standard 2019); and
	  • changes to existing policies and regulations resulting from the Revised CNMV Good Governance Code of Listed Companies June 2020.

Significant financial reporting matters considered by the Audit and Compliance Committee

The Committee takes account of significant issues and risks, including strategic, business and operating, financial, compliance and regulatory, that may impact the quarterly financial results announcements or the 2020 Annual Report and Accounts.

The Committee has also sought to ensure that the Group's reporting is aligned with the latest guidance and requirements from regulators, that it is fair, balanced and understandable and that all matters disclosed and reported upon, including the Company's response to the pandemic and its implications for the future strategy of the Group, meet the rapidly evolving needs of the Group's stakeholders.

The significant accounting judgements, estimates and issues considered by the Committee in relation to the Annual Report and Accounts for the year to December 31, 2020 (including those considered as significant audit issues by the external auditor and described in the Independent Auditor's Report) are set out in the table below, together with a summary of the financial outcomes where appropriate. After robust challenge and debate, there are no topics where the conclusion resulted in significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board

Viability and going concern assessments

Matter

Throughout the year and in finalising the 2020 Financial Statements and Annual Report, given the economic uncertainty arising from the global COVID-19 pandemic and the further uncertainty and impact of the UK leaving the EU, the Committee has considered and robustly challenged management's comprehensive going concern review and viability assessment, including the supporting analysis.

Management sense-checked the assumptions underlying the Base Case projections and Downside scenarios by comparison to forecasts available from informed external commentators (including IATA, analysts etc).

The Committee considered the enhanced level of assessment and rigour applied by management and agreed it was appropriate in light of the level of volatility in the external environment. The Committee considered management's rationale for assuming the Group would be able to raise additional financing over the agreed Viability assessment period.

The Committee also reviewed the external auditor's findings and conclusions on this matter, particularly at half year and year end and their review of working capital for the purpose of the capital increase in September.

The Committee had regard to the recent going concern guidance issued by the FRC.

Outcome/future actions

The Committee provided robust challenge of the assumptions applied in management's evolving Base Case projections (reflecting the deteriorating impact of the pandemic and related government responses), the severe but plausible Downside sensitivity scenarios and underlying assumptions and the reverse stress test scenario. Management responded to the Committee's concerns and, during the review in July provided additional granularity and insight in their analysis and assumptions, particularly in respect of the revenue and capacity forecasts. This was repeated in the year end review.

Following this thorough challenge, the Committee recommended the viability and going concern statements and related disclosures to the Board for inclusion in the 2020 half year interim results announcement, the 2020 Annual Report and Accounts and preliminary results announcement, including a related 'material uncertainty' statement in respect of going concern and significantly expanded disclosures.

The Committee will continue to robustly monitor the Group's viability assessment going forward.

Capital increase, funding strategy and capital allocation

Matter

Following shareholder approval on September 8, 2020, IAG commenced a fully underwritten capital increase to raise gross proceeds of €2,741 million. The Committee provided robust and constructive challenge and support to management throughout the capital increase process, including the planning stages of the process, to ensure the existence of a strong rationale and business case. Throughout the process the Committee considered the views of the external auditor and reporting accountant.

Due to the ongoing significant risk and implications for resilience and future viability resulting from trading challenges and other influences outside the control of the Group, the Committee has recently agreed with the Board that all funding strategy and capital allocation matters will be reviewed directly by the Board (rather than the Committee).

Outcome/future actions

Specifically, the Committee:

- Reviewed the working capital statement. The nature of the Committee's review was the same as that applied in reviewing the going concern and viability assessments (see above).
- Reviewed the Financial Position and Prospects Procedures (FPPP) report from the reporting accountant including challenging potential talent retention issues and the potential consequences for the effectiveness of the Group's processes and internal controls.
- Challenged management on the level of credit risk associated with the proposed arrangements for the receipt of the funds from the capital raise. Management subsequently reached an alternative agreement with the banks involved in the capital increase, mitigating the risk in accordance with the Group's treasury policy.
- Challenged the sufficiency of the Directors' and Officers' liability insurance cover considering the heightened risks and value associated with the capital increase. Additional cover was subsequently obtained for the period required.
- Reviewed and commented on various drafts of the Prospectus, providing appropriate assurance to the Board.
- Considered management's accounting treatment of the rights issue, transaction costs and related disclosures.

Exceptional items

Matter	Outcome/future actions
During 2020, various costs were regarded as exceptional items as they were incurred solely because of the impact of the pandemic and management's response. These exceptional items included discontinuance of hedges of fuel derivatives and foreign currency derivatives, impairment of fleet assets stood down, write-down of expendable inventories related to fleet impairment and restructuring costs. In addition, certain other non-recurring material items (unrelated to the pandemic) were proposed as exceptional items by management, including the fine imposed in October 2020 from the UK Information Commissioner's Office relating to the theft of customer data at British Airways in 2018.	The Committee reviewed management's process for measuring derivative hedges to be discontinued and for reviewing and testing potential impairment, considered the reasonableness of the judgements and estimates deriving the exceptional items and the rationale for classifying them as COVID-19 related. In addition, the Committee considered the external auditor's findings and conclusions. The Committee debated with management the classification and disclosure of exceptional items in the financial statements with reference to the Group's policy, the views of the external auditor and the comment letters received from the CNMV (in October and December 2020 – see more detail below) plus further guidance issued by ESMA and the FRC. The Committee concluded that the approach taken in respect of identifying exceptional costs arising purely as a result of COVID-19 was appropriate and has been applied in line with the Group's policy and guidance from the relevant regulators and the judgements and estimates applied in determining the value of the relevant exceptional costs were reasonable. The Committee and management agreed that the Group's presentation of exceptional items in the 2020 Annual Report and Accounts would be altered and only disclosed in notes to the financial statements, as part of the Alternative Performance Measures disclosure note.

Revenue recognition of IAG Loyalty contract with American Express

Matter	Outcome/future actions
Effective from August 1, 2020, IAG Loyalty renewed its co-brand and marketing contracts with American Express through to 2028. While the performance obligations are consistent with the previous contract, the Committee considered management's proposed accounting treatment of two new aspects of the renewed contract, being an upfront payment for Avios points and an upfront sign-on bonus. Management had been advised by external professional experts, PwC.	The Committee concluded that, as a critical estimate/judgement in the Annual Report and Accounts. the approach taken, and related disclosures, in respect of determining the amortisation period, amortisation method and annual reassessment of the upfront payment were appropriate.

Other significant matters considered

Highlights of other key matters that the Committee considered are explained below.

CNMV letter

Matter	Outcome/future actions
In October 2020 the Company received a letter from the Director of the *Departamento de Informes Financieros y Corporativos* of the CNMV, requesting certain information or clarification related to accounting matters and disclosures in the Group's 2019 Annual Report and Accounts, 2020 condensed consolidated interim financial statements announcement and 2019 non-financial information statement. The Committee received confirmation from the auditor that the CNMV letter of October 2020 was representative of letters periodically sent to the largest corporates in Spain and there were no items of significance or concern raised in the letter. Management prepared a comprehensive response to the enquiries from the CNMV set out in their letter of October 2020, which was approved by the Committee for submission to the CNMV on November 16, 2020. Following the Company's response to the CNMV letter of October, a further letter was received from the CNMV on December 28, 2020 that focused on the Company's proposed treatment and disclosure of the impact of COVID-19 on the Group and its financial affairs and the disclosure of exceptional items.	The Committee reviewed and approved the response to the CNMV's second letter of December 28, 2020. The Company's response highlighted the intention to provide adequate disclosure of the impact of COVID-19 on the Group and agreement to alter the presentation and disclosure of exceptional items in the 2020 Financial Statements (see note on Exceptional Items above). It is anticipated that, following completion of the CNMV's review (which may have already occurred), the CNMV's letters and Company's responses will be published on the CNMV's website.

IT, cyber security and GDPR

Matter	Outcome/future actions
The Committee received an annual GDPR compliance update and quarterly updates from IAG Tech on the Group's IT and cyber security improvement programme covering the strategy, methodology and framework being applied and deep dives into various aspects of the programme. The Committee was pleased to note that management has retained the budgeted significant level of capital investment in the cyber security programme throughout 2020 and will continue to do so in 2021.	The Committee received additional granularity and visibility of the key cyber improvement projects and agreed that the direction and pace of progress made by IAG Tech is as expected and risk levels are understood. The Committee noted that the constraining factor on the pace of programme implementation is the ability of the organisation to absorb the volume of significant change occurring across the Group plus availability in the marketplace of relevant skilled personnel. The Committee will continue to monitor this business-critical programme in 2021 and has requested enhanced visibility of trend analysis and benchmarking data to better understand the Group's progress.

Fraud Procedures

Matter	Outcome/future actions
The fraud risk profile of the Group evolved rapidly because of the global COVID-19 pandemic as well as working from home becoming common practice for many of the Group's employees, auditors and suppliers. The Committee reviewed and approved the amended internal audit plan adapted to monitor key anti-fraud controls as well as adopting an agile approach to assurance over the continuous operation of the key ICFR controls across the Group during this period. In addition, the Committee reviewed the design of the internal control framework to prevent and detect fraud. This included consideration of the key controls and assurance activities taking place across the Group in relation to financial and non-financial fraud, whether from internal or external sources.	The Committee will continue to monitor fraud and internal controls carefully, including considering the views of the external auditor, the results of the annual ICFR audit and the results of focused anti-fraud control internal audits. The Committee requested management to identify additional sources of fraud detection assurance going forward to ensure the framework around internal control is operating appropriately.

SWIFT compliance

Matter	Outcome/future actions
SWIFT is a key supplier of secure financial messaging services to the Group to facilitate the settlement of payments and receipts with all counter parties. In 2018, SWIFT introduced its Customer Security Controls Framework to drive security improvement and transparency across the global financial community and a requirement for all SWIFT customers to complete an annual self-attestation assessment. The Committee challenged management on the progress made towards full compliance with SWIFT's requirements and requested regular status updates throughout 2020.	Management demonstrated the progressive resolution of the compliance issues during the year. This included the successful delivery of a series of initiatives, including the movement towards cloud infrastructure for a critical treasury system. The Committee was pleased with management's achievement of full compliance in 2020 despite the challenges experienced. The Committee will continue to receive regular updates in 2021.

Non-Financial Information (NFI) and the Task Force on Climate-related Financial Disclosures (TCFD)

Matter	Outcome/future actions
As part of the Group's Management Report, a Consolidated Statement of Non-Financial Information is prepared to comply with the requirements of Law 11/2018, on non-financial information and diversity. The Committee considered the challenges faced by management in collating, analysing and verifying the required employee data due to the impact of various government subsidies on remuneration and gender pay gap data during the year. In addition, the Committee considered the impact of COVID-19 on the emissions levels of the Group and the disclosed 2020 ratio and indicator variances compared with 2019 data.	The Committee was reassured with management's demonstration of close alignment with key sustainability frameworks including TCFD and the achievement of full compliance in 2020, despite the challenges experienced. The Committee will continue to receive regular updates in 2021.

Audit reform

Matter	Outcome/future actions
The proposed reform of the audit environment, including implications for companies, boards and audit committees, is an area of regulatory development that the Committee continues to monitor closely. The Committee considered management's analysis of the Company's current level of compliance with the relevant recommendations made by Sir Donald Brydon in his independent review of the quality and effectiveness of audit (the Brydon review). In addition, the Committee considered management's self-assessment exercise which concluded the Group's internal audit function practices are consistent or broadly consistent with the UK IIA Internal Audit Code of Practice released in January 2020.	The Committee agreed with management's recommendation that the Group will await the publication by BEIS of its consultation document on audit reform to identify a plan to achieve compliance by the date of required implementation. The Committee agreed to the recommended actions to address the aspects of the IA Code where the Group is currently partially compliant.

Internal Control over Financial Reporting

The Board of Directors is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board has delegated the responsibility for the development of effective controls to the Chief Executive Officer and the supervision of the effectiveness of these controls to the Audit and Compliance Committee.

The Group's ICFR monitoring and auditing covers processes applied by the Company, Aer Lingus, IAG Loyalty, British Airways, IAG GBS, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Committee reviews and validates the Group's approach to complying with the CNMV's ICFR recommendations.

In 2020, the Committee reviewed the results of the internal audits of ICFR (which included IT general controls) as well as the results of the external audit. Despite the operating conditions of 2020 and remote working or furlough being applied for the majority of employees, no material or significant weaknesses were identified, and management continued to improve the control environment across the Group. The Committee also tracked the progress of internal audit recommendations to address any weaknesses identified.

Internal audit

The Committee considers and evaluates the level of Internal Audit resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Committee reviewed and approved the nature and scope of the work of Internal Audit throughout 2020. The half yearly audit plans were approved in January and July 2020 by the Committee, and all changes to the plan subsequently approved, including those to reflect the impact of the COVID-19 pandemic and the rapidly changing risk profile of the Group. The 2020 audit plans were adapted to include agile and real-time assurance over fraud risk while also ensuring coverage of specific risks, including cyber security, and satisfying ICFR and Spanish Criminal Code requirements. Progress against the plan and the results of Internal Audit's activities, including the quality and timeliness of management responses, was monitored throughout the year.

The Committee undertook an effectiveness review of the Internal Audit function and its leadership, which concluded that Internal Audit remains effective, has coped well with the challenges of the COVID-19 pandemic and continues to meet, adapt and add value to the needs of the Group.

External audit

The Committee engaged throughout the year with EY, with the engagement partners attending all Committee meetings as well as a series of ad hoc meetings. The Committee Chair met with the Group and lead audit partners throughout the year, and more frequently at the public reporting periods, to review Group developments, audit progress and their planned reporting. The Committee also discussed with EY, prior to recommendation of the financial statements to the Board for approval, the audit findings, including audit differences, and observations on internal controls, operations and resources.

Scope and execution

The Committee discussed and agreed the scope of the audit with EY prior to the commencement of the year end audit, ensuring that the audit plan was robust and informed by the auditor's review of the first half of the year financial statements. EY set out for the Committee the key tests that they intended performing on the identified higher-risk audit areas that could lead to material misstatement of the financial statements and significantly influenced the audit plan. The auditor and the Committee confirmed a shared understanding of these risks and key audit matters, including going concern and viability, the carrying value of tangible and intangible assets, the accounting for all Group financing arrangements and how these were to be considered in the audit approach. In addition, the Committee provided input to management and EY on areas that it wanted to receive additional audit attention, such as the impact of the COVID-19 pandemic on current working from home practices (in respect of both IAG financial management and the audit team), loss of key people or any audit procedures involving physical inventory counts.

The auditor confirmed that 97 per cent (2019: 97 per cent) of the Group's revenue and 91 per cent (2019: 96 per cent) of the Group's total assets would be subject to a full scope audit and that specific scope procedures would be performed on IAG Loyalty and ICAG. The Committee challenged the auditor over the planned specific scope audit for IAG Loyalty and ICAG, however, following consideration of the combined coverage and clarification of the procedures adopted in a specific scope audit, the Committee agreed that the approach was appropriate and approved the plan.

The Committee agreed with EY, in considering the accuracy of financial reporting, the scale of accounting errors of lesser significance that were to be brought to the Committee's attention and the amounts that would need to be adjusted so that the financial statements give a true and fair view. For 2020, EY proposed a different methodology to determining the overall audit planning materiality compared to that applied in the prior year given the economic and financial consequences of COVID-19 on the Group's revenues and profitability. The Committee agreed that a significant reduction in materiality was appropriate, however challenged the method used in the calculation. The Committee was ultimately satisfied by the auditor's explanation that, regardless of the method adopted, a similar result would be obtained and, in all cases, lead to a significant reduction in the planning materiality compared to 2019 and therefore the level of audit work, specifically sample sizes, required of the auditor.

External auditor quality and effectiveness

The Committee remains focused on audit quality and effectiveness, which is reviewed on an ongoing basis to ensure the rigour and challenge of the external audit process is maintained. The Committee assessed and measured the quality of the audit through monitoring the auditor's compliance with relevant regulatory, ethical and professional guidance and assessed the audit team's qualifications, expertise, resources, partner rotation and the effectiveness of the audit process. The Committee's assessment included a detailed discussion with key executives and finance staff, which demonstrated that management regarded the quality of the EY audit and the audit team's overall performance as good. This aligned with the Committee's independent assessment of the overall quality of the audit, including the independence of EY and whether the auditor exhibited an appropriate level of challenge and scepticism in their work and dealings with management.

In particular, the Committee assessed the depth of review and level of challenge provided by the external auditor over the significant accounting judgements and estimates made by management. An example of where the Committee observed the external auditor demonstrate both professional scepticism and a challenge of management was in relation to the treatment of the ICO fine to British Airways as an exceptional item in the income statement. Whilst the Committee supported management's rationale for treating the item as exceptional, the Committee observed healthy debate initiated by EY which ensured that management's rationale was discussed in the Committee meetings throughout the year and the uncorrected misstatement in disclosure was included in the Board's letter of representation

In addition to the annual evaluation and regular review of reports and the working practices of the EY audit team, the

Committee undertook an ongoing assessment of external audit quality and effectiveness including, but not limited to, the following:

- The Committee oversaw formal terms of engagement with the auditor and agreed the audit fee. EY assured the Committee that the approved fee was at a level that was appropriate for the scope of the audit and to enable a quality audit to be undertaken.
- Reports from the external auditor were reviewed during four Committee meetings in 2020 and again in January and February 2021 Committee meetings, covering: the conclusions of the review of the Group's results for the half year, interim audit findings, early warning report for year end matters, and final report for year end matters.

EY attended all Committee meetings during the year, including ad-hoc meetings, to answer any questions the Committee had outside of these formal updates. The Committee is satisfied that the audit was probing, challenging and robust and the approach provided a reliable audit opinion with a reasonable expectation of detecting material errors, irregularities and material fraud. The Committee considered the external audit to have been effective and of a high quality.

External auditor reappointment
Having reviewed EY's performance during 2019, the Committee concluded that EY were independent and that it was in shareholders' interests to re-appoint the firm for 2020 before the transition of the audit to KPMG in 2021. The Board of Directors refrains from engaging any audit firm entitled to be paid fees by the Company for all services rendered that are in excess of 10 per cent of such firm's total revenue for the previous year. The EY lead audit and opinion signing partner for 2020 was Hildur Eir Jónsdóttir, who has held her role since 2016.

External audit tender and transition
To comply with the Spanish Act 22/2015, the Committee conducted an audit tender process that concluded in January 2020. KPMG's appointment as the auditor of the Company for the years 2021, 2022 and 2023 was approved by shareholders at the General Meeting in September 2020. There were no contractual or similar obligations restricting the Group's choice of external auditor. KPMG confirmed its independence in November 2020 and the Committee has since reviewed and monitored the implementation of KPMG's transition plans.

External auditor non-audit services and independence
Non-audit services provided by the external auditor are subject to a Board-approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Company complies voluntarily with the revised UK standards in relation to non-audit services.

The Committee reviews the nature and volume of projects undertaken by the external auditor on a quarterly basis and all projects are either pre-approved in line with the list of permitted services in the FRC's Revised Ethical Standard 2019 or approved by the Committee Chair for projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target annual maximum of €1.6 million with an additional allowance of up to €1.2 million for large projects where the external auditor is uniquely placed to carry out the work.

Average spend across the last three years was within the total target maximum. Spend in 2020 was €1,134,000 with an additional €1,238,000 relating to work performed on working capital and FPPP reviews for the capital increase completed in October, required under the regulations and most effectively performed by the statutory auditor. 20 per cent of the €1,134,000 spend related to recurring work on the audit of accounts required by the Group's Joint Business arrangements. Details of the fees paid to the external auditor during the year can be found in note 6 to the Group financial statements.

Remuneration

Report of the Remuneration Committee

Alberto Terol
Remuneration Committee Chair

Committee members

	Date appointed
Alberto Terol (Chair)	December 31, 2020
Nicola Shaw	January 1, 2018
Emilio Saracho	June 20, 2019
Heather Ann McSharry	December 31, 2020
Eva Castillo Sanz	December 31, 2020

Dear Shareholder

As Chairman of the Remuneration Committee, and on behalf of the Board, I am pleased to present the Remuneration Report for 2020. This is my first report as Chairman of the Committee, having taken over the role from Deborah Kerr, who herself took over the role in September 2020 from Marc Bolland. I would like to thank Marc and Deborah for their contributions during their time as Chair of the Committee and I am very much looking forward to serving you in this new role.

Former members of the Committee during 2020 were:

- Marc Bolland (Committee chair until September 8, 2020) left September 8, 2020
- Deborah Kerr (Committee chair from September 8, 2020) left December 31, 2020
- Javier Ferrán left September 24, 2020
- María Fernanda Mejía left December 31, 2020

As set out in more detail elsewhere in this report, it has clearly been a very challenging year for the Group, as a result of the COVID-19 pandemic. In addition to the unique challenges presented by COVID-19, and the subsequent capital increase, we have also seen a change in CEO following the decision by Willie Walsh to stand down from the role, along with a number of changes in the membership of the Management Committee level. The Committee recognises the magnitude of these challenges and changes, and the impact that they have had, whether that be on our shareholders, employees, customers, or wider stakeholder base.

At this time, we face a significant risk in the retention of our Management Committee and other key senior talent and it is important for our business that they are motivated, incentivised and remunerated appropriately to support the return to strong, sustainable business performance. Over the course of 2020, the Committee has sought to make decisions which appropriately balance these considerations. As a result, we were naturally disappointed with the lower than usual vote for our 2019 Annual Report on Remuneration at our delayed 2020 AGM. IAG has always recognised the need to build strong relationships with our investors through a process of open and transparent dialogue, and the Committee has continued that approach during 2020. We have consulted widely with shareholders over the last six months, both to ensure that we fully understand the reasons for the vote, as well as to get their views and feedback in relation to the next review of our Directors' Remuneration Policy. I discuss both in more detail below, and would like to thank shareholders for their time and constructive feedback.

At the 2020 Shareholders' Meeting, we were disappointed that a significant minority voted against the 2019 Annual Report on Remuneration resolution but were confident that the decisions made with regard to remuneration were in line with our policy and were appropriate under the unique circumstances given the performance of the Company in 2019. Since then, we have engaged with shareholders to more fully understand their concerns and have had a number of productive meetings. The outcomes of these discussions are covered in more detail in the remuneration report.

2020 Shareholders' Meeting and shareholder consultation

Once the full impact of the pandemic became clear, particularly from late February 2020 onwards, we acted immediately and took decisive action on executive pay:

- Executive directors and non-executive directors took a 20 per cent reduction in salary or fees from the beginning of April 2020 until the end of the year. Heading into 2021, we are maintaining a reduction of 10%; and
- Upon recommendation from the Committee, the Board took the decision to cancel the 2020 annual incentive plan.

At the same time, the Committee was considering 2019 incentive outcomes. As a result of strong financial and operational performance during 2019, the Committee was comfortable that the payments earned by employees, including the Executive Directors, were appropriately aligned with the overall Company circumstances and justifiable. At the time the outcomes were approved, the full impact of COVID-19 was not fully apparent.

By the time our 2020 Shareholders' Meeting took place in September, the world was fully in the midst of the pandemic. The advisory vote on the 2019 Annual Report on Remuneration was passed with 71.6 per cent in favour, a disappointing result given historical levels of support. In engaging with shareholders following the Shareholders' Meeting, some expressed concerns as to whether the 2019 bonus payments were aligned with the overall shareholder and employee experience, given subsequent events in 2020. The Committee listened carefully to all feedback received, both on this issue, as well as wider discussions on our remuneration framework given our Policy was due for renewal. This helped shape the Committee's thinking, and informed internal discussions regarding our Policy review.

Strategy and link to remuneration

IAG's aim is to become the world's leading airline group. Its strategy is to actively participate in the consolidation of the airline industry to create a multi-brand portfolio of leading airline businesses, each focused on addressing specific customer markets and geographies, while driving revenue and cost synergies through commercial cooperation, scale effects and leverage of the broader Group platform. Execution of this strategy, coupled with disciplined capital allocation, will allow IAG to deliver superior value and sustainable financial returns to its shareholders.

In reviewing the Directors' Remuneration Policy, the Committee's main objective is to ensure that remuneration at IAG is aligned with, and drives delivery of, our business and strategic priorities, because we see that as the best way to drive short-term and long-term performance. We recognise the need to ensure that there is alignment between performance and pay outcomes, such that the management team receive fair outcomes under our incentive plans only where this can be supported by Company and individual performance and wider stakeholder experience.

Summary of 2020 performance and incentive outcomes

As a result of the pandemic, following the report from the Committee, the Board took the decision to cancel the 2020 annual incentive plan in its entirety.

The 2018 award of the PSP reached the end of its three-year performance period in 2020. As a result of the pandemic, all three measures (relative TSR, EPS, and RoIC) fell short of the threshold level at which payments begin, resulting in zero vesting overall for executive directors.

Board changes

Luis Gallego took over from Willie Walsh as IAG CEO in September 2020. The Committee carefully considered the leaving arrangements for Willie and the appointment package for Luis.

Capital increase

Finally, in October 2020 we carried out a €2.74 billion capital increase with a view to strengthening our financial position. The Committee considered the effects of this capital increase on the Company's share-based plans and we took action to ensure that participants were neither advantaged nor disadvantaged as a result of the rights issue.

On behalf of the Committee, I appreciate your time in reading our 2020 Directors' Remuneration Report, and hope that it will receive your support at our 2021 Shareholders' Meeting. I also hope that our final proposal following the review of our Remuneration Policy will also have your support as shareholders of the Company.

Approved by the Board and signed on its behalf by

Alberto Terol
Remuneration Committee Chairman

Introduction

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

The Company's current policy on directors' remuneration was approved by shareholders at the Shareholders' Meeting on June 14, 2018. It was intended that the policy would apply for three years and, therefore, during 2020 the Committee commenced a review of the policy. The proposal for this new remuneration policy will be included as part of the reports that will accompany the notice of the 2021 Shareholders' Meeting.

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

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

It is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2013, The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860) and The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and to follow best practice UK standards.

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains the Annual Report on Remuneration, which covers the information on directors' remuneration paid in the reported year.

Directors' Remuneration Policy

Key elements of pay

Executive directors

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

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

The current and proposed future Directors' Remuneration Policy

The current Directors' Remuneration Policy was approved at the Shareholders' Meeting on June 14, 2018. The policy was fully disclosed in the 2017 Directors' Remuneration Report. It is the intention of the Committee that the proposed future policy will reflect a number of changes within the existing regulatory and corporate governance framework. The proposed future remuneration policy will be presented in reports that will accompany the notice of the 2021 Shareholders' Meeting and will be submitted for a shareholder vote at that meeting.

Service contracts and exit payments policy

Executive directors

The following is a description of the key terms of the service contracts of executive directors.

The contracts of executive directors are for an indefinite period.

There are no express provisions in executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice.

Executive director	Date of contract	Notice period
Luis Gallego	September 8, 2020	12 months

The period of notice required from the executive is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first six months' base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second six month period only becomes payable if, in the Company's opinion, the executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive (including salary and benefits) referable to work done in that month.

In the event of an executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office is capped at an amount equal to 12 months' base salary. The Company will honour the contractual entitlements of a terminated director; however, the Company may terminate an executive's service contract with immediate effect and without compensation on a number of grounds including where the executive is incapacitated for 130 days in any 12 month period, becomes bankrupt, fails to perform his duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a director, refuses to agree to the transfer of his service contract where there is a transfer of the business in which he is working or ceases to be eligible to work in Spain or the UK (as applicable).

Under the PSP and IADP if a director leaves, the Board, after considering the recommendation of the Remuneration Committee, may exercise its discretion (within the rules of the two schemes) to grant Good Leaver status. This can be granted in certain circumstances including for example (list not exhaustive) the director leaving for reasons of ill-health, redundancy, retirement or death. Executive directors leaving with Good Leaver status will receive shares awarded to them under the IADP scheme, and a pro-rata amount of their PSP shares subject to the company performance conditions being met. The pro-ration is calculated according to what proportion of the performance period the executive director spent in company service. If Good Leaver status is not granted to an executive director, all outstanding awards made to them under the PSP and IADP will lapse.

In the event of an executive director's termination from the Company, they must not be employed by, or provide services to, a Restricted Business (i.e. an airline or travel business that competes with the Company) for a period of six months.

Non-executive directors

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

Non-executive director	Date of the first appointment	Date of last re-election
Javier Ferrán	June 20, 2019	September 8, 2020
Alberto Terol	June 20, 2013	September 8, 2020
Giles Agutter	September 8, 2020	–
Margaret Ewing	June 20, 2019	September 8, 2020
Robin Phillips	September 8, 2020	–
Emilio Saracho	June 16, 2016	September 8, 2020
Nicola Shaw	January 1, 2018[1]	September 8, 2020
Peggy Bruzelius	December 31, 2020	–
Eva Castillo Sanz	December 31, 2020	–
Heather Ann McSharry	December 31, 2020	–

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

Annual Remuneration Report

The Annual Remuneration Report sets out how the Directors' Remuneration Policy (as approved by shareholders at the Shareholders' Meeting on June 14, 2018) was put into practice in 2020 and how the current policy is being implemented in 2021.

The Committee's activities during the year

In 2020, the Committee met nine times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January (two meetings)	CEO exit arrangements CEO succession remuneration arrangements Review of IAG Management Committee members' basic salaries
February	2019 annual incentive plan payments to IAG Management Committee members 2020 Management Committee role-specific objectives Vesting outcome of the Performance Share Plan (PSP) 2017 award Proposal of the 2020 annual incentive plan Proposal of the 2020 PSP Final review of 2019 Directors' Remuneration Report Review of incentive plans in all operating companies across the Group Approval of remuneration for a new Management Committee member
June	Remuneration approach in response to COVID-19
July	Preparation for the 2020 Shareholders' Meeting
September	Remuneration implications as a result of the capital increase
October (two meetings)	Approval of remuneration for two new Management Committee members, and change in remuneration for the new CEO of British Airways (BA) on change of role CEO of BA exit arrangements Executive remuneration market update Remuneration strategy for 2021
December	Review of remuneration measures introduced in response to COVID-19 Initial review of proposed future remuneration policy

Subject to audit

Single total figure of remuneration for each executive director

The table below sets out the single total figure and breakdown for each executive director during 2020. An explanation of how the figures are calculated follows the table.

	Salary		Benefits		Pension		Total Fixed		Annual incentive		Long-term incentive		Total Variable		Total	
Director ('000)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Luis Gallego (GBP)[1, 2]	**206**	–	**69**	–	**26**	–	**301**	–	**–**	–	**–**	–	**–**	–	**301**	–
Luis Gallego (euro)	**232**	–	**78**	–	**29**	–	**339**	–	**–**	–	**–**	–	**–**	–	**339**	–
Steve Gunning (GBP)[1, 3]	**519**	315	**18**	8	**65**	39	**602**	362	**–**	286	**–**	380	**–**	666	**602**	1,028
Steve Gunning (euro)	**585**	358	**20**	9	**73**	44	**678**	411	**–**	325	**–**	432	**–**	757	**678**	1,168
Willie Walsh (GBP)[1, 4]	**511**	850	**23**	30	**128**	213	**662**	1,093	**–**	883	**–**	1,222	**–**	2,105	**662**	3,198
Willie Walsh (euro)	**576**	967	**26**	34	**144**	242	**746**	1,243	**–**	1,004	**–**	1,390	**–**	2,394	**746**	3,637
Total (€'000)	**1,393**	1,325	**124**	43	**246**	286	**1,763**	1,654	**–**	1,329	**–**	1,822	**–**	3,151	**1,763**	4,805

1 Remuneration for all executive directors above is paid in sterling and expressed in euro for information purposes only.
2 Luis Gallego joined the Board on September 8, 2020.
3 Steve Gunning stepped down from the Board on December 31, 2020, having joined the Board on June 20, 2019.
4 Willie Walsh stepped down from the Board on September 8, 2020.

Additional explanations in respect of the single total figure table for 2020

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

Base salary

Salary paid in year for executive directors. All executive directors agreed to a 20 per cent reduction in base salary as a result of the COVID-19 pandemic. Willie Walsh had a reduction in salary from £850,000 to £680,000 from April 1, 2020 until his retirement. Steve Gunning had a reduction in salary from £610,000 to £488,000 from April 1, 2020 until December 31, 2020. Luis Gallego had a reduction from his salary on appointment of £820,000 to £656,000 from his date of appointment to December 31, 2020. These reductions are reflected in the single total figures in the table above.

Taxable benefits

Taxable benefits including personal travel and, where applicable, a company car, fuel and private health insurance. Luis Gallego also received payments towards relocation costs.

Pension-related benefits

Employer's contribution to pension scheme and/or cash in lieu of pension contribution.

Annual incentive plan

In response to the COVID-19 pandemic, the annual incentive plan for the year to December 31, 2020 was cancelled.

Long-term incentive vesting

This relates to the IAG PSP 2018 award based on performance measured to December 31, 2020. The outcomes of the performance conditions resulted in zero vesting for executive directors and are described in detail later in this report.

For the year to December 31, 2020, the €:£ exchange rate applied is 1.1273 (2019: 1.1371).

Share price appreciation and depreciation

The amount of remuneration attributable to share price appreciation is zero, as there was zero vesting of the IAG PSP 2018 award. The Committee has not exercised any discretion as a result of share price appreciation or depreciation for any of the remuneration in the above table.

Life Insurance

The Company provides life insurance for all executive directors. For the year to December 31, 2020 the Company paid contributions of €15,366 (2019: €26,790).

Subject to audit

Variable pay outcomes

2020 Annual Incentive Plan

In response to the COVID-19 pandemic, the 2020 Annual Incentive Plan was cancelled.

IAG PSP award 2018

The IAG PSP award granted on May 10, 2018 was tested at the end of the performance period which began on January 1, 2018 and ended on December 31, 2020. The awards were equivalent to 200 per cent of salary for Willie Walsh, who was Chief Executive Officer of IAG at the time of the award, and 150 per cent of salary for Enrique Dupuy de Lôme, who was Chief Financial Officer of IAG at the time of the award. Luis Gallego and Steve Gunning, who were not executive directors at the time of the award, received awards of 150 per cent and 120 per cent of salary respectively.

One-third of the award was subject to a TSR performance condition measured against the TSR performance of the MSCI European Transportation (large and mid-cap) index, one-third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one-third subject to RoIC. The definition of RoIC used was the methodology as described in the Company's 2017 Annual Report and Accounts. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2018)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG underperformed the index by 20.7 per cent p.a.	0 per cent
Adjusted earnings per share (EPS) (one-third)	2020 EPS of 130 €cents (10 per cent of award vests)	2020 EPS of 170 €cents (100 per cent of award vests)	(122.6) €cents	0 per cent
Return on Invested Capital (RoIC) (one-third)	2020 RoIC of 13 per cent (10 per cent of award vests)	2020 RoIC of 16 per cent (100 per cent of award vests)	(22.4) per cent	0 per cent
Details of any discretion exercised				
Overall outcome for executive directors				0 per cent

IAG PSP award 2017

The IAG PSP award granted on March 6, 2017 was tested at the end of the performance period which began on January 1, 2017 and ended on December 31, 2019. The awards were equivalent to 200 per cent of salary for Willie Walsh, who was Chief Executive Officer of IAG at the time of the award, and 150 per cent of salary for Enrique Dupuy de Lôme, who was Chief Financial Officer of IAG at the time of the award. Luis Gallego and Steve Gunning, who were not executive directors at the time of the award, received awards of 150 per cent and 120 per cent of salary respectively.

The performance measures, and their weightings and definitions, were the same as described above for the 2018 award. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2017)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG outperformed the index by 4.3 per cent p.a.	65 per cent
Adjusted earnings per share (EPS) (one-third)	2019 EPS of 100 €cents (10 per cent of award vests)	2019 EPS of 130 €cents (100 per cent of award vests)	116.8 €cents	60 per cent
Return on Invested Capital (RoIC) (one-third)	2019 RoIC of 12 per cent (10 per cent of award vests)	2019 RoIC of 15 per cent (100 per cent of award vests)	14.7 per cent	91 per cent
Details of any discretion exercised				
Overall outcome				72.11 per cent

Subject to audit

Scheme interests awarded during the financial year

The IAG PSP is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 6, 2020. The table in this section sets out the key details of the award.

The Committee believes that comparing the Company's TSR to that of European transportation companies, including airlines, is appropriate, given that these companies are subject to external influences impacting share price performance similar to those of the Group. As outlined in last year's report, for the first time the index will be the STOXX Europe 600 Travel and Leisure Index, as the Board believes this is an appropriate benchmark, particularly as the index includes a large number of other airlines. This comparison provides a good reference point for management outperformance and value creation.

Adjusted EPS reflects the underlying profitability of our business and the core elements of value creation for our shareholders.

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

PSP 2020 – eligibility, metrics and targets

Type of award	Shares		
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.		
Face value awarded (per cent of salary)	CEO of IAG (Luis Gallego) – 200 per cent No award made to Willie Walsh, as his retirement had been announced shortly before the date of award	CFO of IAG – 175 per cent	
Grant price	£4.59		
Performance period	January 1, 2020 to December 31, 2022		
Performance conditions and weightings	Threshold	Target	Maximum
TSR performance compared to the TSR performance of the STOXX Europe 600 Travel and Leisure Index (one-third weighting)	IAG's TSR performance equal to the index 25 per cent vests	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight-line vesting between threshold and maximum)	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Adjusted EPS. Measure is adjusted EPS in final year of the performance period, i.e. 2022 adjusted EPS (one-third weighting)	EPS of 140 €cents 10 per cent vests	EPS between 140 €cents and 180 €cents (straight-line vesting between threshold and maximum)	EPS of 180 €cents 100 per cent vests
RoIC. Measure is RoIC in final year of the performance period, i.e. 2022 RoIC (one-third weighting)	RoIC of 14 per cent 10 per cent vests	RoIC between 14 per cent and 16 per cent (straight-line vesting between threshold and maximum)	RoIC of 16 per cent 100 per cent vests
Holding period	Additional period of two years after the performance period		

The adjusted EPS and RoIC measures are as defined for the 2018 PSP award earlier in the report. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the adjusted EPS targets and/or definition in the context of any corporate transactions, provided that, in its view, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports. Further details in relation to Committee discretion and malus and clawback provisions are set out in the Company's Remuneration Policy.

Subject to audit

Total pension entitlements

Willie Walsh is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions in his time as an executive director during the reporting period (January 1, 2020 to September 8, 2020) (2019: zero). He received cash in lieu of contributions of £127,822 (2019: £212,500).

Luis Gallego is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions in his time as an executive director during the reporting period (September 8, 2020 to December 31, 2020). He received cash in lieu of contributions of £25,780.

Steve Gunning is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions during the reporting period (2019: zero). He received cash in lieu of contributions of £64,812 (2019: £39,357).

Payments for loss of office: Willie Walsh

On January 9, 2020 it was announced that Willie Walsh had decided to retire as Chief Executive and would step down from the Board on March 26, 2020. Because of the exceptional circumstances that faced the aviation industry due to COVID-19, it was announced on March 16, 2020 that he would delay his retirement for a short period. He stepped down from the Board and retired from the Company on September 8, 2020.

The details of his leaving arrangements were set out in the 2019 remuneration report and these were unaltered except for his revised leaving date. His outstanding performance share plans (2018 and 2019 awards) were pro-rated to his new leaving date of September 8, 2020, as opposed to the date of June 30, 2020 as stated in the 2019 Remuneration Report. As reported earlier in this report, the 2018 award of the performance share plan resulted in zero vesting.

Since leaving the Company, he has received a payment of £75,192 in lieu of 23 days of accrued but untaken holiday entitlement.

No other loss of office payments were made during the year in excess of the minimum threshold of £1,000 set for this purpose.

Payments for loss of office: Enrique Dupuy de Lôme

The former Chief Financial Officer of IAG, Enrique Dupuy de Lôme (who stood down from the Board on June 20, 2019) has received the following payments during 2020:

Basic salary of £164,091, taxable benefits of £8,693, and pension benefits of £41,023 (cash allowance). The details for the vesting of his outstanding IADP and PSP awards were set out in the 2019 Remuneration Report and these are unaltered.

Payments to past directors

Baroness Kingsmill received travel benefits worth €3,395 during 2020.

James Lawrence received travel benefits worth €7,192 during 2020.

Dame Marjorie Scardino received travel benefits worth €13,757 during 2020.

Patrick Cescau received travel benefits worth €12,114 during 2020.

Marc Bolland received travel benefits worth €2,129 during 2020 after he had left the Company.

Kieran Poynter received travel benefits worth €4,116 during 2020 after he had left the Company.

Subject to audit

Statement of directors' shareholding and share interests

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

Under the Group's shareholding guidelines, the CEO of IAG is required to build up and maintain a shareholding of 350 per cent of salary. Other executive directors are required to build up and maintain shareholdings of 200 per cent of salary. In addition, they are required to retain all shares (net of tax) which vest from share plans until their respective shareholding requirement is attained. The Committee has reviewed executive directors' progress against the requirements and notes that both executive directors are above the shareholding requirement.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares including those in the performance share plan holding period, and unvested deferred annual incentive shares. The table below summarises current executive directors' interests as of December 31, 2020:

Executive director	Shareholding requirement	Shares owned	Shares already vested, or in the holding period, from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Luis Gallego	350 per cent of salary	403,834	513,747	89,785	130,565	1,137,931 (498 per cent of salary)
Steve Gunning	200 per cent of salary	228,473	220,986	84,220	93,185	626,864 (342 per cent of salary)

The current Remuneration Policy does not cover post-cessation shareholding requirements. However, the new Remuneration Policy (subject to approval at the 2021 Shareholders' Meeting) will provide details of post-cessation shareholding requirements.

External non-executive directorship

The Company's consent is required before an executive director can accept an external non-executive appointment and permission is only given in appropriate circumstances. During the reporting period in question, Steve Gunning was a non-executive director at FirstGroup Plc, for which he received a fee of €55,576.

Non-executive directors

Non-executive directors are paid a flat fee each year, as per the following table:

Role	Fee
Non-executive Chairman (this fee relates to Antonio Vázquez, who stood down from the Board on January 7, 2021. The fee for the new Chairman is covered in the 2021 implementation section).	€645,000
Non-executive directors	€120,000
Additional fee for holding a Committee chairmanship	€20,000
Additional fee for Senior Independent Director	€30,000

As set out in the British Airways and Iberia merger documentation, the conditions of IAG's former Chairman's service contract as an Iberia executive were taken into account at the time of the merger, meaning that he continued to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. This was externalized at that time in the corresponding insurance policy, with the fund balance under the policy (including accrued interest) being payable upon exit from the Company for any reason. Pursuant to such conditions, following his retirement on January 7, 2021, Antonio Vázquez received his retirement benefit as set forth above by collecting the fund balance under the policy.

Subject to audit

Single total figure of remuneration for each non-executive director

Director (€'000)	2020 fees	Taxable benefits	Total for year to December 31, 2020	2019 fees	Taxable benefits	Total for year to December 31, 2019
Antonio Vázquez	548	–	548	645	5	650
Alberto Terol	128	10	138	136	26	162
Patrick Cescau[1]	–	–	–	71	27	98
Giles Agutter[2]	30	–	30	–	–	–
Marc Bolland[3]	84	3	87	138	19	157
Margaret Ewing[4]	107	4	111	64	1	65
Javier Ferrán[5]	107	4	111	64	2	66
Deborah Kerr[6]	107	–	107	120	11	131
María Fernanda Mejía[7]	102	15	117	120	14	134
Robin Phillips[8]	30	–	30	–	–	–
Kieran Poynter[9]	84	2	86	140	24	164
Emilio Saracho	102	6	108	120	18	138
Dame Marjorie Scardino[10]	–	–	–	58	40	98
Nicola Shaw	102	1	103	120	16	136
Total (€'000)	**1,531**	**45**	**1,576**	**1,796**	**203**	**1,999**

1 Patrick Cescau retired from the Board on June 20, 2019.
2 Giles Agutter joined the Board on September 8, 2020.
3 Mark Bolland retired from the Board on September 8, 2020.
4 Margaret Ewing joined the Board on June 20, 2019.
5 Javier Ferrán joined the Board on June 20, 2019.
6 Deborah Kerr stepped down from the Board on December 31, 2020.
7 María Fernanda Mejía stepped down from the Board on December 31, 2020.
8 Robin Phillips joined the Board on September 8, 2020.
9 Kieran Poynter retired from the Board on September 8, 2020.
10 Dame Marjorie Scardino retired from the Board on June 20, 2019.

Peggy Bruzelius, Eva Castillo Sanz, and Heather Ann McSharry joined the Board on December 31, 2020 but had no remuneration for 2020.

Additional explanations in respect of the single total figure table

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

Fees

Fees paid in the year for non-executive directors. All non-executive directors agreed to a reduction in fees of 20 per cent from April 1, 2020 to December 31, 2020. The fees subject to a reduction were non-executive director fees, the non-executive chairman fee, the additional fee for the Senior Independent Director, and the additional fee for holding a Committee chairmanship and this reduction is reflected in the table above.

Taxable benefits

Taxable benefits including personal travel.

For the year to December 31, 2020, the €:£ exchange rate applied is 1.1273 (2019: 1.1371).

Subject to audit
Directors' interests in shares

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	1,490,726	0.030
Luis Gallego	749,784	0.015
Alberto Terol	66,341	0.001
Giles Agutter	625	0.000
Margaret Ewing	18,750	0.000
Javier Ferrán	774,750	0.016
Robin Phillips	0	0.000
Emilio Saracho	0	0.000
Nicola Shaw	4,285	0.000
Peggy Bruzelius	0	0.000
Eva Castillo Sanz	0	0.000
Heather Ann McSharry	0	0.000
Total	**3,105,261**	**0.062**

There have been no changes to the shareholdings set out above between December 31, 2020 and the date of this report.

Share scheme dilution limits

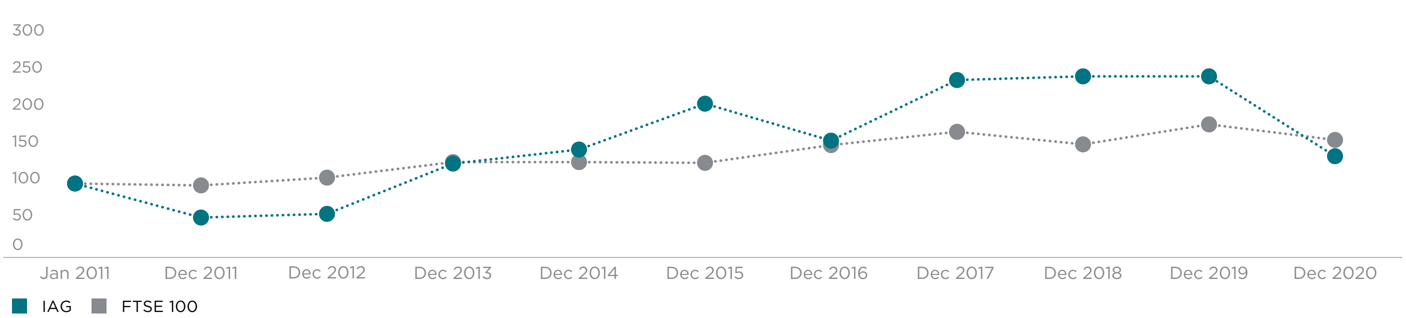
The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the annual Shareholders' Meeting on June 14, 2018 the Company was given authority to allocate up to 45,000,000 shares (2.26 per cent of the share capital at that time) in 2019, 2020, and 2021. Of this a maximum of 5,100,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2019, 2020, and 2021.

Company performance graph and CEO of IAG 'single figure' table

The chart shows the value by December 31, 2020 of a hypothetical £100 invested in IAG shares on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year ends.

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

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



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

		CEO of IAG – 'total single figure' of remuneration	Annual incentive payment as a percentage of the maximum	Long-term incentive vesting as a percentage of the maximum
2011		£1,550,000	18 per cent of maximum	35 per cent of maximum
2012		£1,083,000	No annual incentive payment	Zero vesting of long-term incentives
2013		£4,971,000	78.75 per cent of maximum	100 per cent of maximum
2014		£6,390,000	97.78 per cent of maximum	85 per cent of maximum
2015		£6,455,000	80 per cent of maximum	100 per cent of maximum
2016		£2,462,000	33.33 per cent of maximum	50 per cent of maximum
2017		£3,954,000	92.92 per cent of maximum	66.67 per cent of maximum
2018		£3,030,000	61.85 per cent of maximum	46.19 per cent of maximum
2019		£3,198,000	51.97 per cent of maximum	72.11 per cent of maximum
2020	Willie Walsh	£662,000	No annual incentive payment	Zero vesting of long-term incentives
	Luis Gallego	£301,000	No annual incentive payment	Zero vesting of long-term incentives

Single total figure of remuneration includes basic salary, taxable benefits, pension-related benefits, annual incentive award and long-term incentive vesting and in 2020 reflects the reduction in salary from April 1 to December 31, 2020.

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

Percentage change in remuneration of the CEO of IAG compared to employees

The table below shows how the remuneration of the CEO of IAG has changed for 2020 compared to 2019.

This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are all UK employees in the Group, which comprised around 39,000 employees at the beginning of 2020 but, following restructurings in the Group as a result of the COVID-19 pandemic, there were around 29,000 employees at the end of 2020. To make the comparison between the CEO of IAG and employees as meaningful as possible, it was determined that as large a group as possible of employees should be chosen.

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

	CEO of IAG	UK employees
Basic salary	No basic salary increase for 2020 (Willie Walsh). Luis Gallego's basic salary on appointment was 3.5 per cent lower than the final (non-reduced) basic salary of Willie Walsh.	Basic salary awards in 2020 to UK based employees varied from zero to around 3.0 per cent.
Annual incentive	Decrease from £883,000 (Willie Walsh) in March 2020 (covering the 2019 performance period) to zero in March 2021 (covering the 2020 performance period) (both Willie Walsh and Luis Gallego), as the 2020 annual incentive was cancelled as a result of the pandemic.	Annual incentive payments in 2020 were zero in all companies in the Group, as a result of the COVID-19 pandemic.
Taxable benefits	No change in benefits policy. Actual payments were £23,000 (Willie Walsh) and £69,000 (Luis Gallego) in 2020, and were £30,000 (Willie Walsh) in 2019. Luis Gallego's benefits included relocation costs.	No change in benefits policy. Overall costs 2020 versus 2019 increased slightly in line with inflation.

Change in directors' remuneration compared to employees

The table below shows the percentage change between 2019 and 2020 in salary/fee, benefits and annual bonus for directors compared with average earnings for UK employees in the Group.

Director	Salary/fees	Taxable benefits	Annual incentive
Luis Gallego	–	–	–
Steve Gunning	65%	125%	(100%)
Willie Walsh	(40%)	(23%)	(100%)
Antonio Vázquez	(15%)	(100%)	–
Alberto Terol	(6%)	(62%)	–
Giles Agutter	–	–	–
Marc Bolland	(39%)	(84%)	–
Margaret Ewing	67%	300%	–
Javier Ferrán	67%	100%	–
Deborah Kerr	(11%)	(100%)	–
María Fernanda Mejía	(15%)	7%	–
Robin Phillips	–	–	–
Kieran Poynter	(40%)	(92%)	–
Emilio Saracho	(15%)	(67%)	–
Nicola Shaw	(15%)	(94%)	–
Average pay based on the Group's UK employees	(12%)	-	-

For Steve Gunning, Margaret Ewing, and Javier Ferrán, the increase in fees is because the 2019 fee was only for the period after they joined the Board, which was on June 20, 2019.

Relative importance of spend on pay

The table below shows, for 2020 and 2019, total remuneration costs, adjusted operating profit/(loss) and dividends for the Company.

	2020	2019
Total employee costs, IAG[1]	**€3,247,000,000**	€4,962,000,000
Total remuneration, directors (including non-executive directors)	**€3,339,000**	€7,485,000
IAG adjusted operating (loss)/profit (before exceptional items)	**(€4,365,000,000)**	€3,285,000,000
Dividend declared	**–**	€288,000,000
Dividend proposed	**–**	Cancelled[2]

1 Total employee costs are before exceptional items, and include furlough grants received.
2 The Company announced on April 2, 2020 that the 2019 proposed final dividend of €337,000,000 was cancelled.

CEO Pay Ratio

The table below shows the ratio of pay between the CEO of IAG and IAG's UK employees. The CEO of IAG remuneration is the 2020 'single figure' total remuneration and is a combined figure for the two CEOs of IAG who were in this role during 2020. This is compared with the 25th, median and 75th percentile 2020 total remuneration of full-time equivalent UK employees in IAG. The Government's methodology "Option A" has been used to calculate the remuneration, as we believe that this is the option that most investors favour, and gives the most accurate and robust ratio. The data for the UK employees is from the payroll records of 37,081 UK employees who were in the Group for the whole of or some of 2020.

Percentile	CEO of IAG Pay Ratio 2019	**CEO of IAG Pay Ratio 2020**	Basic Salary, UK employees	Total Remuneration, UK employees
25th (Lower Quartile)	109:1	**34:1**	£17,173	£28,383
50th (Median)	72:1	**22:1**	£28,551	£42,823
75th (Upper Quartile)	49:1	**15:1**	£45,228	£63,877

Around 98 per cent of the Group's UK employees work for BA. BA has undertaken many initiatives in recent years to ensure its lower-paid workers are paid fairly.

Investor Engagement Plan

At the Company's 2020 Shareholders' Meeting, the consultative vote on the 2019 annual Directors' Remuneration Report received a vote in favour of less than 75 per cent. Since the Shareholders' Meeting, the Company has engaged with major shareholders to understand the main issues causing the low vote in favour, and these were:

- The annual bonus payments for 2019, in light of the Company's current circumstances, in particular the bonus of £883,000 paid to departing CEO Willie Walsh, given the use of government support and the clear challenges the industry is facing; and
- the new CFO's remuneration package, which had a higher salary and higher maximum award levels than his predecessor under the annual bonus and the PSP schemes.

The Company has had a helpful and productive dialogue in our engagement with our main shareholders when discussing these issues. The Committee listened carefully to all feedback received on this, as well as wider discussions on our remuneration framework given our Policy is due for renewal. This will help shape the Committee's thinking and will inform internal discussion and development of the proposed new Remuneration Policy. The Company's response is covered in more detail in the Corporate Governance section of the Annual Report.

Implementation of Remuneration Policy for 2021

For 2021, the Remuneration Policy applies to the only executive director in the Board, the CEO of IAG, as the CFO of IAG stood down from the Board on December 31, 2020.

Basic salary

Basic salaries for executive directors are reviewed from January 1 each year. After careful consideration of Company affordability, the contribution of each executive, retention risks and the size of pay increases generally across the Group for 2020 (which varied across the Group from zero to 3.0 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive director	Basic salary review
CEO of IAG	£820,000 (€924,000) (no increase from 2020). Luis Gallego has agreed to take a 10 per cent salary reduction from January 1, 2021 until further notice.

2021 annual incentive plan, and 2021 long-term incentive plan

The Company's current Remuneration Policy includes an annual incentive award, with a maximum opportunity for the CEO of IAG of 200 per cent of salary. This incentive is subject to certain financial and non-financial measures: (i) at least 60 per cent and no more than 80 per cent is subject to financial measures (e.g. IAG operating profit); (ii) 25 per cent or less will be subject to role-specific objectives, and; (iii) the remaining portion is subject to measurable non-financial metrics (e.g. NPS and carbon measures). There will be no payment until performance for each particular metric has reached the threshold level of the agreed target range, 50 per cent of the maximum opportunity will be awarded for on-target performance, and the maximum for each element will only be awarded once a stretch target has been reached. Finally, half of the overall outcome of the annual incentive detailed above is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

For the long-term incentive, the existing Policy includes a Performance Share Plan (PSP), a discretionary plan targeted at key senior executives and managers of the Group. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions designed to reflect the creation of long-term value within the business and which are measured over a three-year performance period. Following the performance period, there is an additional holding period of at least two years.

A full description of the Company's current Remuneration Policy is available on the Company's website.

As the Company's Remuneration Policy is due to be renewed at the 2021 Shareholders' Meeting, the frameworks for the 2021 annual incentive plan and the 2021 long-term incentive plan will be detailed in the Remuneration Policy proposal, which will be submitted for a shareholder vote at that meeting.

Taxable benefits and pension-related benefits

Taxable benefits remain unchanged for 2021.

Non-executive director fees

Non-executive director fees were last reviewed in 2017 and remain unchanged for 2021. The fees have remained unchanged since 2011.

Javier Ferrán was appointed Chairman of the Board on January 7, 2021. His fee on appointment was €645,000 per annum.

All non-executive directors, including the newly appointed Chairman, have agreed to take a 10 per cent reduction in fees from January 1, 2021 until further notice, as a result of the pandemic.

The Remuneration Committee

The Remuneration Committee is regulated by article 32 of the IAG Board Regulations and by its own Regulations approved on February 25, 2021. A copy of these Regulations is available on the Company's website (www.iairgroup.com).

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

According to article 32 of the Board Regulations the Remuneration Committee shall be made up of no fewer than three independent non-executive directors, with the dedication, capacity and experience necessary to carry out their function. Alberto Terol chairs the Committee. None of the Committee members has any personal financial interest, other than as a shareholder, in the matters to be decided.

In accordance with the 2018 UK Code, the Remuneration Committee also has responsibility to review workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Advisers to the Committee

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte reports directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2020 were €117,071, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, global employment programmes, data governance, business process improvement, financial advisory work and tax to the Group in 2020. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

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

Statement of voting

The table below shows the consultative vote on the 2019 annual Directors' Remuneration Report at the 2020 Shareholders' Meeting, and the binding vote on the Directors' Remuneration Policy at the 2018 Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2019 Annual Directors' Remuneration Report	871,102,122	623,709,500 (71.60 per cent)	179,093,920 (20.56 per cent)	68,298,702 (7.84 per cent)
Directors' Remuneration Policy	1,463,865,426	1,396,029,011 (95.37 per cent)	13,091,180 (0.89 per cent)	54,745,235 (3.74 per cent)

Supplementary information

Directors' share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP as at December 31, 2020.

Director	Date of grant	Number of options at date of appointment	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Adjustment as a result of the capital increase	Exercisable from	Expiry date	Number of options at December 31, 2020
Executive directors										
Luis Gallego	May 28, 2015	87,031	–	–	–	–	44,211	January 1, 2020	December 31, 2024	131,242
	March 7, 2016	64,988	–	–	–	–	33,013	January 1, 2021	December 31, 2025	98,001
	March 6, 2017	160,476	–	–	44,757	–	58,785	January 1, 2022	December 31, 2026	174,504
	May 10, 2018	128,826	–	–	–	–	65,443	January 1, 2023	December 31, 2027	194,269
	March 8, 2019	162,543	–	–	–	–	82,571	January 1, 2024	December 31, 2028	245,114
	March 6, 2020	357,298	–	–	–	–	181,507	January 1, 2025	December 31, 2029	538,805
Total		**961,162**	**–**	**–**	**44,757**	**–**	**465,530**			**1,381,935**

Director	Date of grant	Number of options at January 1, 2020	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Adjustment as a result of the capital increase	Exercisable from	Expiry date	Number of options at December 31, 2020
Steve Gunning	May 28, 2015	52,363	433.4p	52,363	–	–	–	January 1, 2020	December 31, 2024	–
	March 7, 2016	37,621	–	–	–	–	19,111	January 1, 2021	December 31, 2025	56,732
	March 6, 2017	96,703	–	–	26,970	–	35,424	January 1, 2022	December 31, 2026	105,157
	May 10, 2018	77,800	–	–	–	–	39,522	January 1, 2023	December 31, 2027	117,322
	March 8, 2019	101,587	–	–	–	–	51,606	January 1, 2024	December 31, 2028	153,193
	March 6, 2020	–	–	–	–	226,852	115,240	January 1, 2025	December 31, 2029	342,092
Total		**366,074**	**–**	**52,363**	**26,970**	**226,852**	**260,903**			**774,496**

The award granted on March 6, 2017 was tested at the end of the performance period, and as a result 72.11 per cent of the award vested, as detailed earlier in this report in the section on Variable pay outcomes.

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2020 PSP award was 459 pence (2019: 567 pence; 2018: 691 pence; 2017: 546 pence; 2016: 541 pence; and 2015: 550 pence).

Incentive Award Deferral Plan (IADP)

The following directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG's performance for the periods that ended December 31, 2016, December 31, 2017, December 31, 2018, and December 31, 2019).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at date of appointment	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Adjustment as a result of the capital increase	Number of awards at December 31, 2020
Executive directors									
Luis Gallego	2017	May 10, 2018	59,850	–	March 8, 2021	–	–	30,403	90,253
	2018	March 8, 2019	49,454	–	March 8, 2022	–	–	25,122	74,576
	2019	March 6, 2020	54,059	–	March 6, 2023	–	–	27,461	81,520
Total			**163,363**	**–**		**–**	**–**	**82,986**	**246,349**

	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2020	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Adjustment as a result of the capital increase	Number of awards at December 31, 2020
Steve Gunning	2016	March 6, 2017	16,117	16,117	March 6, 2020	–	–	–	–
	2017	May 10, 2018	37,603	–	March 8, 2021	–	–	19,102	56,705
	2018	March 8, 2019	32,813	–	March 8, 2022	–	–	16,669	49,482
	2019	March 6, 2020	–	–	March 6, 2023	–	46,177	23,457	69,634
Total			**86,533**	**16,117**		**–**	**46,177**	**59,228**	**175,821**

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2020 IADP award was 459 pence (2019: 567 pence; 2018: 691 pence; and 2017: 546 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2017 IADP award was 546 pence. The share price on the date of the vesting of this award (March 6, 2020) was 432 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

Financial Statements

€ million	Note	Year to December 31 2020	2019[1]
Passenger revenue		**5,512**	22,468
Cargo revenue		**1,306**	1,117
Other revenue		**988**	1,921
Total revenue	4	**7,806**	25,506
Employee costs	7	**3,560**	5,634
Fuel, oil costs and emissions charges		**3,735**	6,021
Handling, catering and other operating costs		**1,340**	2,972
Landing fees and en-route charges		**918**	2,221
Engineering and other aircraft costs		**1,456**	2,092
Property, IT and other costs		**782**	811
Selling costs		**405**	1,038
Depreciation, amortisation and impairment	5	**2,955**	2,111
Currency differences		**81**	(7)
Total expenditure on operations		**15,232**	22,893
Operating (loss)/profit		**(7,426)**	2,613
Finance costs	8	**(670)**	(611)
Finance income	8	**41**	50
Net financing credit relating to pensions	8	**4**	26
Net currency retranslation credits		**245**	201
Other non-operating charges	8	**(4)**	(4)
Total net non-operating costs		**(384)**	(338)
(Loss)/profit before tax		**(7,810)**	2,275
Tax	9	**887**	(560)
(Loss)/profit after tax for the year		**(6,923)**	1,715
Attributable to:			
Equity holders of the parent		**(6,923)**	1,715
Non-controlling interest		**–**	–
		(6,923)	1,715
Basic (loss)/earnings per share (€ cents)[2]	10	**(196.2)**	56.1
Diluted (loss)/earnings per share (€ cents)[2]	10	**(196.2)**	55.5

1 In 2020 the Group has presented the Income statement using a single column approach whereas in prior years the Group presented the Income statement using a three-column approach. The 2019 comparative figures have also been re-presented. Further information is given in the basis of preparation in note 2.
2 The earnings per share information for 2019 has been restated to reflect the impact of the rights issue. Further information is given in note 10.

€ million	Note	Year to December 31 2020	2019
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity		**(2,171)**	610
Reclassified and reported in net profit		**1,871**	141
Fair value movements on cost of hedging		**(16)**	36
Cost of hedging reclassified and reported in net profit		**(19)**	(10)
Currency translation differences	29	**(192)**	296
Items that will not be reclassified to net profit			
Fair value movements on other equity investments		**(53)**	(8)
Fair value movements on cash flow hedges		**(45)**	(70)
Fair value movements on cost of hedging		**26**	32
Remeasurements of post-employment benefit obligations		**(632)**	(788)
Total other comprehensive (loss)/income for the year, net of tax		**(1,231)**	239
(Loss)/profit after tax for the year		**(6,923)**	1,715
Total comprehensive (loss)/income for the year		**(8,154)**	1,954
Total comprehensive (loss)/income is attributable to:			
Equity holders of the parent		**(8,154)**	1,954
Non-controlling interest	29	**–**	–
		(8,154)	1,954

Items in the consolidated Statement of other comprehensive income above are disclosed net of tax.

€ million	Note	December 31, 2020	December 31, 2019[1]
Non-current assets			
Property, plant and equipment	12	**17,531**	19,168
Intangible assets	15	**3,208**	3,442
Investments accounted for using the equity method	16	**29**	31
Other equity investments	17	**29**	82
Employee benefit assets	30	**282**	314
Derivative financial instruments	26	**42**	268
Deferred tax assets	9	**1,075**	546
Other non-current assets	18	**228**	273
		22,424	24,124
Current assets			
Inventories		**351**	565
Trade receivables	18	**557**	2,255
Other current assets	18	**792**	1,314
Current tax receivable	9	**101**	186
Derivative financial instruments	26	**122**	324
Current interest-bearing deposits	19	**143**	2,621
Cash and cash equivalents	19	**5,774**	4,062
		7,840	11,327
Total assets		**30,264**	35,451
Shareholders' equity			
Issued share capital	27	**497**	996
Share premium	27	**7,770**	5,327
Treasury shares		**(40)**	(60)
Other reserves		**(6,917)**	560
Total shareholders' equity		**1,310**	6,823
Non-controlling interest	29	**6**	6
Total equity		**1,316**	6,829
Non-current liabilities			
Borrowings	23	**13,464**	12,411
Employee benefit obligations	30	**719**	400
Deferred tax liability	9	**40**	290
Provisions	24	**2,286**	2,416
Deferred revenue on ticket sales	21	**473**	-
Derivative financial instruments	26	**310**	286
Other long-term liabilities	22	**140**	71
		17,432	15,874
Current liabilities			
Borrowings	23	**2,215**	1,843
Trade and other payables	20	**2,810**	4,344
Deferred revenue on ticket sales	21	**4,657**	5,486
Derivative financial instruments	26	**1,160**	252
Current tax payable	9	**48**	192
Provisions	24	**626**	631
		11,516	12,748
Total liabilities		**28,948**	28,622
Total equity and liabilities		**30,264**	35,451

1 The 2019 Balance sheet includes a reclassification in the presentation of assets and liabilities for employee benefits and deferred tax. Refer to note 2 for further information.

€ million	Note	Year to December 31 2020	2019
Cash flows from operating activities			
Operating (loss)/profit		**(7,426)**	2,613
Depreciation, amortisation and impairment	5	**2,955**	2,111
Movement in working capital		**1,227**	(70)
Decrease/(increase) in trade receivables, inventories and other current assets		*2,347*	*(935)*
(Decrease)/increase in trade and other payables and deferred revenue on ticket sales		*(1,120)*	*865*
Payments related to restructuring	24	**(383)**	(180)
Employer contributions to pension schemes		**(318)**	(870)
Pension scheme service costs	30	**5**	5
Provisions and other non-cash movements		**556**	951
Unrealised loss on discontinuance of fuel and foreign exchange hedge accounting		**569**	–
Interest paid		**(548)**	(481)
Interest received		**22**	42
Tax received/(paid)		**45**	(119)
Net cash (outflows)/inflows from operating activities		**(3,296)**	4,002
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(1,939)**	(3,465)
Sale of property, plant and equipment and intangible assets		**1,133**	911
Decrease/(increase) in current interest-bearing deposits		**2,366**	(103)
Other investing movements		**2**	(1)
Net cash inflows/(outflows) from investing activities		**1,562**	(2,658)
Cash flows from financing activities			
Proceeds from borrowings		**3,567**	2,286
Repayment of borrowings		**(978)**	(730)
Repayment of lease liabilities		**(1,536)**	(1,507)
Dividend paid	11	**(53)**	(1,308)
Proceeds from rights issue		**2,674**	–
Net cash inflows/(outflows) from financing activities		**3,674**	(1,259)
Net increase in cash and cash equivalents		**1,940**	85
Net foreign exchange differences		**(228)**	140
Cash and cash equivalents at 1 January		**4,062**	3,837
Cash and cash equivalents at year end	19	**5,774**	4,062
Interest-bearing deposits maturing after more than three months	19	**143**	2,621
Cash, cash equivalents and interest-bearing deposits	19	**5,917**	6,683

For details on restricted cash balances refer to note 19 Cash, cash equivalents and current interest-bearing deposits.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year to December 31, 2020

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 29)	**Total equity**
January 1, 2020	996	5,327	(60)	(2,579)	3,139	**6,823**	6	**6,829**
Loss for the year	–	–	–	–	(6,923)	**(6,923)**	–	**(6,923)**
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	50	–	**50**	–	**50**
Fuel and oil costs	–	–	–	356	–	**356**	–	**356**
Currency differences	–	–	–	18	–	**18**	–	**18**
Finance costs	–	–	–	12	–	**12**	–	**12**
Discontinuance of hedge accounting	–	–	–	1,435	–	**1,435**	–	**1,435**
Net change in fair value of cash flow hedges	–	–	–	(2,216)	–	**(2,216)**	–	**(2,216)**
Net change in fair value of equity investments	–	–	–	(53)	–	**(53)**	–	**(53)**
Net change in fair value of cost of hedging	–	–	–	10	–	**10**	–	**10**
Cost of hedging reclassified and reported in the net profit	–	–	–	(19)	–	**(19)**	–	**(19)**
Currency translation differences	–	–	–	(192)	–	**(192)**	–	**(192)**
Remeasurements of post-employment benefit obligations	–	–	–	–	(632)	**(632)**	–	**(632)**
Total comprehensive loss for the year	–	–	–	(599)	(7,555)	**(8,154)**	–	**(8,154)**
Hedges reclassified and reported in property, plant and equipment	–	–	–	(18)	–	**(18)**	–	**(18)**
Cost of share-based payments	–	–	–	–	(10)	**(10)**	–	**(10)**
Vesting of share-based payment schemes	–	–	20	–	(22)	**(2)**	–	**(2)**
Share capital reduction	(797)	–	–	797	–	**–**	–	**–**
Rights issue	298	2,443	–	–	(70)	**2,671**	–	**2,671**
December 31, 2020	**497**	**7,770**	**(40)**	**(2,399)**	**(4,518)**	**1,310**	**6**	**1,316**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year to December 31, 2019

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
January 1, 2019	996	6,022	(68)	(3,556)	2,770	6,164	6	6,170
Profit for the year	–	–	–	–	1,715	1,715	–	1,715
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	55	–	55	–	55
Fuel and oil costs	–	–	–	106	–	106	–	106
Currency differences	–	–	–	(26)	–	(26)	–	(26)
Finance costs	–	–	–	6	–	6	–	6
Net change in fair value of cash flow hedges	–	–	–	540	–	540	–	540
Net change in fair value of equity investments	–	–	–	(8)	–	(8)	–	(8)
Net change in fair value of cost of hedging	–	–	–	68	–	68	–	68
Cost of hedging reclassified and reported in net profit	–	–	–	(10)	–	(10)	–	(10)
Currency translation differences	–	–	–	296	–	296	–	296
Remeasurements of post-employment benefit obligations	–	–	–	–	(788)	(788)	–	(788)
Total comprehensive income for the year	–	–	–	1,027	927	1,954	–	1,954
Hedges reclassified and reported in property, plant and equipment	–	–	–	(11)	–	(11)	–	(11)
Cost of share-based payments	–	–	–	–	33	33	–	33
Vesting of share-based payment schemes	–	–	8	–	(14)	(6)	–	(6)
Dividend	–	(695)	–	–	(615)	(1,310)	–	(1,310)
Redemption of convertible bond	–	–	–	(39)	38	(1)	–	(1)
December 31, 2019	996	5,327	(60)	(2,579)	3,139	6,823	6	6,829

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on December 17, 2009. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. A list of the subsidiaries of the Group is included in the Group investments section.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and other equity investments that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

The Group's financial statements for the year to December 31, 2020 were authorised for issue, and approved by the Board of Directors on February 25, 2021.

Reclassification

Deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) defined benefit schemes, previously recognised within Employee benefit assets in the Balance sheet at December 31, 2019, have been reclassified to be presented net within Deferred tax liabilities at both December 31, 2019 and January 1, 2019 to conform to the current period presentation. The reclassification had the effect of reducing Deferred tax liabilities, reducing the Employee benefit assets and increasing the Employee benefit obligations at both balance sheet dates.

There is no impact to Profit after tax for the year, Other comprehensive income for the year, Net assets or the Statement of changes in equity in any year presented. The following table summarises the impact of the reclassification on the Consolidated balance sheet line items at December 31, 2019 and January 1, 2019:

Consolidated balance sheet (at December 31, 2019)

€ million	Previously reported	Reclassification	Adjusted
Non-current assets			
Employee benefit assets	524	(210)	314
Non-current liabilities			
Employee benefit obligations	328	72	400
Deferred tax liability	572	(282)	290

Consolidated balance sheet (at January 1, 2019)

€ million	Previously reported	Reclassification	Adjusted
Non-current assets			
Employee benefit assets	1,129	(365)	764
Deferred tax assets	536	131	667
Non-current liabilities			
Employee benefit obligations	289	138	427
Deferred tax liability	453	(372)	81

Presentation of results

Following consideration of regulatory publications, the Group has re-presented its results in the Income statement from using a three-column approach to a single column approach. The comparative figures have also been re-presented. The impact of exceptional items on the performance of the Group is detailed in the Alternative performance measures section.

Going concern

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's results and cash flows. At December 31, 2020, the Group had cash and interest-bearing deposits of €5.9 billion, €0.9 billion of committed and undrawn general facilities and a further €1.2 billion of committed and undrawn aircraft specific facilities. Liquidity has been enhanced through to the date of this report by a further €2.2 billion arising from the Group finalising the terms of a UK Export Credit Facility.

The reduction in liquidity during 2020 was partially mitigated by, amongst other actions, accessing Spain's *Instituto de Crédito Oficial* (ICO) facility, the UK's Coronavirus Corporate Finance Facility (CCFF) and Ireland's Strategy Investment Fund (ISIF). These actions raised an additional €1.4 billion, of which €0.3 billion matures within 12 months from the date of this report. The Group's facilities have limited financial covenants, but there are a number of non-financial covenants to protect the position of the banks, including restrictions on the upstreaming of cash to IAG or lending to other Group companies.

Despite the uncertainty of the COVID-19 pandemic, the Group has continued to successfully secure financing arrangements for all aircraft delivered in 2020. This includes the one-year aircraft-backed financing facilities for old and new aircraft which were secured in the second quarter of 2020 and subsequently repaid prior to year-end and the aircraft-specific facility achieved as part of the Enhanced Equipment Trust Certificate (EETC) financing structure. In total the Group raised proceeds of €2.2 billion through aircraft specific financing.

In its assessment of going concern over the period to March 31, 2022 (the 'going concern period'), the Group has modelled two scenarios referred to below as the Base Case and the Downside Case. The Group's three-year Business plan, prepared and approved by the Board in December 2020, was subsequently refreshed with the latest available internal and external information in February 2021. This refreshed Business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group across the going concern period. The key inputs and assumptions underlying the Base Case include:

- As part of the recovery, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel corridors between countries are assumed to be introduced from quarter 3 2021, first in Europe then North America, with other regions following in the first half of 2022;
- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 79 per cent in quarter 1 2021 (compared to the equivalent period in 2019) to 18 per cent in quarter 1 2022 (again compared to quarter 1 2019), with the average over the going concern period being 43 per cent down;
- Passenger unit revenue per ASK, although forecast to continue recovering, is expected to still remain below levels of 2019 by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's expectation is that traffic related to domestic and leisure will recover faster than longhaul and business;
- The Group has assumed that the committed and undrawn general facilities of €0.9 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €0.1 billion being available to the Group at the end of the going concern period;
- The Group has assumed that of the committed and undrawn aircraft specific facilities of €1.2 billion, €0.4 billion will be drawn to fund specific aircraft scheduled for delivery during 2021 and of the remaining €0.8 billion, €0.3 billion would be available to be drawn over the going concern period if required; and
- Of the capital commitments detailed in note 14, €1.6 billion is due to be paid over the going concern period and the Group has forecast securing 80 per cent, or €1.0 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is below the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date.

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of a slower roll out of the vaccination programme on a regional basis, with travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case also models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case for the third quarter of 2021 are not achieved under the Downside Case until the first quarter of 2022. In the Downside Case, over the going concern period capacity would be 60 per cent down on 2019. The Directors consider the Downside Case to be a severe but plausible scenario.

The Group has modelled the impact of further deteriorations in capacity operated and yield, including mitigating actions to reduce operating 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, the Directors are actively pursuing a range of financing options, including the renegotiation of existing financing arrangements and securing additional long term financial facilities, but these have not been included in the Base or Downside Cases.

Having reviewed the Base Case, Downside Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the 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. However, the Group's ability to obtain this additional funding in the event of a more severe downside scenario represents a material uncertainty at February 25, 2021 that could cast significant doubt upon the Group's ability to continue as a going concern.

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

2 Significant accounting policies continued

Consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries, each made up to December 31, together with the attributable share of results and reserves of associates and joint ventures, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated Balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intragroup account balances, including intragroup profits, are eliminated in preparing the consolidated financial statements.

Unconsolidated structured entities

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances the Group will finance several such transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company (the EETC Issuer) is established to facilitate such financing on behalf of a number of unrelated investors. The proceeds from the issuance of the EETCs by the EETC Issuer are then used to purchase aircraft solely from the Group. Payments by the Group (under the asset financed liabilities) to the EETC Issuer are distributed, through a trust, to the aforementioned unrelated investors. The main purpose of the trust structure is to enhance the credit worthiness of the Group's debt obligations through certain bankruptcy protection provisions and liquidity facilities, and also to lower the Group's total borrowing cost.

The EETC Issuer is established solely with the purpose of providing the asset-backed financing and upon maturity of such financing is expected to have no further activity. The relevant activities of the EETC Issuer are restricted to pre-established financing agreements and the retention of the title of the associated financed aircraft. Accordingly, the Group has determined that each EETC Issuer is a structured entity. Under the contractual terms of the EETC structure, the Group does not own any of the share capital of the EETC Issuer, does not have any representation on the respective boards and has no ability to influence decision making.

In considering the aforementioned facts, management has concluded that the Group does not have access to variable returns from the EETC Issuers because its involvement is limited to the payment of principal and interest under the arrangement and, therefore, it does not control the EETC Issuers and as such does not consolidate them.

Segmental reporting

Operating segments are reported in a manner consistent with how resource allocation decisions are made by the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the IAG Management Committee.

Foreign currency translation

a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. In particular, British Airways and Avios have a functional currency of pound sterling. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within Net currency retranslation (charges)/credits in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

c Group companies

The net assets of foreign operations are translated into euros at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into euros at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity (Currency translation reserve) until all or part of the interest is sold, when the relevant portion of the cumulative exchange difference is recognised in the Income statement.

Property, plant and equipment

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

a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned. All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or right of use ('ROU') assets are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and up to 5 per cent residual value for shorthaul aircraft and between 25 and 29 years (depending on aircraft) and up to 5 per cent residual value for longhaul aircraft. Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rates.

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

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

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

c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

d Leases

The Group leases various aircraft, properties and equipment. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant and equipment.

At inception of a contract, the Group 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 ROU asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

Right of use 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. (with a corresponding amount recognised within Provisions).

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 Group 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 (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group 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. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. If the interest rate implicit in the lease cannot be determined, the Group entity's incremental borrowing rate is used.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the Income statement 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 Significant accounting policies continued

The carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

The Group 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 Income statement. 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 Group 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 aircraft, property and equipment leases across the Group and are reflected in the lease payments where the Group is reasonably certain that it will exercise the option. The Group is also exposed to variable lease payments based on usage or revenue generated over a defined period. Such variable lease payments are expensed to the Income statement as incurred.

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability is recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counter-party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within Property, plant and equipment and an asset financed liability recognised equal to the financing proceeds.

Financing arrangements with the following features that do not meet the recognition criteria as a sale under IFRS 15 are therefore not eligible for recognition under IFRS 16: the lessor has legal ownership retention as security against repayment and interest obligations; the Group initially acquired the aircraft or took a major share in the acquisition process from the manufacturer; in view of the contractual conditions, it is virtually certain that the aircraft will be purchased at the end of the lease term.

Cash flow presentation
Lease payments are presented as follows in the Consolidated cash flow statement: the repayments of the principal element of lease liabilities are presented within cash flows from financing activities; the payments of the interest element of lease liabilities are included within cash flows from operating activities, and; the payments arising from variable elements of a lease, short-term leases and low-value assets are presented within cash flows from operating activities.

COVID-19 related rent concessions
On May 28, 2020, the IASB issued 'COVID-19 Related Rent Concessions – amendments to IFRS 16 Leases'. The EU subsequently adopted the amendment on October 9, 2020. The amendment provides a practical expedient for lessees not to assess whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods commencing on or after June 1, 2020 and the Group has elected to adopt this amendment for the year to December 31, 2020.

Intangible assets

a Goodwill

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

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

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract based intangibles

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

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to 10 years.

g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

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

Impairment of non-financial assets

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

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

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

b Intangible assets

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

Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Financial instruments

a Other equity investments

Other equity investments are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. On initial recognition, these equity investments are irrevocably designated as measured at fair value through Other comprehensive income. They are subsequently measured at fair value, with changes in fair value recognised in Other comprehensive income with no recycling of these gains and losses to the Income statement when the investment is sold. Dividends received on other equity investments are recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

b Interest-bearing deposits

Interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are solely payments of principal and interest, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

2 Significant accounting policies continued

c Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. They are classified as financial instruments through the Income statement. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The time value of options is excluded from the designated hedging instrument and accounted for as a cost of hedging. Movements in the time value of options are recognised in Other comprehensive income until the underlying transaction affects the Income statement.

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedging instrument was due to mature at inception of the relationship. Where a forecast transaction which was previously determined to be highly probable and hedge accounting applied, is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the Income statement.

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity.

d Cash flow hedges

Changes in the fair value of derivative financial instruments designated as a hedge of a highly probable expected future cash flow and assessed as effective are recorded in equity. Gains and losses on derivative instruments not designated as a cash flow hedge are reported in the Income statement. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euros, Japanese yen and Chinese yuan are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

e Long-term borrowings

Long-term borrowings are recorded at amortised cost, including lease liabilities which contain interest rate swaps that are closely related to the underlying financing and as such are not accounted for as an embedded derivative.

f Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

g Impairment of financial assets

At each balance sheet date, the Group recognises provisions for expected credit losses on financial assets measured at amortised cost, based on 12-month or lifetime losses depending on whether there has been a significant increase in credit risk since initial recognition. The simplified approach, based on the calculation and recognition of lifetime expected credit losses, is applied to contracts that have a maturity of one year or less, including trade receivables.

When determining whether there has been a significant increase in credit risk since initial recognition and when estimating the expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. Such forward-looking information takes into consideration the forecast economic conditions expected to impact the outstanding balances at the balance sheet date. A financial asset is written off when there is no reasonable expectation of recovery, such as the customer having filed for liquidation.

Employee benefit plans

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

b Severance obligations

Severance obligations are recognised when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises a provision for severance payments when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing severance payments as a result of an offer made to encourage voluntary redundancy.

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

Taxation

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

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

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

Cash and cash equivalents

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

2 Significant accounting policies continued

Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using a valuation model provided by external specialists. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, and accordingly the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

Provisions

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

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

Restoration and handback provisions arising on the commencement of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any change in estimation relating to such costs are reflected in the ROU asset. Maintenance and handback provisions that occur through usage or through the passage of time are recognised with a corresponding amount recorded over time in the Income statement.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue recognition

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided. Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as deferred revenue on ticket sales in current liabilities until the customer has flown. Prior to the impact of COVID-19 on the ability of passengers to utilise the Group's transportation services, unused tickets were recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. If as a result of the impact of COVID-19 a flight is cancelled, the passenger is entitled to either a refund, changing to an alternative flight or the receipt of a voucher. Where a voucher is issued, given the relative short period of historical data, no revenue is recognised until either the voucher is redeemed through transportation services or it expires. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. The Group acts as an agent where (i) it collects various taxes and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer.

Customer loyalty programmes

The Group operates four loyalty programmes: the British Airways Executive Club, Iberia Plus, Vueling Club and the Aer Lingus Aer Club. The customer loyalty programmes award travellers Avios to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. Avios are also sold to commercial partners to use in loyalty activity.

The Group has identified several performance obligations associated with the sale of Avios. Revenue associated with brand and marketing services and revenue associated with Avios has been determined based on the relative stand-alone selling price of each of the performance obligations. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios is deferred on the balance sheet as a current liability, and recognised when the points are redeemed. When the points are redeemed for products provided by suppliers outside the Group, revenue is recognised in the Income statement net of related costs, as the Group is considered to be an agent in these redemption transactions.

The Group estimates the stand-alone selling price of the brand and marketing performance obligations by reference to the amount that a third party would be prepared to pay in an arm's length transaction for access to comparable brands for the period over which they have access. The stand-alone selling price of Avios is based on the value of the awards for which the points could be redeemed. The Group also recognises revenue associated with the proportion of Avios which are not expected to be redeemed, based on the results of statistical modelling.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or nature and where such presentation is relevant to an understanding of the entity's financial performance. The exceptional items recorded in the Income statement include items such as significant settlement agreements with the Group's pension schemes; significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; significant discontinuance of hedge accounting; legal settlements; and the impact of the sale, disposal or impairment of an asset or investment in a business.

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

Government grants

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

Critical accounting estimates, assumptions and judgements

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

Estimates

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

a Employee benefit obligations, employee leaving indemnities, other employee related restructuring

At December 31, 2020 the Group recognised €282 million in respect of employee benefit assets (2019: €314 million) and €719 million in respect of employee benefit obligations (2019: €400 million). Further information on employee benefit obligations is disclosed in note 30.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 30. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and total comprehensive income. The sensitivity to changes in pension assumptions is disclosed in note 30.

Under the Group's APS and NAPS defined benefit schemes, increases to pensions are based on the annual Government Pension Increase (Review) Orders, which since 2011 have been based on the Consumer Prices Index (CPI). Additionally, in APS there is provision for the Trustee to pay increases up to the level of the Retail Prices Index (RPI), subject to certain affordability tests. Historically market expectations for RPI could be derived by comparing the prices of UK Government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices.

In February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority (UKSA). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. Following consultation during 2020, on November 25, 2020 the UK Chancellor of the Exchequer and the UKSA confirmed that from February 2030 onwards CPIH will replace RPI with no compensation to holders of index-linked gilts.

Following the Chancellor of the Exchequer's announcement in September 2019 and through to December 31, 2020, market-implied break-even RPI inflation forward rates for periods after 2030 have reduced in the investment market. Therefore, in assessing RPI and CPI from investment market data, allowance has been made for partial alignment between RPI and CPI from 2030 onwards.

2 Significant accounting policies continued

On October 26, 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Banking Group plc and others as defendants (collectively referred to as the 'Lloyds Bank case') regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment in the Lloyd's Bank case confirmed that all pension schemes were required to equalise, with immediate application, for the effects of unequal Guaranteed Minimum Pension ('GMP') benefits accrued over the period since May 17, 1990 ('GMP equalisation'). On November 20, 2020 the High Court of Justice of England and Wales issued a further judgment requiring all pension schemes, if requested by their individual members, to revisit individual transfer payments made between May 17, 1990 and April 5, 1997 to assess the shortfall, if any, between the original transfer payments and the impact of GMP equalisation. Where a shortfall exists, the pension scheme is required to make an additional payment to the individual member, including interest accrued at 1.0 per cent above the base rate per annum. The APS and NAPS estimated Defined benefit obligations as at December 31, 2020 and December 31, 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

At December 31, 2020 the Group recognised €5,130 million (2019: €5,486 million) in respect of deferred revenue on ticket sales of which €2,725 million (2019: €1,917 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation is provided. At the time of transportation, revenue is also recognised in respect of tickets that are not expected to be used ('unused tickets'). Revenue associated with unused tickets is estimated based on the terms and conditions of the tickets and historical trends.

Revenue associated with the issuance of points under customer loyalty programmes is based on the relative stand-alone selling prices of the related performance obligations (brand, marketing and points), determined using estimation techniques. The transaction price of brand and marketing services is determined using specific brand valuation methodologies. The transaction price of the points is based on the value of the awards for which the points can be redeemed and is reduced to take account of the proportion of the award credits that are not expected to be redeemed by customers. The Group estimates the number of points not expected to be redeemed (using statistical modelling and historical trends) and the mix and fair value of the award credits. A five percentage point change in the assumption of points outstanding and not expected to be redeemed would result in an adjustment to deferred revenue of €100 million, with an offsetting adjustment to revenue and operating profit recognised in the year.

In August 2020, the Group received an upfront payment of €830 million (£754 million) related to the fulfilment of future performance obligations under the renewal of the multi-year commercial partnership with American Express. The Group estimates the number of points expected to issued over the life of the contract and allocates the upfront payment to the relevant performance obligations. At each reporting date, the Group updates its estimate of the number of points expected to be issued over the total contract term and recognises a cumulative catch-up adjustment where necessary. The Group 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.

The following three accounting estimates involve a higher degree of judgement or complexity, or are areas where assumptions are significant to the financial statements however these accounting estimates are not major sources of estimation uncertainty that have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next year.

c Income taxes

At December 31, 2020 the Group recognised €1,075 million in respect of deferred tax assets (2019: €546 million). Further information on current and deferred tax liabilities is disclosed in note 9.

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. Where the Group determines that it is more likely than not that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability based on either: the Group's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, uses a probability weighted average approach.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management considers past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

At December 31, 2020 the Group recognised €2,390 million (2019: €2,460 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 15.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which use a weighted average multi-scenario discounted cash flow model. The Group has applied judgement in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in note 15.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

e Residual values and useful lives of assets

At December 31, 2020 the Group recognised €17,531 million (2019: €19,168 million) in respect of property, plant and equipment, including the ROU assets recognised in the year. Further information on these assets is included in note 12 and note 13.

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets based on network plans and recoverable values. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information.

Judgements

a Engineering and other aircraft costs

At December 31, 2020, the Group recognised €1,588 million in respect of maintenance, restoration and handback provisions (2019: €1,675 million). Information on movements on the provision is disclosed in note 24.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. The Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition.

b Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans and historical experience regarding the extension of leases. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances and affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 13.

New standards, amendments and interpretations

The following amendments and interpretations apply for the first time in 2020, but do not have a material impact on the consolidated financial statements of the Group:

- COVID-19 Related Rent Concessions – amendments to IFRS 16 Leases;
- Amendments to references to the conceptual framework in IFRS standards;
- Definition of a business (amendments to IFRS 3 'Business combinations');
- Definition of material (amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, Changes in accounting estimates and errors'); and
- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial instruments', IAS 39 'Financial instruments: Recognition and measurement' and IFRS 7 'Financial instruments: Disclosures', which conclude on phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

The IASB and IFRIC have issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 effective for periods beginning on or after January 1, 2021;
- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16 effective for periods beginning on or after January 1, 2022;
- Reference to the Conceptual Framework – Amendments to IFRS 3 effective for periods beginning on or after January 1, 2022;
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37 effective for periods beginning on or after January 1, 2022;
- Annual Improvements to IFRS Standards 2018–2020 effective for periods beginning on or after January 1, 2022; and
- Classification of Liabilities as Current or Non-current Amendments to IAS 1 effective for periods beginning on or after January 1, 2023.

3 Impact of COVID-19 on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of COVID-19

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2023. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of COVID-19 regarding the recognition and measurement of assets and liabilities within the Consolidated financial statements.

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

The Group has applied estimation and judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved Business plans. The details regarding the inputs and assumptions used in the determination of these cash flow forecasts are given in the going concern basis of preparation.

The following critical accounting estimates, assumptions and judgements utilise these cash flow forecasts consistently, which are in some instances significantly different from judgements applied in previous years:

a Discontinuance of hedge accounting

In determining whether hedge accounting is required to be discontinued or to remain in a hedge relationship, judgement is required as to whether a forecast transaction that was previously highly probable continues to be expected to occur or is no longer expected to occur. The Group applied the capacity output from the cash flow forecasts as part of the approved Business plans in order to determine the forecast level of revenue generation and fuel consumption over the periods in which hedge accounting has been applied.

In 2020 the Group recognised a charge arising from such discontinuance of €1,756 million represented by an expense of €62 million relating to revenue foreign currency derivatives, an expense of €1,781 million relating to fuel derivatives and a credit of €87 million related to the associated fuel foreign currency derivatives. These amounts relate to the discontinuance of hedge accounting of the associated foreign currency and fuel derivatives on forecast revenue and fuel consumption. These losses have arisen from the substantial deterioration in demand for air travel caused by COVID-19, which has caused a significant level of hedged passenger revenue transactions and fuel purchases in US dollars to no longer be expected to occur based on the Group's operating forecasts prevailing at the Balance sheet date. The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the losses recognised in the Income statement. The exceptional charge relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

b Long-term fleet plans and associated impairment

The Group derives long-term fleet plans from the cash flow forecasts arising from the approved business plans. In deriving the long-term fleet plans, the Group applies judgement with respect to consideration of the period of temporary and permanent grounding of fleet assets, the deferral of the delivery of certain aircraft and the assumptions around specific provisions relating to leased fleet assets.

In 2020 the Group recognised an impairment charge of €856 million, represented by an impairment of fleet assets of €837 million and an impairment of other assets of €19 million. The fleet impairment relates to 82 aircraft, their associated engines and rotable inventories that have been stood down permanently and 2 further aircraft which have been impaired down to their recoverable value at December 31, 2020, which includes 32 Boeing 747 aircraft, 23 Airbus A320 aircraft, 15 Airbus A340 aircraft, 4 Airbus A330-200 aircraft, 2 Airbus A318 aircraft, 1 Airbus A321 aircraft, 1 Airbus A319 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €676 million is recorded within Property, plant and equipment relating to owned aircraft and €161 million is recorded within Right of use assets relating to leased aircraft.

Further, the Group has recognised additional inventory write downs of €71 million and additional specific provisions relating to leased fleet assets of €37 million. The inventory write down expense represents those expendable inventories that, given the asset impairments, are no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions represents the estimation of the additional cost to fulfil the hand back conditions associated with the leased aircraft that have been permanently stood down and impaired.

Further information is given in the Alternative performance measures section, note 12, note 13 and note 24.

c Impairment testing of the Group's cash generating units

Due to the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group has adopted a weighted average multi-scenario discounted cash flow model derived from the cash flow forecasts from the approved business plans. The Group exercises judgement in determining the weighting between these scenarios in the value-in-use model.

Having undertaken this impairment testing, the Group has not recognised any impairment charge. While no impairment charge is arising, the headroom in the impairment test of the British Airways, Iberia and Aer Lingus cash generating units are particularly sensitive to changes in key assumptions. Further information is given in note 15.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applied the future cash flow projections from the approved business plans. Given the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group exercises judgement in the determination of cash flows during this recovery and subsequent periods.

As at December 31, 2020, the Group had unrecognised deferred tax assets of €1,337 million relating to tax losses the Group does not reasonably expect to utilise. Further information is given in note 9.

Critical accounting estimates, assumptions and judgements – other transactions
In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following critical accounting estimates, assumptions and judgements that impact the consolidated financial statements:

e Revenue recognition

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical evidence, the level of such vouchers that would not be used prior to expiry and recognised revenue accordingly. Due to the significant level of flight cancellations arising from COVID-19 there remains insufficient historical data by which to reliably estimate the amount of these vouchers that will not be used prior to expiry. Accordingly, the Group has not recognised revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

Significant transactions as a result of COVID-19
The Group has recorded the following additional significant transactions as a result of management actions in response to COVID-19:

f Restructuring costs

As a result of the structural changes to the airline sector, the Group has undertaken significant restructuring activities during 2020 to align the size of the workforce with the expected level of capacity. This has led to the recognition of severance pay of €313 million arising in British Airways, Aer Lingus, Iberia, and LEVEL and relating to a forecast reduction of employee numbers of approximately 10,500 as at December 31, 2020. This amount excludes those payments associated with restructuring programmes that were approved prior to COVID-19. These restructuring costs have been recorded as a charge to Employee costs. Further information is given in note 24 and the Alternative performance measures section.

g Rights issue

To enhance the liquidity of the Group as a direct result of the impact of COVID-19, on October 2, 2020, the Group raised €2,741 million through a rights issue of 2,979,443 thousand new ordinary shares at a price of 92 € cents per share on the basis of 3 shares for every 2 existing shares. The transaction resulted in an increase of Share capital of €298 million and an increase in Share premium of €2,443 million. Further information is given in note 27.

h Loans and borrowings

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing arrangements during 2020, which have been fully drawn unless otherwise stated, including:

- On March 30, 2020, British Airways extended its US dollar secured Revolving Credit Facility for one year from June 23, 2020 to June 23, 2021. The amount available under the extended facility was €1.18 billion ($1.38 billion) at the time of exercising the extension and as at December 31, 2020 €0.64 billion ($0.79 billion) was available to be drawn;
- On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility, issuing commercial paper to the Government of the United Kingdom of €328 million (£298 million) and repayable in April 2021;
- On May 1, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements backed by Spain's ICO for €750 million and €260 million, respectively. The facilities are amortising from April 30, 2023 with maturity in 2025;
- On December 23, 2020 Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund for €75 million. The facility has a three-year term;
- On February 22, 2021, British Airways entered into a 5 year term loan Export Development Guarantee Facility of €2.2 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.

Further information is given in note 23.

i Renewal of the American Express commercial partnership

Under the renewal of the multi-year commercial partnership with American Express, the Group took into account the liquidity requirements in the light of COVID-19 in negotiating an upfront payment of €830 million (£754 million) related to the fulfilment of future performance obligations, which included the pre-purchase of Avios. This upfront payment has been recorded within Deferred revenue from ticket sales until such time as the fulfilment of the associated performance obligations. Further information is given in note 21.

j Government assistance

Given the significant reduction in operations that have occurred during 2020, the Group has availed itself of the various employee support mechanisms in the jurisdictions in which it operates. This has led to an amount of €344 million being received directly from governments (classified as government grants) and savings of €214 million (classified as government assistance) where employees have been paid directly by their respective governments. Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 32.

3 Impact of COVID-19 on financial reporting continued

k Defined benefit pension scheme contributions

On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between October 1, 2020 and January 31, 2021. The deferral of such contributions amounted to €165 million. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions through to September 30, 2021. The deferral of such contributions will amount to €330 million. Further information is given in note 30 on the deferral of contributions in 2020 and note 34 on the deferral of contributions in 2021.

l Sale and repurchase agreements for emission allowances

The Group typically is either issued with or acquires emissions allowances in advance of the associated flight activity. Due to the unprecedented decline in capacity during 2020, the Group has entered into a number of sale and repurchase agreements for emission allowances, where the Group has sold the excess allowances with a commitment to repurchase them in 2021. As at December 31, 2020, the value of such emission sale and repurchase agreements was €97 million. These sale and repurchase transactions give rise to a liability for the repurchase, which is classified as an other financing liability. Further information is given in note 23a.

m Renegotiation of Air Europa acquisition

On November 4, 2019, the Group entered into an agreement to acquire the entire share capital of Air Europa for €1 billion, subject to receipt of the approval by the European Commission. During the course of 2020 and as a result of the impact COVID-19 has had on both the Group and Air Europa, the Group had been negotiating with the current shareholder of Air Europa regarding amending the agreement to better reflect the current economic environment. On January 19, 2021, the Group announced the successful completion of these negotiations, which has resulted in the reduction of the purchase price to €500 million and deferred this payment until the sixth anniversary of the date of completion of the acquisition conditional on the satisfactory negotiation between Iberia and SEPI regarding the non-financial terms associated with the financial support provided by SEPI to Iberia. The transaction is still subject to approval by the European Commission. Further information is given in note 34.

4 Segment information

a Business segments

The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee (IAG MC).

The Group has a number of entities which are managed as individual operating companies including airline and platform functions. Each airline operates its network operations as a single business unit and the IAG MC assesses performance based on measures including operating profit, and makes resource allocation decisions for the airlines based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results.

The Group has determined its operating segments based on the way that it treats its businesses and the manner in which resource allocation decisions are made. British Airways, Iberia, Vueling and Aer Lingus have been identified for financial reporting purposes as reportable operating segments. IAG Loyalty and LEVEL are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

The platform functions of the business primarily support the airline operations. These activities are not considered to be reportable operating segments as they either earn revenues incidental to the activities of the Group and resource allocation decisions are made based on the passenger business or are not reviewed regularly by the IAG MC and are included within Other Group companies.

For the year to December 31, 2020

€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	Total
	2020					
Revenue						
Passenger revenue	3,242	1,148	577	376	169	**5,512**
Cargo revenue	994	224	–	88	–	**1,306**
Other revenue	232	605	5	–	146	**988**
External revenue	4,468	1,977	582	464	315	**7,806**
Inter-segment revenue	90	282	(8)	3	343	**710**
Segment revenue	4,558	2,259	574	467	658	**8,516**
Depreciation and amortisation charge	(1,214)	(370)	(277)	(133)	(84)	**(2,078)**
Impairment charge	(445)	(242)	(68)	(24)	(98)	**(877)**
Operating loss	**(4,378)**	**(1,411)**	**(875)**	**(563)**	**(199)**	**(7,426)**
Exceptional items[2]	(1,778)	(652)	(252)	(202)	(177)	**(3,061)**
Operating loss before exceptional items	**(2,600)**	**(759)**	**(623)**	**(361)**	**(22)**	**(4,365)**
Net non-operating costs						**(384)**
Loss before tax						**(7,810)**
Total assets	17,707	7,009	2,850	1,814	884	**30,264**
Total liabilities	(15,979)	(7,014)	(3,299)	(1,495)	(1,161)	**(28,948)**

1 Includes eliminations on total assets of €14,998 million and total liabilities of €5,100 million.
2 For details on exceptional items refer to the Alternative performance measures section.

For the year to December 31, 2019

€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	Total
	2019					
Revenue						
Passenger revenue	13,307	4,020	2,437	2,060	644	22,468
Cargo revenue	805	255	–	54	3	1,117
Other revenue	752	912	18	2	237	1,921
External revenue	14,864	5,187	2,455	2,116	884	25,506
Inter-segment revenue	242	458	–	9	575	1,284
Segment revenue	15,106	5,645	2,455	2,125	1,459	26,790
Depreciation, amortisation and impairment	(1,258)	(390)	(250)	(130)	(83)	(2,111)
Operating profit	1,510	497	240	276	90	2,613
Exceptional items[2]	(672)					(672)
Operating profit before exceptional items	2,182	497	240	276	90	3,285
Net non-operating costs						(338)
Profit before tax						2,275
Total assets[3]	22,102	8,733	3,756	2,131	(1,271)	35,451
Total liabilities[3]	(15,235)	(6,940)	(3,354)	(1,320)	(1,773)	(28,622)

1 Includes eliminations on total assets of €14,982 million and total liabilities of €4,603 million.
2 For details on exceptional items refer to the Alternative performance measures section.
3 Total assets and total liabilities at December 31, 2019 have been reclassified for the effects given in note 2.

4 Segment information continued

b Geographical analysis

Revenue by area of original sale

€ million	Year to December 31 2020	2019
UK	**2,390**	8,362
Spain	**1,845**	4,399
USA	**933**	4,379
Rest of world	**2,638**	8,366
	7,806	25,506

Assets by area

December 31, 2020

€ million	Property, plant and equipment	Intangible assets
UK	**11,313**	**1,251**
Spain	**4,850**	**1,353**
USA	**122**	**15**
Rest of world	**1,246**	**589**
	17,531	**3,208**

December 31, 2019

€ million	Property, plant and equipment	Intangible assets
UK	12,214	1,401
Spain	5,324	1,402
USA	188	19
Rest of world	1,442	620
	19,168	3,442

5 Expenses by nature

Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2020	2019
Depreciation charge on right of use assets	**1,153**	1,153
Depreciation charge on owned assets	**720**	776
Impairment charge on owned property, plant and equipment	**681**	–
Amortisation and impairment of intangible assets	**196**	142
Impairment charge on right of use assets	**161**	–
Depreciation charge on other leasehold interests	**44**	40
	2,955	2,111

Cost of inventories:

€ million	2020	2019
Cost of inventories recognised as an expense, mainly fuel	**1,405**	3,242
Impairment charge on inventories[1]	**71**	–
	1,476	3,242

1 For details regarding the impairment charge on inventories refer to note 3.

6 Auditor's remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, were as follows:

€'000	2020	2019
Fees payable for the audit of the Group and individual accounts	**4,180**	3,916
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**696**	632
Other services pursuant to legislation	**532**	496
Other services relating to taxation	**30**	3
Other assurance services	**350**	727
Services relating to working capital review	**1,036**	1,218
Services relating to corporate finance transactions	**370**	175
All other services	**55**	3
	7,249	7,170

7 Employee costs and numbers

€ million	2020	2019
Wages and salaries	**2,236**	3,334
Social security costs	**385**	561
Costs related to pension scheme benefits	**247**	932
Share-based payment (credit)/charge	**(8)**	34
Other employee costs[1]	**700**	773
Total employee costs	**3,560**	5,634

1 Other employee costs include allowances and accommodation for crew.

The number of employees during the year and at December 31 was as follows:

	2020			2019		
		December 31, 2020			December 31, 2019	
	Average number of employees[1]	Number of employees	Percentage of women	Average number of employees	Number of employees	Percentage of women
In the air:						
Cabin crew	**7,689**	**17,946**	**71%**	25,774	25,342	71%
Pilots	**4,787**	**7,794**	**6%**	8,217	8,310	6%
On the ground:						
Airports	**8,841**	**14,339**	**39%**	19,689	18,970	39%
Corporate	**7,954**	**11,246**	**48%**	11,798	11,855	48%
Maintenance	**5,153**	**6,410**	**7%**	7,620	7,593	8%
Senior executives	**196**	**193**	**30%**	201	198	30%
	34,620	**57,928**		73,299	72,268	

1 The average number of employees excludes those employees on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain. For further details see note 32. The total average number of employees including those in these schemes is 65,481.

The number of employees is based on actual headcount. The 2019 figures have been updated to represent actual headcount (rather than manpower equivalent as disclosed in the prior year), and classified according to the updated categories (rather in the categories of senior executives, ground employees and technical crew as disclosed in the prior year), to align with the categories used in the Non-Financial Information Statement.

The average manpower equivalent for 2020 was 60,612 (2019: 66,034), which includes employees on furlough, wage support and equivalent schemes, including Temporary Redundancy Plan arrangements in Spain.

8 Finance costs, income and other non-operating (charges)/credits

a Finance costs

€ million	2020	2019
Interest expense on:		
Bank borrowings	**(45)**	(12)
Asset financed liabilities	**(41)**	(9)
Lease liabilities	**(442)**	(489)
Provisions unwinding of discount	**(14)**	(37)
Other borrowings	**(103)**	(77)
Capitalised interest on progress payments	**8**	17
Other finance costs	**(33)**	(4)
	(670)	(611)

b Finance income

€ million	2020	2019
Interest on interest-bearing deposits	**21**	47
Other finance income	**20**	3
	41	50

c Net financing credit relating to pensions

€ million	2020	2019
Net financing credit relating to pensions	**4**	26

d Other non-operating charges

€ million	2020	2019
Gains/(losses) on sale of property, plant and equipment and investments	**38**	(22)
Credit related to equity investments (note 17)	**1**	3
Share of profits in investments accounted for using the equity method (note 16)	**1**	6
Realised (losses)/gains on derivatives not qualifying for hedge accounting	**(13)**	8
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	**(31)**	1
	(4)	(4)

9 Tax

a Tax charges

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity:

	2020				2019			
€ million	**Income statement**	**Other comprehensive income**	**Statement of changes in equity**	**Total**	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax								
Movement in respect of prior years	6	–	–	**6**	26	(8)	–	18
Movement in respect of current year	273	(17)	–	**256**	(494)	146	–	(348)
Total current tax	279	(17)	–	**262**	(468)	138	–	(330)
Deferred tax								
Movement in respect of prior years	(8)	–	–	**(8)**	(14)	–	–	(14)
Movement in respect of current year	690	129	(2)	**817**	(79)	(403)	(1)	(483)
Rate change/rate differences	(74)	44	–	**(30)**	1	3	–	4
Total deferred tax	608	173	(2)	**779**	(92)	(400)	(1)	(493)
Total tax	887	156	(2)	**1,041**	(560)	(262)	(1)	(823)

The current tax credit in Other comprehensive income relates to cash flow hedges of €17 million (2019: €16 million) and employee retirement benefit plans of €nil (2019: €154 million).

Tax in the Statement of changes in equity relates to share-based payment schemes of €2 million (2019: €1 million).

Within tax in Other comprehensive income is a tax credit of €92 million (2019: tax credit of €184 million) that may be reclassified to the Income statement and a tax credit of €64 million (2019: tax credit of €165 million) that will not.

b Current tax (liability)/asset

€ million	2020	2019
Balance at January 1	**(6)**	218
Income statement	**279**	(468)
Other comprehensive income	**(17)**	138
Cash	**(45)**	119
Offset against other taxes	**(152)**	–
Exchange movements and other	**(6)**	(13)
Balance at December 31	**53**	(6)
Current tax asset	**101**	186
Current tax liability	**(48)**	(192)
Balance at December 31	**53**	(6)

A tax repayment of €152 million arising from losses carried back to an earlier period was offset, by HMRC, against liabilities arising in relation to other taxes.

c Deferred tax asset/(liability)

€ million	Fixed assets	Leases	Borrowings on right of use assets	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ losses	Share-based payment schemes	Tax loss carried forward and other tax credits	Other temporary differences	Total
Balance at January 1, 2020[1]	(732)	(195)	24	312	323	70	19	401	34	**256**
Income statement	116	(76)	(2)	(120)	3	–	(6)	643	50	**608**
Other comprehensive income	–	–	–	3	(4)	118	–	56	–	**173**
Statement of changes in equity	–	–	–	–	–	–	(2)	–	–	**(2)**
Exchange movements and other	27	23	(1)	(1)	(24)	7	(1)	(10)	(20)	**–**
Balance at December 31, 2020	**(589)**	**(248)**	**21**	**194**	**298**	**195**	**10**	**1,090**	**64**	**1,035**
Balance at January 1, 2019[1]	(712)	(148)	31	348	545	234	16	411	31	756
Income statement	4	(26)	(7)	(52)	(7)	–	5	(10)	1	(92)
Other comprehensive income	–	–	–	13	(240)	(173)	–	–	–	(400)
Statement of changes in equity	–	–	–	–	–	–	(1)	–	–	(1)
Exchange movements and other	(24)	(21)	–	3	25	9	(1)	–	2	(7)
Balance at December 31, 2019[1]	(732)	(195)	24	312	323	70	19	401	34	256

€ million	2020	2019[1]
Deferred tax asset	**1,075**	546
Deferred tax liability	**(40)**	(290)
Balance at December 31	**1,035**	256

1 Deferred taxes arising on Employee benefit plans at December 31, 2019 and January 1, 2019 have been reclassified for the effects given in note 2.

The deferred tax assets mainly arise in Spain and the UK and are expected to reverse beyond one year. Recognition of the deferred tax assets is supported by the expected reversal of deferred tax liabilities in corresponding periods, and projections of operating performance laid out in the Management approved business plans.

9 Tax continued

d Reconciliation of the total tax charge in the income statement

The tax credit/(charge) is calculated at the domestic rates applicable to (losses)/profits in the country in which the (losses)/profits arise. The tax credit (2019: charge) on the loss for the year to December 31, 2020 (2019: profit) is lower (2019: higher) than the notional tax credit (2019: charge). The differences are explained below:

€ million	2020	2019
Accounting (loss)/profit before tax	**(7,810)**	2,275
Weighted average tax credit/(charge) of the Group[1]	**1,615**	(440)
Unrecognised losses and deductible temporary differences arising in the year	**(342)**	(11)
Disposal and write down of investments	**(83)**	–
Effect of tax rate changes	**(74)**	1
Employee benefit plans accounted for net of withholding tax – recurring	**2**	7
Employee benefit plans accounted for net of withholding tax – non-recurring	**–**	(128)
Prior year assets derecognised	**(176)**	–
Investment incentives	**2**	11
Effect of lower tax rate in the Canary Islands	**(40)**	(3)
Movement in respect of prior years	**(2)**	12
Non-deductible expenses – recurring items	**(22)**	(14)
Other items	**7**	5
Tax credit/(charge) in the income statement	**887**	(560)

1 The expected tax credit/(charge) is calculated by aggregating the expected tax charges arising in each company in the Group and changes each year as tax rates and profit mix change. The corporate tax rates for the Group's main countries of operation are Spain 25% (2019: 25%), the UK 19% (2019: 19%) and Ireland 12.5% (2019: 12.5%).

e Payroll related taxes and UK Air Passenger Duty

The Group was also subject to other taxes paid during the year which are as follows:

€ million	2020	2019
Payroll related taxes	**400**	555
UK Air Passenger Duty	**307**	967
	707	1,522

f Factors that may affect future tax charges

Unrecognised deductible temporary differences and losses

€ million	2020	2019
Income tax losses		
Spanish corporate income tax losses	**848**	11
Openskies SASU trading losses	**450**	249
UK trading losses	**39**	25
	1,337	285
Other losses and temporary differences		
UK capital losses	**350**	335
Spanish deductible temporary differences	**1,287**	36
Irish capital losses	**25**	25
	1,662	396

None of the unrecognised temporary differences have an expiry date.

Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €547 million (2019: €2,959 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal to a material extent.

Tax rate changes

A reduction in the UK corporation tax rate to 17 per cent (effective April 1, 2020) was substantively enacted on September 6, 2016. This reduction from 19 per cent to 17 per cent was reversed in Finance Act 2020, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly.

g Tax related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at December 31, 2020 amounted to €166 million (December 31, 2019: €165 million). No material losses are likely to arise from such contingent liabilities. The tax related contingent liabilities include the following:

Merger gain

Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The maximum exposure in this case is €92 million (2019: €90 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to December 31, 2020.

The Company appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On October 23, 2019 the TEAC ruled in favour of the Spanish Tax Authorities. The Company subsequently appealed this ruling to the *Audiencia Nacional* (National High Court) on December 20, 2019, and on July 24, 2020 filed submissions in support of its case. The Company does not expect a hearing at the National High Court until 2022 at the earliest.

The Company disputes the technical merits of the assessment and ruling of the TEAC, both in terms of whether a gain arose and in terms of the quantum of any gain. The Company believes that it has strong arguments to support its appeals. The Company does not consider it appropriate to make a provision for these amounts and accordingly has recognised this matter as a contingent liability.

10 Earnings per share

€ million	**2020**	2019
(Losses)/earnings attributable to equity holders of the parent for basic (losses)/earnings	**(6,923)**	1,715
Interest expense on convertible bonds	**–**	26
Diluted (losses)/earnings attributable to equity holders of the parent and diluted (losses)/earnings per share	**(6,923)**	1,741

	2020 Number '000	2019 Number '000[1]
Weighted average number of ordinary shares in issue[2]	**3,528,052**	3,055,638
Assumed conversion on convertible bonds	**–**	59,398
Dilutive employee share schemes outstanding	**–**	22,305
Weighted average number for diluted earnings per share	**3,528,052**	3,137,341

€ cents	**2020**	2019[1]
Basic earnings per share	**(196.2)**	56.1
Diluted earnings per share	**(196.2)**	55.5

1 Earnings per share information has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the rights issue (note 27). The discount element inherent in the rights issue has been accounted for as a bonus issue of 1,071,565 thousand shares in 2019.

2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 27).

The effect of the assumed conversion of the IAG €500 million convertible bond 2022 and outstanding employee share schemes is antidilutive for the year to December 31, 2020, and therefore has not been included in the diluted earnings per share calculation.

The calculation of basic and diluted earnings per share before exceptional items is included in the Alternative performance measures section.

11 Dividends

€ million	**2020**	2019
Cash dividend declared		
Interim dividend for 2019 of 14.5 € cents per share	**–**	288
Final dividend for 2019 of 17.0 € cents per share	**–**	337
Special dividend for 2018 of 35.0 € cents per share	**–**	695

Proposed dividends on ordinary shares are subject to approval at the Annual Shareholders' Meeting and, subject to approval, are recognised as a liability on that date.

As a result of the impact of COVID-19, on April 2, 2020, the Board of Directors of the Group resolved to withdraw the proposal to the subsequent Annual Shareholders' Meeting to pay a final dividend for 2019 of 17.0 € cents per share.

The dividend paid in the year to December 31, 2020 of €53 million relates to the withholding tax on the 2019 interim dividend, which was proposed in October 2019.

12 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2019	25,296	2,923	1,505	29,724
Additions	3,946	67	147	4,160
Modification of leases	128	94	–	222
Disposals	(1,319)	(85)	(71)	(1,475)
Reclassifications	44	–	(44)	–
Exchange movements	1,287	163	68	1,518
Balance at December 31, 2019	29,382	3,162	1,605	34,149
Additions	2,854	84	32	**2,970**
Modification of leases	21	16	(1)	**36**
Disposals	(3,878)	(95)	(50)	**(4,023)**
Reclassifications	(4)	8	(4)	**–**
Exchange movements	(1,439)	(193)	(81)	**(1,713)**
December 31, 2020	**26,936**	**2,982**	**1,501**	**31,419**
Depreciation and impairment				
Balance at January 1, 2019	10,776	1,078	948	12,802
Depreciation charge for the year	1,710	169	90	1,969
Disposals	(447)	(63)	(57)	(567)
Reclassifications	8	–	(8)	–
Exchange movements	660	65	52	777
Balance at December 31, 2019	12,707	1,249	1,025	14,981
Depreciation charge for the year	1,659	165	93	**1,917**
Impairment charge for the year[1]	820	–	22	**842**
Disposals	(2,886)	(52)	(44)	**(2,982)**
Exchange movements	(729)	(80)	(61)	**(870)**
December 31, 2020	**11,571**	**1,282**	**1,035**	**13,888**

1 For details regarding the impairment charge on fleet assets refer to note 3 and the Alternative performance measures section. The impairments principally arose from the permanent grounding of specific fleet assets and accordingly their full net book value was impaired. However, certain fleet assets have been impaired down to their fair value, which was determined based on independent appraisals of their market value.

€ million	Fleet	Property	Equipment	**Total**
Net book values				
December 31, 2020	**15,365**	**1,700**	**466**	**17,531**
December 31, 2019	16,675	1,913	580	19,168
Analysis at December 31, 2020				
Owned	5,457	920	382	**6,759**
Right of use assets (note 13)	9,124	695	56	**9,875**
Progress payments	710	85	28	**823**
Assets not in current use	74	–	–	**74**
Property, plant and equipment	**15,365**	**1,700**	**466**	**17,531**
Analysis at December 31, 2019				
Owned	5,321	1,028	460	6,809
Right of use assets (note 13)	9,746	774	68	10,588
Progress payments	1,525	110	52	1,687
Assets not in current use	83	1	–	84
Property, plant and equipment	16,675	1,913	580	19,168

The net book value of property comprises:

€ million	**2020**	2019
Freehold	**485**	560
Right of use assets (note 13)	**695**	774
Long leasehold improvements > 50 years	**297**	321
Short leasehold improvements < 50 years	**223**	258
Property	**1,700**	1,913

At December 31, 2020, long-term borrowings of the Group are secured on owned fleet assets with a net book value of €2,794 million (2019: €1,576 million).

13 Leases

a Amounts recognised in the Consolidated balance sheet

Property, plant and equipment includes the following amounts relating to right of use assets:

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2019	12,491	734	119	13,344
Additions	1,039	13	16	1,068
Modifications of leases	128	94	–	222
Disposals	(23)	–	–	(23)
Reclassifications[1]	(290)	(4)	(16)	(310)
Exchange movements	509	45	4	558
December 31, 2019	13,854	882	123	14,859
Additions	1,194	58	1	**1,253**
Modifications of leases	21	16	(1)	**36**
Disposals	(77)	(6)	(22)	**(105)**
Reclassifications[1]	(389)	–	3	**(386)**
Exchange movements	(595)	(57)	(5)	**(657)**
December 31, 2020	**14,008**	**893**	**99**	**15,000**
Depreciation and impairment				
Balance at January 1, 2019	3,056	–	36	3,092
Depreciation charge for the year	1,032	104	17	1,153
Disposals	(21)	–	–	(21)
Reclassifications[1]	(123)	–	–	(123)
Exchange movements	164	4	2	170
December 31, 2019	4,108	108	55	4,271
Depreciation charge for the year	1,035	103	15	**1,153**
Impairment charge for the year[2]	161	–	–	**161**
Disposals	(53)	(5)	(22)	**(80)**
Reclassifications[1]	(166)	–	(3)	**(169)**
Exchange movements	(201)	(8)	(2)	**(211)**
December 31, 2020	**4,884**	**198**	**43**	**5,125**
Net book value				
December 31, 2020	**9,124**	**695**	**56**	**9,875**
December 31, 2019	9,746	774	68	10,588

1 Amounts with a net book value of €217 million (2019: €187 million) were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases.
2 For details regarding the impairment charge on fleet assets refer to note 3 and the Alternative performance measures section.

Interest-bearing long-term borrowings includes the following amount relating to lease liabilities:

€ million	**2020**	2019
January 1	**11,046**	11,123
Additions	**1,179**	1,017
Modifications of leases	**20**	182
Repayments	**(1,919)**	(1,941)
Interest expense	**442**	489
Exchange movements	**(744)**	176
December 31	**10,024**	11,046
Current	**1,560**	1,694
Non-current	**8,464**	9,352

13 Leases continued

b Amounts recognised in the Consolidated income statement

€ million	2020	2019
Amounts not included in the measurement of lease liabilities		
Variable lease payments	**1**	28
Expenses relating to short-term leases	**42**	74
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	**–**	1
Amounts expensed as a result of the recognition of ROU assets and lease liabilities		
Interest expense on lease liabilities	**442**	489
Gain arising from sale and leaseback transactions	**(10)**	(1)
Depreciation charge for the year	**1,153**	1,153
Impairment charge for the year	**161**	–

During 2020 the IASB issued ‘COVID-19 related rent concessions – amendment to IFRS 16 Leases’ to provide a practical expedient to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions for those lease modifications arising as a direct result of COVID-19. The Group has applied this practical expedient to all such modifications in the preparation of the consolidated financial statements. The net impact on the Income statement for 2020 has been a credit of €2 million reflecting the changes to lease payments that arose from such concessions.

c Amounts recognised in the Consolidated cash flow statement

The Group had total cash outflows for leases of €1,997 million in 2020 (2019: €2,057 million).

The Group had total cash inflows associated with sale and leaseback transactions of €898 million (2019: €824 million).

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2020, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed of €183 million (2019: €787 million).

d Maturity profile of the lease liabilities.

The maturity profile of the lease liabilities is disclosed in note 25e.

e Extension options

The Group has certain leases which contain extension options exercisable by the Group prior to the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options.

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2020, for which no amount has been recognised, for potential extension options of €998 million (2019: €871 million) due to it not being reasonably certain that these leases will be extended.

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,545 million (December 31, 2019: €12,830 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €10,485 million for the acquisition of 26 Airbus A320s (from 2021 to 2025), 38 Airbus A321s (from 2021 to 2024), 1 Airbus A330-300 (in 2021), 26 Airbus A350s (from 2021 to 2024), 18 Boeing 777-9s (from 2024 to 2027), 10 Boeing 787-10s (from 2021 to 2024) and 2 Embraer E190s (in 2021). The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2020.

15 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Software	Other	Total
Cost							
Balance at January 1, 2019	595	451	253	1,559	1,116	211	4,185
Additions	–	–	–	5	232	120	357
Disposals	–	–	–	–	(28)	(55)	(83)
Exchange movements	3	–	–	52	56	6	117
Balance at December 31, 2019	598	451	253	1,616	1,376	282	4,576
Additions	–	–	–	–	141	51	**192**
Disposals	–	–	–	–	(18)	(121)	**(139)**
Reclassifications	–	–	–	–	43	(46)	**(3)**
Exchange movements	(5)	–	–	(61)	(68)	(5)	**(139)**
December 31, 2020	**593**	**451**	**253**	**1,555**	**1,474**	**161**	**4,487**
Amortisation and impairment							
Balance at January 1, 2019	249	–	–	106	577	55	987
Amortisation charge for the year	–	–	–	6	131	5	142
Disposals	–	–	–	–	(28)	–	(28)
Exchange movements	–	–	–	3	30	–	33
Balance at December 31, 2019	249	–	–	115	710	60	1,134
Amortisation charge for the year	–	–	–	6	151	4	**161**
Impairment charge for the year	–	–	–	15	20	–	**35**
Disposals	–	–	–	–	(7)	–	**(7)**
Exchange movements	–	–	–	(4)	(38)	(2)	**(44)**
December 31, 2020	**249**	**–**	**–**	**132**	**836**	**62**	**1,279**
Net book values							
December 31, 2020	**344**	**451**	**253**	**1,423**	**638**	**99**	**3,208**
December 31, 2019	349	451	253	1,501	666	222	3,442

1 The net book value includes non-UK and non-EU based landing rights of €88 million (2019: €94 million) that have a definite life. The remaining life of these landing rights is 15 years.

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill allocated to cash generating units (CGUs) of the Group are:

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2020					
Iberia					
January 1 and December 31, 2020	–	423	306	–	**729**
British Airways					
January 1, 2020	49	816	–	–	**865**
Exchange movements	(5)	(53)	–	–	**(58)**
December 31, 2020	44	763	–	–	**807**
Vueling					
January 1 and December 31, 2020	28	94	35	–	**157**
Aer Lingus					
January 1 and December 31, 2020	272	62	110	–	**444**
IAG Loyalty					
January 1 and December 31, 2020	–	–	–	253	**253**
Other CGUs					
January 1, 2020	–	12	–	–	**12**
Impairment charge for the year	–	(12)	–	–	**(12)**
December 31, 2020	–	–	–	–	**–**
December 31, 2020	**344**	**1,342**	**451**	**253**	**2,390**

15 Intangible assets and impairment review continued

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2019					
Iberia					
January 1 and December 31, 2019	–	423	306	–	729
British Airways					
January 1, 2019	46	767	–	–	813
Exchange movements	3	49	–	–	52
December 31, 2019	49	816	–	–	865
Vueling					
January 1, 2019	28	89	35	–	152
Additions	–	5	–	–	5
December 31, 2019	28	94	35	–	157
Aer Lingus					
January 1 and December 31, 2019	272	62	110	–	444
IAG Loyalty					
January 1 and December 31, 2019	–	–	–	253	253
Other CGUs					
January 1 and December 31, 2019	–	12	–	–	12
December 31, 2019	349	1,407	451	253	2,460

Basis for calculating recoverable amount

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

Annually the relevant operating companies prepare and approve three-year business plans, and the Board approved the Group three-year business plan in the fourth quarter of the year. The business plan cash flows used in the value-in-use calculations reflect the Group's estimated climate related impacts that are foreseeable and reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

The value-in-use calculations for each CGU reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity from 2021 through to the end of 2023 and an increase in the pre-tax discount rates to incorporate increased equity market volatility. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

	2020				
Per cent	**British Airways**	**Iberia**	**Vueling**	**Aer Lingus**	**IAG Loyalty**
Operating margin	**(20)-16**	**(12)-11**	**(22)-12**	**(14)-13**	**25-27**
ASK as a proportion of 2019[1]	**45-95**	**49-98**	**46-107**	**40-100**	**n/a**
Long-term growth rate	**2.1**	**2.0**	**1.8**	**1.9**	**2.0**
Pre-tax discount rate	**11.2**	**11.6**	**11.5**	**10.4**	**10.3**

1 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.

	2019				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin	15	10-15	10-14	13-15	20-23
Average ASK growth per annum	2-4	3	1-5	2-11	n/a
Long-term growth rate	2.2	1.8	1.5	1.8	1.8
Pre-tax discount rate	8.0	9.1	9.4	8.0	8.5

Jet fuel price ($ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
2020	**373**	**420**	**449**	**449**
2019	639	612	598	598

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

The long-term growth rate is calculated for each CGU based on the forecast weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). 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 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 the Group's existing debt structure. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

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

Summary of results

At December 31, 2020 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 per cent in each year, ASKs by 5 per cent in each year, long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the base case and the downside case to be 100 per cent weighted towards the downside case, and increasing the fuel price by 40 per cent. These sensitivities, in part, incorporate the potential impact that climate related risks would have on the Group.

For the British Airways, Iberia and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €8,702 million, €1,701 million and €1,348 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes in assumptions in each of the following scenarios:

- *British Airways*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 19 per cent; and (ii) if the fuel price had been 36 per cent higher;
- *Iberia*: (i) if ASKs had been five per cent lower combined with a reduction of the long-term growth rate to 0.2 per cent; and (ii) if operating margin had been two per cent lower combined with a reduction of the long-term growth rate to 1.7 per cent; (iii) if ASKs had been five per cent lower combined with a fuel price increase of 8 per cent; and (iv) if the fuel price had been 20 per cent higher; and
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 26 per cent.

For the remainder of the reasonable possible changes in key assumptions applied to the British Airways, Iberia and Aer Lingus CGUs and for all the reasonable possible changes in key assumptions applied to the remaining CGUs, no impairment arises.

For impairment charges recognised in relation to landing rights and fleet assets stood down permanently at December 31, 2020, refer to note 3 and the Alternative performance measures section.

16 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2020 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly do not differ from the proportion of ordinary shares held. There have been no significant changes in ownership interests of subsidiaries during the year.

The total non-controlling interest at December 31, 2020 is €6 million (2019: €6 million).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

16 Investments continued

b Investments in associates and joint ventures

The share of assets, liabilities, revenue and profit of the Group's associates and joint ventures, which are included in the Group's financial statements, are as follows:

€ million	2020	2019
Total assets	**73**	122
Total liabilities	**(50)**	(92)
Revenue	**22**	112
Profit for the year	**1**	6

The detail of the movement in Investment in associates and joint ventures is shown as follows:

€ million	2020	2019
At beginning of year	**31**	31
Share of retained profits	**1**	6
Dividends received	**(3)**	(5)
Exchange movements	**–**	(1)
	29	31

At December 31, 2020 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both December 31, 2020 and December 31, 2019 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

17 Other equity investments

Other equity investments include the following:

€ million	2020	2019
Listed securities		
Comair Limited	**–**	10
Unlisted securities	**29**	72
	29	82

The credit relating to other equity investments was €1 million (2019: €3 million).

18 Trade and other receivables

€ million	2020	2019
Amounts falling due within one year		
Trade receivables	**682**	2,368
Provision for expected credit loss	**(125)**	(113)
Net trade receivables	**557**	2,255
Prepayments and accrued income	**596**	1,040
Other non-trade receivables	**196**	274
	1,349	3,569
Amounts falling due after one year		
Prepayments and accrued income	**226**	258
Other non-trade receivables	**2**	15
	228	273

Movements in the provision for expected credit loss were as follows:

€ million	2020	2019
At beginning of year	**113**	98
Provided during the year	**18**	22
Released during the year	**(2)**	(1)
Receivables written off during the year	**(1)**	(8)
Exchange movements	**(3)**	2
	125	113

Trade receivables are generally non-interest-bearing and on 30 days terms (2019: 30 days).

The credit risk exposure on the Group's trade receivables is set out below:

December 31, 2020

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	345	114	88	11	124
Expected credit loss rate	0.9%	0.2%	1.1%	72.7%	91.1%
Provision for expected credit loss	3	-	1	8	113

December 31, 2019

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	1,411	198	338	78	343
Expected credit loss rate	0.03%	0.2%	0.9%	9.0%	29.7%
Provision for expected credit loss	1	-	3	7	102

19 Cash, cash equivalents and other current interest-bearing deposits

€ million	2020	2019
Cash at bank and in hand	1,882	2,320
Short-term deposits maturing within three months	3,892	1,742
Cash and cash equivalents	5,774	4,062
Current interest-bearing deposits maturing after three months	143	2,621
Cash, cash equivalents and other interest-bearing deposits	5,917	6,683

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are for periods up to three months and earn interest based on the floating deposit rates.

At December 31, 2020 the Group had no outstanding bank overdrafts (2019: nil).

Current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2020 Aer Lingus held €38 million of restricted cash (2019: €41 million) within interest-bearing deposits maturing after more than three months to be used for employee-related obligations.

a Net debt

Movements in net debt were as follows:

€ million	Balance at January 1, 2020	Cash flows	Exchange movements	New leases and modifications	Non-cash	**Balance at December 31, 2020**
Bank, other loans, asset financed liabilities and other financing liabilities	3,208	2,589	(227)	–	85	5,655
Lease liabilities	11,046	(1,536)	(726)	1,179	61	10,024
Liabilities from financing activities	14,254	1,053	(953)	1,179	146	15,679
Cash and cash equivalents	(4,062)	(1,940)	228	–	–	(5,774)
Current interest-bearing deposits	(2,621)	2,366	112	–	–	(143)
	7,571	1,479	(613)	1,179	146	9,762

€ million	Balance at January 1, 2019	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at December 31, 2019
Bank, other loans and asset financed liabilities	1,581	1,556	(12)	–	83	3,208
Lease liabilities	11,123	(1,507)	176	1,199	55	11,046
Liabilities from financing activities	12,704	49	164	1,199	138	14,254
Cash and cash equivalents	(3,837)	(85)	(140)	–	–	(4,062)
Current interest-bearing deposits	(2,437)	(103)	(81)	–	–	(2,621)
	6,430	(139)	(57)	1,199	138	7,571

20 Trade and other payables

€ million	2020	2019
Trade creditors[1]	**1,609**	2,311
Other creditors	**679**	1,099
Other taxation and social security	**149**	271
Accruals and deferred income	**373**	663
	2,810	4,344

1 Trade creditors includes €55 million (2019: €nil) due to suppliers that have signed up to supply chain financing programmes offered by a number of partner financial institutions. Under these programmes either or both: (i) the suppliers can elect on an invoice-by-invoice basis to receive a discounted early payment from the partner financial institutions rather than being paid in line with the agreed payment terms; and/or (ii) the Group elects on an invoice-by-invoice basis for the partner financial institution to pay the supplier in line with the agreed payment terms and the Group enters into payment terms with the partner financial institution of up to 120 days with interest incurred at rates between 2.5 per cent and 3.5 per cent.

The Group assesses the arrangement against indicators to assess if liabilities which suppliers have transferred to the partner financial institutions under the supplier financing programmes continue to meet the definition of trade creditors or should be classified as borrowings. The cash flows arising from such arrangements are reported within cash flows from operating activities or within cash flows from financing activities, in the Consolidated cash flow statement, depending on whether the associated liabilities meet the definition of trade creditors or as borrowings.

At December 31, 2020 the liabilities met the criteria of Trade creditors and are excluded from the Net debt table in note 19a.

Average payment days to suppliers – Spanish Group companies

Days	2020	2019
Average payment days for payment to suppliers	**43**	33
Ratio of transactions paid	**36**	32
Ratio of transactions outstanding for payment	**135**	43

€ million	2020	2019
Total payments made	**3,694**	7,165
Total payments outstanding	**293**	114

21 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2020	1,917	3,569	**5,486**
Changes in estimates	–	291	**291**
Revenue recognised in the income statement[1, 2]	(260)	(6,032)	**(6,292)**
Loyalty points issued to customers	361	8	**369**
Cash received from customers[3, 4]	850	4,714	**5,564**
Exchange movements	(143)	(145)	**(288)**
Balance at December 31, 2020	**2,725**	**2,405**	**5,130**
Analysis:			
Current	2,252	2,405	**4,657**
Non-current	473	–	**473**
	2,725	**2,405**	**5,130**

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2019	1,769	3,066	4,835
Changes in estimates	6	(20)	(14)
Revenue recognised in the income statement[1, 2]	(805)	(22,691)	(23,496)
Loyalty points issued to customers	844	47	891
Cash received from customers[4]	–	23,029	23,029
Exchange movements	103	138	241
Balance at December 31, 2019	1,917	3,569	5,486

1 Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the Income statement net of the related costs.
2 Included within revenue recognised in the Income statement is an amount of €2,006 million previously held as deferred revenue at January 1, 2020 (at January 1, 2019: €3,361 million).
3 Included within cash received from customers is an amount of €830 million received from American Express upon signing of the multi-year commercial partnership renewal with IAG Loyalty and unwinds over the duration of the contract term as the associated performance obligations are fulfilled.
4 Cash received from customers is net of refunds.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios. Avios are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. Avios do not have an expiry date and can be redeemed at any time in the future. Revenue may therefore be recognised at any time in the future.

Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period, however, with the significant disruption caused by the COVID-19 pandemic, the Group has extended the expiry period up to 24 months after the planned travel date, depending on the operating company.

22 Other long-term liabilities

€ million	**2020**	2019
Non-current trade creditors	**49**	6
Accruals and deferred income	**91**	65
	140	71

23 Long-term borrowings

a Current

€ million	**2020**	2019
Bank and other loans	**90**	75
Bank and other loans less than 12 months[1]	**329**	–
Asset financed liabilities	**139**	74
Other financing liabilities[2]	**97**	–
Lease liabilities	**1,560**	1,694
Interest-bearing borrowings	**2,215**	1,843

1 Bank and other loans less than 12 months represents borrowings with a term on inception of less than 12 months in duration.
2 Other financing liabilities include sale and repurchase agreements entered into during the course of 2020 with regard to emission allowances and represents the amount the Group is expected to repurchase during the course of 2021.

b Non-current

€ million	**2020**	2019
Bank and other loans	**2,950**	1,879
Asset financed liabilities	**2,050**	1,180
Lease liabilities	**8,464**	9,352
Interest-bearing borrowings	**13,464**	12,411

Banks and other loans are repayable up to the year 2027. Long-term borrowings of the Group amounting to €2,412 million (2019: €1,520 million) are secured on owned fleet assets with a net book value of €2,794 million (2019: €1,576 million) (note 12). Asset financing liabilities are all secured on the associated aircraft or property, plant and equipment.

On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility, issuing commercial paper to the Government of the United Kingdom of €328 million (£298 million) and repayable in April 2021 for a principal value of £300 million.

On May 1, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements backed by Spain's ICO for €750 million and €260 million, respectively. The facilities are amortising from April 30, 2023 with maturity in 2025.

On May 19, 2020, British Airways entered into a syndicated mortgage loan of €639 million ($750 million) secured on specific aircraft. The loan was repaid in full on December 17, 2020.

On June 10, 2020, Iberia entered into a mortgage loan of €194 million ($228 million) secured on specific aircraft. The loan was repaid in full on December 22, 2020.

On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. The facility is repayable in 2023.

In July 2019, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1 billion; €500 million fixed rate 0.50 per cent due in 2023, and €500 million fixed rate 1.50 per cent due in 2027.

During 2019 the Group early redeemed all of the €500 million 0.25 per cent convertible bonds due in 2020.

23 Long-term borrowings continued

In November 2020, the Group entered into an asset-financing structure, under which nine aircraft were sold and leased back by December 31, 2020, with a further five aircraft expected to be sold and leased back during 2021. These transactions mature between 2028 and 2032. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2020-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). Accordingly as at December 31, 2020, the Group recognised €472 million of Asset financed liabilities with a further €351 million expected to arise during the aforementioned sale and lease backs during 2021.

In the third quarter of 2019, the Group entered into an asset-financing structure, under which eight aircraft were sold and leased back, during the course of 2019 and 2020, with the transactions maturing between 2029 and 2034. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2019-1. In doing so the Group recognised €725 million of Asset financed liabilities.

As at December 31, 2020, Asset financed liabilities include cumulative amounts of €1,312 million (2019: €416 million) associated with transactions with unconsolidated structured entities having issued EETCs.

c Total borrowings

€ million	2020	2019
Interest-bearing long-term borrowings	**13,464**	12,411
Bank and other loans less than 12 months	**329**	–
Current portion of long-term borrowings	**1,886**	1,843
Interest-bearing long-term borrowings	**15,679**	14,254

d Bank and other loans

€ million	2020	2019
Floating rate ICO guaranteed loans[1]	**1,009**	–
€500 million fixed rate 0.50 per cent bond 2023[2]	**498**	497
€500 million fixed rate 1.50 per cent bond 2027[2]	**497**	496
€500 million fixed rate 0.625 per cent convertible bond 2022[3]	**480**	470
CCFF pound sterling commercial paper[4]	**329**	–
Floating rate euro mortgage loans secured on aircraft[5]	**198**	226
Fixed rate unsecured bonds[6]	**137**	136
Fixed rate unsecured US dollar mortgage loan[7]	**97**	71
ISIF facility[8]	**75**	–
Fixed rate Chinese yuan mortgage loans secured on aircraft[9]	**25**	40
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[10]	**24**	18
	3,369	1,954
Less current instalments due on bank and other loans	**(419)**	(75)
	2,950	1,879

1 On April 30, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. The loans are repayable between 2023 and 2025. The ICO in Spain guarantees 70 per cent of the value of loans. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.
2 In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds bear a fixed rate of interest of 0.5 per cent and 1.5 per cent per annum annually payable in arrears, respectively. The bonds were issued at 99.417 per cent and 98.803 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
3 Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 40,306,653 options related to the bond were outstanding at December 31, 2020.
4 On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility (CCFF) implemented by the Government of the United Kingdom. Under the CCFF, British Airways issued commercial paper to the government of the United Kingdom of €328 million (£298 million). This loan is repayable in April 2021.
5 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.04 and 1.01 per cent. The loans are repayable between 2024 and 2027.
6 Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.
7 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.38 to 2.86 per cent. The loan is repayable between 2023 and 2026.
8 On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. The facility is repayable in 2023.
9 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.
10 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2021 and 2028.

e Total loans, lease liabilities, other financing liabilities and asset financed liabilities

Million	2020	2019
Loans		
Bank:		
US dollar	**$121**	$79
Pound sterling	**£299**	£-
Euro	**€1,303**	€380
Chinese yuan	**CNY 201**	CNY 314
	€1,756	€491
Fixed rate bonds:		
Euro	**€1,613**	€1,463
	€1,613	€1,463
Asset financed liabilities		
US dollar	**$2,080**	$996
Euro	**€448**	€319
Japanese yen	**¥4,883**	¥4,867
	€2,189	€1,254
Other financing liabilities		
Euro	**€97**	€-
	€97	€-
Lease liabilities		
US dollar	**$8,436**	$8,408
Euro	**€1,858**	€2,142
Japanese yen	**¥74,734**	¥77,984
Pound sterling	**£608**	£597
	€10,024	€11,046
Total interest-bearing borrowings	**€15,679**	€14,254

24 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2020	1,675	528	664	82	98	**3,047**
Reclassifications	–	–	–	(22)	–	**(22)**
Provisions recorded during the year	377	320	76	42	31	**846**
Utilised during the year	(213)	(383)	(27)	(9)	(29)	**(661)**
Release of unused amounts	(136)	(27)	–	(7)	(4)	**(174)**
Unwinding of discount	10	–	3	1	–	**14**
Exchange differences	(125)	(6)	(2)	(3)	(2)	**(138)**
Net book value December 31, 2020	**1,588**	**432**	**714**	**84**	**94**	**2,912**
Analysis:						
Current	270	200	62	47	47	**626**
Non-current	1,318	232	652	37	47	**2,286**
	1,588	**432**	**714**	**84**	**94**	**2,912**

24 Provisions continued

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under lease. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Such costs are capitalised within ROU assets. The provision is long-term in nature, typically covering the leased asset term, which for aircraft is up to 12 years.

During 2020, as part of certain lease modifications, these pre-existing restoration and handback conditions have been removed and the associated provision released to the Income statement.

Within the amounts included in the additions to this provision is €37 million relating to the recognition of contractual lease provisions, representing the estimation of the additional cost to fulfil the handback conditions associated with the aforementioned leased aircraft that have been permanently stood down and impaired.

Restructuring provisions

Included within the restructuring provision is an amount of €72 million that relates to the voluntary and compulsory redundancies arising in British Airways, Aer Lingus and LEVEL from the restructuring plans related to COVID-19. While the majority of employees affected by these restructuring plans had left the Group as at December 31, 2020, there remains a small portion of employees expected to leave the Group over 2021. Refer to note 3 and the Alternative performance measures section for further information.

In addition, the restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan implemented prior to 2020, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.00 per cent. The payments related to this provision will continue over the next eight years.

At December 31, 2020, €428 million of this provision related to collective redundancy programmes (2019: €513 million).

Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who, having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2020 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.37 per cent and 0.00 per cent (2019: iBoxx index of 0.59 per cent and 0.00 per cent) depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase (2019: 1.50 per cent annual increase) in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €654 million at December 31, 2020 (2019: €600 million).

Legal claims provisions

Legal claims provisions include:

- Amounts for multi-party claims from groups of employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination; and
- Amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

The final amount required to pay the remaining claims and fines is subject to uncertainty (note 31).

Reclassifications from legal claims provisions include an amount of €22 million relating to the theft of customer data at British Airways in 2018, which following the issue of the penalty notice by the UK Information Commissioner's Office on October 16, 2020 has been reclassified to Other creditors.

Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted.

25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk and liquidity risk. Further information on the Group's financial exposure to these risks is disclosed on note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial markets movements.

The Group Treasury department is responsible for the oversight of the financial risk management. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other foreign exchange currencies and interest rate risks are also the subject of the Financial Risk Management. The IAG Audit and Compliance Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the approved hedging levels. Each operating company Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The Group Treasury department provides a bi-annual report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy and risk appetite once a year.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while aiming that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The Group Treasury Policies determine the list of approved over the counter (OTC) derivative instruments that can be contracted with approved counterparties.

The Group strategy is to hedge a proportion of fuel consumption up to three years within the approved hedging profile.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

2020			2019		
Increase/(decrease) in fuel price per cent	**Effect on result before tax € million**	**Effect on equity € million**	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	**189**	**525**	30	-	1,774
(30)	**(219)**	**(664)**	(30)	-	(1,824)

During the year to December 31, 2020, following a substantial fall in the global price of crude oil and associated products, the fair value of such net liability derivative instruments was €778 million at December 31, 2020, representing a loss of €650 million since January 1, 2020, which was recognised in Other comprehensive income. In addition, with the substantial decline in demand for air travel and the grounding of the majority of the fleet during the second quarter of 2020, a significant proportion of the associated hedge relationships were no longer expected to occur and subsequently fuel hedge accounting was discontinued. As a result of this discontinuance, €1,781 million of the losses were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs.

The loss arising from the discontinuance of fuel hedge accounting has been recorded as an exceptional item. Refer to note 3 and the Alternative performance measures section for further details.

b Foreign currency risk

The Group presents its consolidated financial statements in euros, has subsidiaries with functional currencies in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The Group strategy is to hedge a proportion of up to three years within the approved hedging profile.

Each operating company hedges its net balance sheet assets and liabilities in US dollars through a rolling hedging programme using a number of derivative instruments to minimise the profit and loss volatility arising from revaluation of these items into its functional currency. British Airways utilises its euro, Japanese yen and Chinese yuan debt repayments as a hedge of future euro, Japanese yen and Chinese yuan revenues.

25 Financial risk management objectives and policies continued

The following table demonstrates the sensitivity of the Group's principal foreign exchange derivative exposure to a reasonable possible change in the US dollar, pound sterling and Japanese yen exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million
2020	**10**	**885**	**297**	**10**	**162**	**(167)**	**10**	**(10)**	**(42)**
	(10)	**(931)**	**(359)**	**(10)**	**(161)**	**157**	**(10)**	**10**	**42**
2019	10	22	388	10	(23)	(178)	10	(1)	(58)
	(10)	–	(365)	(10)	20	171	(10)	2	58

At December 31, 2020, the fair value of foreign currency net liability derivatives instruments was €321 million, representing a loss of €430 million, since January 1, 2020, which was recognised in Other comprehensive income. Similar to the fuel price risk above, a significant proportion of the hedge relationships associated with fuel foreign currency derivatives and revenue foreign currency derivatives were no longer expected to occur and subsequently were discontinued. As a result of this discontinuance, €116 million of the gains associated with the fuel foreign currency derivatives and €56 million of the losses associated with the revenue foreign currency derivatives were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue, respectively.

The gain arising from the discontinuance of foreign currency hedge accounting has been recorded as an exceptional item. Refer to note 3 and the Alternative performance measures section for further details.

c Interest rate risk

The Group is exposed to changes in interest rates on financial debt, leases, sale and lease backs and on cash deposits.

Interest rate risk on floating rate debt is managed through a list of approved OTC derivative instruments that can be contracted with approved counterparties. After taking into account the impact of these derivatives, 64 per cent of the Group's borrowings were at fixed rates and 36 per cent were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and sterling interest rates, on result before tax and equity:

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2020	**50**	**–**	**-**	**50**	**9**	**(8)**	**50**	**–**	**–**
	(50)	**–**	**-**	**(50)**	**(9)**	**7**	**(50)**	**–**	**–**
2019	50	–	19	50	(2)	16	50	2	–
	(50)	–	(19)	(50)	2	(13)	(50)	(2)	–

For details regarding the Group's management of interest rate benchmark reform, refer to note 25h.

d Counterparty risk

The Group is exposed to the non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

The financial assets recognised in the financial statements, net of impairment losses (if any), represent the Group's maximum exposure to credit risk, without taking account any guarantees in place or other credit enhancements.

At December 31, 2020 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2020**	2019
United Kingdom	**53%**	41%
Spain	**3%**	3%
Ireland	**7%**	3%
Rest of Eurozone	**16%**	30%
Rest of world	**21%**	23%

e Liquidity risk

The Group invests cash in interest-bearing accounts, time deposits and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom to readily generate cash inflows required to manage liquidity risk. The Group has also committed revolving credit facilities.

At December 31, 2020 the Group had undrawn overdraft facilities of €52 million (2019: €13 million). The Group held undrawn uncommitted money market lines of €nil (2019: €nil).

The Group held undrawn general and committed aircraft financing facilities:

Million	2020 Currency	2020 € equivalent
General facilities[1]		
Euro facilities expiring between January and June 2021	**€126**	**126**
Euro facilities expiring between January and July 2022	**€95**	**95**
US dollar facility expiring June 2021	**$786**	**643**
US dollar facility expiring May 2022	**$50**	**41**
		905
Committed aircraft facilities		
US dollar facility expiring March 2021[2]	**$428**	**351**
US dollar facilities expiring July 2023[3]	**$1,013**	**829**
		1,180

Million	2019 Currency	2019 € equivalent
General facilities[1]		
Euro facilities expiring between January and June 2020	€129	129
US dollar facility expiring June 2020	$1,330	1,196
		1,325
Committed aircraft facilities		
US dollar facilities expiring December 2021[3, 4]	$1,217	1,096

1 The general facilities can be drawn at any time at the discretion of the Group subject to the provision of up to three days' notice of the intended utilisation, depending on the facility.
2 The aircraft facility maturing in 2021 is available for specific committed aircraft deliveries and further information is given in note 23b.
3 The aircraft facilities maturing in 2023 (2019: maturing in 2021) are available for specific committed aircraft deliveries and requires the Group to give three months' notice to the counterparty of its intention to utilise the facilities.
4 The figures relating to the US dollar facilities expiring in December 2021 have been updated to better reflect the amounts available to the Group at December 31, 2019.

The following table analyses the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 2020**
Interest-bearing loans and borrowings:						
Asset financing liabilities	(101)	(97)	(193)	(571)	(1,673)	**(2,635)**
Lease liabilities	(901)	(919)	(1,500)	(4,122)	(5,962)	**(13,404)**
Fixed rate borrowings	(360)	(37)	(631)	(666)	(587)	**(2,281)**
Floating rate borrowings	(78)	(32)	(58)	(1,179)	(41)	**(1,388)**
Other financing liabilities	(97)	–	–	–	–	**(97)**
Trade and other payables	(2,810)	–	–	–	–	**(2,810)**
Derivative financial instruments (assets):						
Forward contracts	73	41	33	8	–	**155**
Fuel derivatives	6	2	1	–	–	**9**
Derivative financial instruments (liabilities):						
Interest rate swaps	(13)	(13)	(25)	(14)	(2)	**(67)**
Forward contracts	(370)	(91)	(115)	(56)	–	**(632)**
Fuel derivatives	(423)	(314)	(108)	(4)	–	**(849)**
December 31, 2020	**(5,074)**	**(1,460)**	**(2,596)**	**(6,604)**	**(8,265)**	**(23,999)**

25 Financial risk management objectives and policies continued

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2019
Interest-bearing loans and borrowings:						
Asset finance obligations	(56)	(49)	(95)	(289)	(988)	(1,477)
Lease liabilities	(1,073)	(957)	(1,753)	(4,505)	(6,289)	(14,577)
Fixed rate borrowings	(20)	(31)	(46)	(1,158)	(599)	(1,854)
Floating rate borrowings	(13)	(17)	(30)	(110)	(67)	(237)
Trade and other payables	(3,881)	–	1	–	–	(3,880)
Derivative financial instruments (assets):						
Aircraft lease hedges	–	–	–	–	–	–
Interest rate derivatives	1	1	1	2	–	5
Foreign exchange contracts	115	116	157	96	–	484
Fuel derivatives	66	25	12	2	–	105
Derivative financial instruments (liabilities):						
Aircraft lease hedges	–	–	–	–	–	–
Interest rate derivatives	(9)	(19)	(18)	(22)	(1)	(69)
Foreign exchange contracts	(47)	(43)	(62)	(86)	–	(238)
Fuel derivatives	(61)	(73)	(90)	(11)	–	(235)
December 31, 2019	(4,978)	(1,047)	(1,923)	(6,081)	(7,944)	(21,973)

f Offsetting financial assets and liabilities

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

December 31, 2020

€ million	Gross value of financial instruments	Gross amounts set off in the balance sheet[1]	**Net amounts of financial instruments in the balance sheet**	Related amounts not offset in the balance sheet[1]	**Net amount**
Financial assets					
Derivative financial assets	165	(1)	**164**	(13)	**151**
Financial liabilities					
Derivative financial liabilities	1,537	(67)	**1,470**	(37)	**1,433**

1 The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As December 31, 2020, the Group recognised €66 million of collateral (2019: €nil) offset in the balance sheet and €24 million (2019: €nil) not offset in the balance sheet.

December 31, 2019

€ million	Gross value of financial instruments	Gross amounts set off in the balance sheet	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	550	42	592	(9)	583
Financial liabilities					
Derivative financial liabilities	580	(42)	538	(9)	529

g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the net debt to EBITDA ratio. For the year to December 31, 2020, the net debt to EBITDA was minus 4.3 times (2019: 1.4 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the going concern section in note 2.

h Managing interest rate benchmark reform and associated risks

Overview

A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

Group Treasury monitors and manages the Group's transition to alternative rates. Group Treasury tracks which contracts reference IBOR, whether such contracts will need to be amended, and how to manage communication about IBOR reform with counterparties.

Derivatives

The Group holds interest rate swaps for risk management purposes which are designated in cash flow hedge relationships. The interest rate swaps have floating legs that are indexed to both US dollar and sterling LIBOR.

Hedge accounting

The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at December 31, 2020. As part of this evaluation, the Group has applied the hedging relief provided by the IFRS 9 amendments for IBOR reform phase one. Certain of the Group's hedged items and hedging instruments continue to be indexed to the aforementioned LIBORs. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual. However, certain of these LIBOR cash flow hedging relationships extend beyond the anticipated cessation date. There is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participant's expectations of when the change in rates will occur, which may differ between the hedged item and the hedging instrument.

The Group's exposure to both US dollar and sterling LIBOR designated in hedging relationships had a nominal amount of €775 million as at December 31, 2020.

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2020 and December 31, 2019 by nature and classification for measurement purposes is as follows:

December 31, 2020

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets					
Other equity investments	–	29	–	–	**29**
Derivative financial instruments	–	–	42	–	**42**
Other non-current assets	119	10	–	99	**228**
Current assets					
Trade receivables	557	–	–	–	**557**
Other current assets	350	–	–	442	**792**
Derivative financial instruments	–	–	122	–	**122**
Other current interest-bearing deposits	143	–	–	–	**143**
Cash and cash equivalents	5,774	–	–	–	**5,774**

	Financial liabilities				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Lease liabilities	8,464	–	–	–	**8,464**
Interest-bearing long-term borrowings	5,000	–	–	–	**5,000**
Derivative financial instruments	–	–	310	–	**310**
Other long-term liabilities	80	–	–	533	**613**
Current liabilities					
Lease liabilities	1,560	–	–	–	**1,560**
Current portion of long-term borrowings	655	–	–	–	**655**
Trade and other payables	2,572	–	–	238	**2,810**
Derivative financial instruments	–	–	1,160	–	**1,160**

26 Financial instruments continued

December 31, 2019

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets					
Other equity investments	–	82	–	–	82
Derivative financial instruments	–	–	268	–	268
Other non-current assets	133	–	–	140	273
Current assets					
Trade receivables	2,255	–	–	–	2,255
Other current assets	414	–	–	900	1,314
Derivative financial instruments	–	–	324	–	324
Other current interest-bearing deposits	2,621	–	–	–	2,621
Cash and cash equivalents	4,062	–	–	–	4,062

	Financial liabilities				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Lease liabilities	9,352	–	–	–	9,352
Interest-bearing long-term borrowings	3,059	–	–	–	3,059
Derivative financial instruments	–	–	286	–	286
Other long-term liabilities	12	–	–	59	71
Current liabilities					
Lease liabilities	1,694	–	–	–	1,694
Current portion of long-term borrowings	149	–	–	–	149
Trade and other payables	3,881	–	–	463	4,344
Derivative financial instruments	–	–	252	–	252

b Fair value of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values and using the following methods and assumptions:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Level 1 methodologies (market values at the balance sheet date) were used to determine the fair value of listed asset investments classified as equity investments and listed interest-bearing borrowings.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Derivative instruments are measured based on the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets.

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

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2020 are as follows:

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Other equity investments	–	–	29	29	**29**
Derivative financial assets:					
Interest rate swaps[1]	–	1	–	1	**1**
Foreign exchange contracts[1]	–	154	–	154	**154**
Fuel derivatives[1]	–	9	–	9	**9**
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	2,417	–	2,417	**2,189**
Fixed rate borrowings	1,510	560	–	2,070	**2,163**
Floating rate borrowings	–	1,206	–	1,206	**1,206**
Other financing liabilities	–	97	–	97	**97**
Derivative financial liabilities:					
Interest rate derivatives[2]	–	63	–	63	**63**
Foreign exchange contracts[2]	–	620	–	620	**620**
Fuel derivatives[2]	–	787	–	787	**787**

1 Current portion of derivative financial assets is €122 million
2 Current portion of derivative financial liabilities is €1,177 million

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2019 are set out below:

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Other equity investments	10	–	72	82	82
Derivative financial assets:					
Interest rate swaps[1]	–	1	–	1	1
Foreign exchange contracts[1]	–	488	–	488	488
Fuel derivatives[1]	–	103	–	103	103
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	1,623	–	1,623	1,254
Fixed rate borrowings	1,640	136	–	1,776	1,728
Floating rate borrowings	–	226	–	226	226
Derivative financial liabilities:					
Interest rate derivatives[2]	–	67	–	67	67
Foreign exchange contracts[2]	–	240	–	240	240
Fuel derivatives[2]	–	231	–	231	231

1 Current portion of derivative financial assets is €324 million.
2 Current portion of derivative financial liabilities is €252 million.

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

The financial instruments listed in the previous table are measured at fair value in the consolidated financial statements, with the exception of interest-bearing borrowings, which are measured at amortised cost.

26 Financial instruments continued

c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	2020	2019
Opening balance for the year	72	63
Additions	3	6
Losses recognised in other comprehensive income	(44)	–
Exchange movements	(2)	3
Closing balance for the year	**29**	72

d Hedges

Cash flow hedges

At December 31, 2020 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayments in foreign currency (predominantly US dollar loan repayments), hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the loans are recognised in equity and transferred to the income statement within revenue when the loan is repaid (generally in instalments over the life of the loan).
- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement or balance sheet to match against the related cash inflow or outflow. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the income statement within fuel, oil costs and emissions charges when the future transaction is no longer expected to occur.
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement within fuel, oil costs and emissions charges to match against the related fuel cash outflow. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the income statement within fuel, oil costs and emissions charges when the future transaction is no longer expected to occur.
- Interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments.

The amounts included in equity including the periods over which the related cash flows are expected to occur are summarised below:

(Gains)/losses in respect of cash flow hedges included within equity € million	2020	2019
Loan repayments to hedge future revenue	220	141
Foreign exchange contracts to hedge future revenue and expenditure[1]	168	(80)
Crude, gas oil and jet kerosene derivative contracts[1]	295	113
Derivatives used to hedge interest rates[1]	66	72
Instruments for which hedge accounting no longer applies[1]	276	355
	1,025	601
Related deferred tax credit	(168)	(94)
Total amount included within equity	**857**	507

1 The carrying value of derivative instruments recognised in assets and liabilities is analysed in parts a and b above.

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below:

Notional principal amounts (€ million)	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2020
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.15 – 1.50	2,402	1,321	442	**4,165**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	0.74 – 1.37	1,009	960	155	**2,124**

1 Represents the value of the hedged item.

Notional principal amounts (€ million)	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2019
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.17-1.51	3,493	1,810	1,359	6,662
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	0.74 – 1.39	1,397	1,091	483	2,971

1 Represents the value of the hedged item.

For the year to December 31, 2020 (€ million)	Amounts recognised in Other comprehensive income[1]	Amounts associated with ineffectiveness recognised in the Income statement[2]	Discontinuance of hedge accounting reclassified to the Income statement	Total recognised (gains)/ losses	Other amounts reclassified to the Income statement	Amounts reclassified to the Balance sheet
Loan repayments to hedge future revenue	**123**	**–**	**(22)**	**101**	**(19)**	**–**
Foreign exchange contracts to hedge future revenue and expenditure	**88**	**–**	**54**	**142**	**55**	**32**
Crude, gas oil and jet kerosene derivative contracts	**2,369**	**2**	**(1,757)**	**614**	**(461)**	**–**
Derivatives used to hedge interest rates	**59**	**–**	**–**	**59**	**(30)**	**(32)**
Instruments for which hedge accounting no longer applies	**–**	**–**	**–**	**–**	**(63)**	**–**
	2,639	**2**	**(1,725)**	**916**	**(518)**	**–**

1 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.
2 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within non-operating items.

For the year to December 31, 2019 (€ million)	Amounts recognised in Other comprehensive income[1]	Amounts associated with ineffectiveness recognised in the Income statement[2]	Total recognised (gains)/ losses	Amounts reclassified to the Income statement	Amounts reclassified to the Balance sheet
Loan repayments to hedge future revenue	(106)	–	(106)	(20)	–
Foreign exchange contracts to hedge future revenue and expenditure	20	–	20	99	7
Crude, gas oil and jet kerosene derivative contracts	(622)	8	(614)	(178)	–
Derivatives used to hedge interest rates	56	–	56	(11)	–
Instruments for which hedge accounting no longer applies	(38)	–	(38)	(54)	–
	(690)	8	(682)	(164)	7

1 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.
2 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within non-operating items.

The losses associated with the discontinuance of hedge accounting recognised in the Income statement and the subsequent fair value movements of those derivative instruments recorded in the Income statement through to the earlier of the balance sheet date and the maturity date of the derivative are set out below:

€ million	**2020**	2019
Losses associated with the discontinuance of hedge accounting recognised in the Income statement	**1,725**	–
Fair value movements subsequently recorded in the Income statement	**31**	–
Total effect of discontinuance of hedge accounting in the Income statement[1]	**1,756**	–

1 Refer to note 3 and the Alternative performance measures section.

The Group has no significant fair value hedges at December 31, 2020 and 2019.

27 Share capital, share premium and treasury shares

Allotted, called up and fully paid	Number of shares '000s	Ordinary share capital € million	Share premium € million
January 1, 2019: Ordinary shares of €0.50 each	1,992,033	996	6,022
Special 2018 dividend of €0.35 per share			(695)
January 1, 2020: Ordinary shares of €0.50 each	1,992,033	996	5,327
Share capital reduction		(797)	
Rights issue	2,979,443	298	2,443
December 31, 2020: Ordinary shares of €0.10 each	**4,971,476**	**497**	**7,770**

a Share capital reduction

On September 8, 2020, the Company undertook a share capital reduction of €797 million, that reduced the nominal value of each ordinary share from €0.50 per share to €0.10 per share. A corresponding amount has been recognised within Capital reserves (note 29).

b Rights issue

On October 2, 2020, the Company raised €2,741 million (and incurred related transaction costs of €70 million as detailed in Note 29) through a rights issue of 2,979,443,376 new ordinary shares at a price of 92 € cents per share on the basis of 3 shares for every 2 existing shares.

In accordance with accounting standards, the discount element inherent in the rights issue has been accounted for as a bonus issue of 1,071,565 thousand shares. Earnings per share information (note 10) has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the bonus shares.

c Treasury shares

A total of 2.6 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2020 the Group held 5.1 million shares (2019: 7.7 million) which represented 0.10 per cent of the issued share capital of the Company.

28 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at 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 performance period, before 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.

In 2020, the outstanding PSP awards granted to participants other than Executive Directors from 2018 onwards were modified, and the resulting incremental fair value granted of £1.61 per award is recognised over the remaining vesting period.

b IAG Incentive Award Deferral Plan

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

c Share-based payment schemes summary

	Outstanding at January 1, 2020 '000s	Granted number '000s	Rights issue adjustment '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2020 '000s**	Vested and exercisable December 31, 2020 '000s
Performance Share Plans	19,178	7,388	11,323	3,275	1,814	**32,800**	1,299
Incentive Award Deferral Plans	4,473	1,694	2,795	12	583	**8,367**	14
	23,651	**9,082**	**14,118**	**3,287**	**2,397**	**41,167**	**1,313**

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2020 was £3.89 (2019: not applicable).

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo valuation model, taking into account the terms and conditions upon which the plans were granted, used the following assumptions:

	December 31, 2020	December 31, 2019
Expected share price volatility (per cent)	**35**	35
Expected comparator group volatility (per cent)	**20**	20
Expected comparator group correlation (per cent)	**70**	55
Expected life of options (years)	**4.6**	4.8
Weighted average share price at date of grant (£)	**4.59**	5.67
Weighted average fair value (£)	**1.84**	1.93

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP also takes into account a market condition of TSR as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge credit of €8 million for the year to December 31, 2020 (2019: €34 million).

29 Other reserves and non-controlling interests

For the year to December 31, 2020

€ million	Other reserves: Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Capital reserves[6]	**Total other reserves**	Non-controlling interest
January 1, 2020	(464)	60	160	62	(2,467)	70	**(2,579)**	6
Other comprehensive loss for the year:								
Cash flow hedges reclassified and reported in net loss:								
Passenger revenue	50	–	–	–	–	–	**50**	–
Fuel and oil costs	356	–	–	–	–	–	**356**	–
Currency differences	18	–	–	–	–	–	**18**	–
Finance costs	12	–	–	–	–	–	**12**	–
Discontinuance of hedge accounting	1,435	–	–	–	–	–	**1,435**	–
Net change in fair value of cash flow hedges	(2,216)	–	–	–	–	–	**(2,216)**	–
Net change in fair value of other equity investments	(53)	–	–	–	–	–	**(53)**	–
Net change in fair value of cost of hedging	–	10	–	–	–	–	**10**	–
Cost of hedging reclassified and reported in the net profit	–	(19)	–	–	–	–	**(19)**	–
Currency translation differences	–	–	(192)	–	–	–	**(192)**	–
Hedges reclassified and reported in property, plant and equipment	(5)	(13)	–	–	–	–	**(18)**	–
Share capital reduction	–	–	–	–	–	797	**797**	–
December 31, 2020	**(867)**	**38**	**(32)**	**62**	**(2,467)**	**867**	**(2,399)**	**6**

29 Other reserves and non-controlling interests continued

	Other reserves							
€ million	Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest
January 1, 2019	(1,130)	6	(136)	101	(2,467)	70	(3,556)	6
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	55	–	–	–	–	–	55	–
Fuel and oil costs	106	–	–	–	–	–	106	–
Currency differences	(26)	–	–	–	–	–	(26)	–
Finance costs	6	–	–	–	–	–	6	–
Net change in fair value of cash flow hedges	540	–	–	–	–	–	590	–
Net change in fair value of other equity investments	(8)	–	–	–	–	–	(8)	–
Net change in fair value of cost of hedging	–	68	–	–	–	–	18	–
Cost of hedging reclassified and reported in the net profit	–	(10)	–	–	–	–	(10)	–
Currency translation differences	–	–	296	–	–	–	296	–
Hedges reclassified and reported in property, plant and equipment	(7)	(4)	–	–	–	–	(11)	–
Redemption of convertible bond	–	–	–	(39)	–	–	(39)	–
December 31, 2019	(464)	60	160	62	(2,467)	70	(2,579)	6

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The amounts at December 31, 2020 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €9 million credit and €891 million charge respectively.
2 The cost of hedging reserve records, amongst others, fair value changes on the time value of options.
3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.
4 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2019, this related to the €500 million fixed rate 0.625 per cent convertible bond (note 23). During 2019 the Group exercised its option to early redeem the €500 million fixed rate 0.25 per cent convertible bond with no conversion to ordinary shares.
5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).
6 Capital reserves include a Redeemed capital reserve of €70 million (2019: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2019: nil) associated with a reduction in the nominal value of the Company's share capital (note 27).

30 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 24).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2020 were €235 million (2019: €262 million).

Defined benefit schemes

APS and NAPS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. NAPS has been closed to new members since 2004 and closed to future accrual since 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments has been made in the valuation of the defined benefit obligation on the expected outcome of the 2021 valuation. The NAPS actuarial valuation at March 31, 2018 resulted in a deficit of €2,736 million.

APS has been closed to new members since 1984, but remains open to future accrual. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment. The APS actuarial valuation at March 31, 2018 resulted in a surplus of €683 million.

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two schemes is common. Some main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three sub committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at March 31, 2018 with respect to NAPS (see note 30i below). The actuarial valuations performed as at March 31, 2018 for APS and NAPS are different to the valuation performed as at December 31, 2019 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Group of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

Other plans

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

The defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk, including currency risk.

Cash payments

Cash payments in respect to pension obligations comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2020 net of service costs were €313 million (2019: €865 million) being the employer contributions of €318 million (2019: €870 million) less the current service cost of €5 million (2019: €5 million) (note 30b).

On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between October 1, 2020 and January 31, 2021. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions previously agreed in October 2019 on the March 31, 2018 valuation, through to September 30, 2021. Under this deferral agreement, the deferred payments will be incorporated into the future deficit payment plan and associated deficit contributions arising from the triennial valuation of the NAPS scheme as at March 31, 2021. If the future deficit payment plan has not been agreed by September 30, 2021, the default position is that British Airways will return to making payments of €41 million (£38 million) per month from October 2021.

a Employee benefit schemes recognised on the Balance Sheet

	2020			
€ million	**APS**	**NAPS**	**Other[1]**	**Total**
Scheme assets at fair value	**8,537**	**22,240**	**408**	**31,185**
Present value of scheme liabilities	**(8,143)**	**(22,151)**	**(714)**	**(31,008)**
Net pension asset/(liability)	**394**	**89**	**(306)**	**177**
Effect of the asset ceiling[2]	**(124)**	**(479)**	**–**	**(603)**
Other employee benefit obligations	**–**	**–**	**(11)**	**(11)**
December 31, 2020	**270**	**(390)**	**(317)**	**(437)**
Represented by:				
Employee benefit assets				**282**
Employee benefit obligations				**(719)**
				(437)

	2019[3]			
€ million	APS	NAPS	Other[1]	Total
Scheme assets at fair value	8,830	22,423	428	31,681
Present value of scheme liabilities	(8,401)	(21,650)	(731)	(30,782)
Net pension asset/(liability)	429	773	(303)	899
Effect of the asset ceiling[2]	(127)	(847)	–	(974)
Other employee benefit obligations	–	–	(11)	(11)
December 31, 2019	302	(74)	(314)	(86)
Represented by:				
Employee benefit assets				314
Employee benefit obligations				(400)
				(86)

1 The present value of scheme liabilities for the US PRMB was €12 million at December 31, 2020 (2019: €15 million).
2 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.
3 Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at December 31, 2019.

30 Employee benefit obligations continued

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2020	2019
Defined benefit plans:		
Current service cost	**5**	5
Past service cost[1, 2]	**7**	665
	12	670
Defined contribution plans	**235**	262
Pension costs recorded as employee costs	**247**	932

1 Refer to the Alternative performance measures section for amounts recorded within exceptional items in 2019.
2 Includes a past service credit of €nil (2019: €7 million) relating to schemes other than APS and NAPS.

Pension costs charged as finance costs are:

€ million	2020	2019
Interest income on scheme assets	**(599)**	(775)
Interest expense on scheme liabilities	**581**	710
Interest expense on asset ceiling	**14**	39
Net financing income relating to pensions	**(4)**	(26)

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2020	2019[1]
Return on plan assets excluding interest income	**(2,288)**	(1,916)
Remeasurement of plan liabilities from changes in financial assumptions	**3,633**	3,423
Remeasurement of experience (gains)/losses	**(355)**	193
Remeasurement of the APS and NAPS asset ceilings	**(320)**	(1,027)
Exchange movements	**8**	(13)
Pension remeasurements charged to Other comprehensive income	**678**	660

1 Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at December 31, 2019.

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

€ million	2020	2019
January 1	**31,681**	27,600
Interest income	**599**	775
Return on plan assets excluding interest income	**2,288**	1,916
Employer contributions[1]	**313**	870
Employee contributions	**14**	6
Benefits paid	**(1,573)**	(1,269)
Exchange movements	**(2,137)**	1,783
December 31	**31,185**	31,681

1 Includes employer contributions to APS of €2 million (2019: €5 million) and to NAPS of €303 million (2019: €816 million) of which deficit funding payments represented €nil for APS (2019: €nil) and €296 million for NAPS (2019: €797 million).

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations.

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2020	2019
Return seeking investments – equities		
UK	**1,465**	2,310
Rest of world	**4,705**	4,774
	6,170	7,084
Return seeking investments – other		
Private equity	**1,062**	1,035
Property	**1,798**	2,135
Alternative investments	**880**	1,081
	3,740	4,251
Liability matching investments		
UK fixed bonds	**6,868**	6,356
Rest of world fixed bonds	**93**	93
UK index-linked bonds	**6,513**	6,266
Rest of world index-linked bonds	**11**	120
	13,485	12,835
Other		
Cash and cash equivalents	**947**	689
Derivatives	**(228)**	(344)
Insurance contract	**1,660**	1,740
Longevity swap	**4,424**	4,547
Other	**987**	879
	31,185	31,681

All equities and bonds have quoted prices in active markets.

For APS and NAPS, the composition of the scheme assets is:

	December 31, 2020		December 31, 2019	
€ million	**APS**	**NAPS**	APS	NAPS
Return seeking investments	**138**	**9,576**	347	10,844
Liability matching investments	**2,286**	**11,092**	1,897	10,828
	2,424	**20,668**	2,244	21,672
Insurance contract and related longevity swap	**6,058**	**–**	6,260	–
Other	**55**	**1,572**	326	751
Fair value of scheme assets	**8,537**	**22,240**	8,830	22,423

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2020, the benchmark for NAPS was 42.3 per cent (2019: 46 per cent) in return seeking assets and 57.8 per cent (2019: 54 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within. APS no longer has a 'strategic benchmark' as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at December 31, 2020 was 1.4 per cent (2019: 4 per cent) in return seeking assets and 98.6 per cent (2019: 96 per cent) in liability matching investments.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2019: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2019: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract. The fees are linked to LIBOR, and an assumed future LIBOR rate has been derived based on swap prices at December 31, 2020.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pension from APS at March 31, 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are alive on October 1, 2018. Benefits coming into payment for retirements after March 31, 2018 are not covered. The contract covers benefits payable from October 1, 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing insurance products (the asset swap and longevity swaps with Rothesay Life), APS is now 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at March 31, 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index (RPI) basis).

30 Employee benefit obligations continued

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

€ million	2020	2019
January 1	**30,782**	25,383
Current service cost	**5**	5
Past service cost/(credit)	**7**	665
Interest expense	**581**	710
Remeasurements – financial assumptions	**3,633**	3,423
Remeasurements of experience (gains)/losses	**(355)**	193
Benefits paid	**(1,573)**	(1,269)
Employee contributions	**14**	6
Exchange movements	**(2,086)**	1,666
December 31	**31,008**	30,782

The defined benefit obligation comprises €24 million (2019: €30 million) arising from unfunded plans and €30,984 million (2019: €30,752 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling used in calculating the IAS 19 irrecoverable surplus in APS is set out below:

€ million	2020	2019[1]
January 1	**974**	1,868
Interest expense	**14**	39
Remeasurements	**(320)**	(1,027)
Exchange movements	**(65)**	94
December 31	**603**	974

1 Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at December 31, 2019. As at January 1, 2019 the reclassification had the effect of increasing the asset ceiling by €503 million to €1,868 million. As at December 31, 2019, the reclassification had the effect of increasing the remeasurements by €246 million to €1,027 million.

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2020			2019		
Per cent per annum	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate[1]	**1.20**	**1.40**	**0.5 – 2.4**	1.85	2.05	0.8 – 3.2
Rate of increase in pensionable pay[2]	**2.95**	**–**	**2.5**	2.90	–	2.5
Rate of increase of pensions in payment[3]	**2.95**	**2.25**	**1.1 – 3.5**	2.90	2.15	1.2 – 3.5
RPI rate of inflation	**2.95**	**2.80**	**2.5 – 2.7**	2.90	-	2.5 – 2.8
CPI rate of inflation	**2.25**	**2.25**	**1.1 – 3.0**	-	2.15	1.2 – 3.0

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.
2 Rate of increase in pensionable pay is assumed to be in line with increases in RPI.
3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and APS as at December 31, 2020.

Rate of increase in healthcare costs is based on medical trend rates of 6.25 per cent grading down to 5.00 per cent over five years (2019: 6.50 per cent to 5.00 per cent over five years).

In the UK, mortality rates for APS and NAPS are calculated using the standard SAPS mortality tables produced by the CMI. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2020	2019
Life expectancy at age 60 for a:		
– male currently aged 60	**28.2**	28.2
– male currently aged 40	**29.9**	29.9
– female currently aged 60	**29.3**	29.0
– female currently aged 40	**31.8**	31.6

At December 31, 2020, the weighted-average duration of the defined benefit obligation was 12 years for APS (2019: 12 years) and 20 years for NAPS (2019: 19 years).

In the US, mortality rates were based on the MP-2020 mortality tables.

h Sensitivity analysis

Reasonable possible changes at the reporting date to significant actuarial assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

	(Decrease)/increase in scheme liabilities		
€ million	APS	NAPS	Other schemes
Discount rate (decrease of 5 basis points)	(22)	(429)	16
Future salary growth (increase of 10 basis points)	-	-	7
Future pension growth (increase of 10 basis points)	(33)	(374)	3
Future mortality rate (one year increase in life expectancy)	(33)	(826)	5

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2018, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million. In order to address the deficit in the scheme, the Group has also committed to the following undiscounted deficit payments:

€ million	NAPS
Within 12 months	124
2-5 years	1,156
Total expected deficit payments for NAPS	**1,280**

The Group has determined that the minimum funding requirements set out above for NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan, subject to withholding taxes that would be payable by the Trustee.

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

In total, the Group expects to pay €126 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2021. This is made up of €125 million of deficit payments for NAPS after giving consideration to the aforementioned contribution deferral agreement and ongoing employer contributions of €1 million for APS.

Under the contribution deferral agreement between British Airways and the Trustee of NAPS, in the period up to December 31, 2023, no dividend payment is permitted from British Airways to IAG. From 2024 onwards, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. Any such payments to NAPS will reduce the outstanding repayment balance and are capped at that level. The requirement to make such payments to NAPS ceases after deferred contributions have been repaid.

31 Contingent liabilities and guarantees

Details of contingent liabilities are set out below. The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provision for these proceedings has been recognised.

Contingent liabilities associated with income and deferred taxes are presented note 9. For information pertaining to previously reported contingent liabilities associated with the Airways Pension Scheme, refer to note 30. For information pertaining to previous contingent liabilities associated with the theft of customer data at British Airways that have been recognised as legal claims provisions refer to note 24.

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2020 amounted to €56 million (December 31, 2019: €53 million).

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2020 are not expected to result in material losses for the Group.

32 Government grants and assistance

The Group has availed itself of government grants and assistance as follows:

The Coronavirus Job Retention Scheme (CJRS) – recognised net within Employee costs

The CJRS was implemented by the Government of the United Kingdom from March 1, 2020 to August 30, 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.

From September 1, 2020 to September 30, 2020, the level eligibility reduced to 70 per cent of wage costs and up to a maximum of £2,197.50 per month. From October 1, 2020 to October 31, 2020, the level of eligibility reduced to 60 per cent of wage costs and up to a maximum of £1,875 per month. Following the introduction of further lockdown restrictions in the United Kingdom in November 2020, the CJRS was extended from November 1, 2020 to November 30, 2020 and then further to March 31, 2021 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month.

Such costs are paid by the Government to the Group in arrears. The Group is obliged to continue to pay the associated social security costs and employer pension contributions.

32 Government grants and assistance continued

The Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Subsidy Scheme (EWSS) – recognised net within Employee costs

The TWSS was implemented by the government of Ireland from March 1, 2020 to August 30, 2020, where those employees designated as being furloughed workers are eligible to have 85 per cent of their wage costs paid up to a maximum of €410 per week. This scheme was replaced with the EWSS from September 1, 2020 and is expected to run through to March 31, 2021. For those qualifying employees (earning less than €1,462 per week), the government will reimburse wage costs up to a maximum of €350 per week. Such costs are paid by the government to the Group in arrears.

The total amount of the relief received under the CJRS, the TWSS and the EWSS by the Group during 2020 amounted to €344 million (2019: €nil).

Temporary Redundancy Plan (ERTE) – no recognition in the financial statements of the Group

The ERTE was implemented by the government of Spain from March 1, 2020 and is expected to run through to May 31, 2021. Under this plan, employment is temporarily suspended and those designated employees are paid directly by the government and there is no remittance made to the Group. The Group is obliged to continue to pay the associated social security costs.

Had those designated employees not been temporarily suspended during 2020, the Group would have incurred further employee costs of €214 million (2019: €nil).

The Coronavirus Corporate Finance Facility (CCFF) – recognised within Short-term borrowings

On April 12, 2020, British Airways availed itself of the CCFF implemented by the Government of the United Kingdom. Under the CCFF, British Airways received €328 million (£298 million), with interest incurred at the prevailing market rate. Refer to note 23 for further details.

Syndicated financing agreements – recognised within Long-term borrowings

On April 30, 2020, Iberia and Vueling entered into syndicated financing agreements of €750 million and €260 million, respectively, with interest incurred at the prevailing market rate. The *Instituto de Crédito Oficial* ('ICO') in Spain has guaranteed 70 per cent of both financial agreements. Refer to note 23 for further details.

The Ireland Strategic Investment Fund (ISIF) – recognised within Long-term borrowings

On December, 23, 2020, Aer Lingus entered into a financing arrangement for €75 million under the ISIF. Refer to note 23 for further details.

The UK Export Finance (UKEF) – not recognised as at December 31, 2020

On December 31, 2020, British Airways entered into a 5 year term loan Export Development Guarantee Facility of €2.2 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.

33 Related party transactions

The following transactions took place with related parties for the financial years to December 31:

€ million	**2020**	2019
Sales of goods and services		
Sales to associates and joint ventures[1]	**12**	6
Sales to significant shareholders[2]	**23**	32
Purchases of goods and services		
Purchases from associates[3]	**42**	76
Purchases from significant shareholders[2]	**80**	149

Receivables from related parties		
Amounts owed by associates[4]	**1**	2
Amounts owed by significant shareholders[5]	**1**	8
Payables to related parties		
Amounts owed to associates[6]	**2**	3
Amounts owed to significant shareholders[5]	**1**	18

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €9 million (2019: €4 million), €1 million (2019: €nil) to Viajes Ame S.A. and €1 million (2019: €1 million) to Serpista, S.A. and Multiservicios Aeroportuarios, S.A.
2 Sales to and purchases from significant shareholders related to interline services with Qatar Airways.
3 Purchases from associates: Consisted primarily of €23 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2019: €50 million), €9 million of handling services provided by Dunwoody (2019: €10 million) and €7 million of maintenance services received from Serpista, S.A. (2019: €16 million).
4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A., Dunwoody and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2019: €1 million of services provided to Multiservicios Aeroportuarios, S.A. and €1 million of services provided to Dunwoody, Iberia Cards and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).
5 Amounts owed by and to significant shareholders related to Qatar Airways.
6 Amounts owed to associates: Consisted primarily of €2 million due to Multiservicios Aeroportuarios, S.A., Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A., Viajes Ame S.A, Serpista, S.A. and Dunwoody (2019: €1 million due to Dunwoody and €2 million due to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

During the year to December 31, 2020 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €7 million (2019: €9 million) in relation to the costs of the Pension Protection Fund levy.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm's length basis.

For the year to December 31, 2020, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2019: nil).

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

At December 31, 2020 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2019: €nil).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2020 and 2019 is as follows:

	Year to December 31	
€ million	**2020**	2019
Base salary, fees and benefits		
Board of Directors		
Short-term benefits	**3**	5
Share based payments	**-**	3
Management Committee		
Short-term benefits	**5**	8
Share based payments	**-**	5

For the year to December 31, 2020 the Board of Directors includes remuneration for three Executive Directors (December 31, 2019: three Executive Directors). The Management Committee includes remuneration for 14 members (December 31, 2019: 12 members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2020 the Company's obligation was €38,000 (2019: €63,000).

At December 31, 2020 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €1 million (2019: €1 million).

No loan or credit transactions were outstanding with Directors or offices of the Group at December 31, 2020 (2019: nil).

34 Post balance sheet events

On January 19, 2021, the Group amended the original agreement announced on November 4, 2019, under which the Group had agreed to acquire the entire issued share capital of Air Europa. The amendment agreement reduces the total expected consideration for the acquisition to €500 million, which would be payable on the sixth anniversary of the completion of the acquisition. The acquisition is subject to the completion of negotiations with *Sociedad Estatal de Participaciones Industriales* in Spain and approval from the European Commission. Until the completion of these negotiations and receipt of the relevant approvals, the acquisition does not meet the recognition criteria under IFRS 3 Business combinations, and no accounting has been made for the transaction in these consolidated financial statements.

On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions through to September 30, 2021. The deferral of such contributions will amount to €330 million (£300 million). Under the contribution deferral agreement between British Airways and the Trustee of NAPS, in the period up to December 31, 2023, no dividend payment is permitted from British Airways to IAG. From 2024 onwards, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. Any such payments to NAPS will reduce the outstanding repayment balance and are capped at that level. The requirement to make such payments to NAPS ceases after deferred contributions have been repaid.

On February 22, 2021, British Airways entered into a 5 year term loan Export Development Guarantee Facility of €2.2 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. These measures are not defined under International Financial Reporting Standards (IFRS), should be considered in addition to IFRS measurements and may differ to definitions given by regulatory bodies applicable to the Group. They are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. Further information on why these APMs are used is provided in the Strategic priorities and key performance indicators section.

The definition of each APM, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

a Changes to APMs in 2020

The Group has not adjusted its APMs policy for the impact of COVID-19. However, under the existing exceptional items definition, certain costs arising from the impact of COVID-19 have been classified as exceptional items.

During 2020, the Group has made two changes to its disclosures and treatment of APMs compared with those disclosed in the Annual Report and Accounts for the year to December 31, 2019:

– (Loss)/profit after tax before exceptional items – For the year to December 31, 2019, the Group presented exceptional items on the face of the Income statement using a three column approach to reflect the results of the Group on a pre and post exceptional basis to enable users to better understand the performance of the Group. During 2020, following the consideration of regulatory guidance, the Group has re-presented the Income statement to reflect a single column approach. Accordingly, for 2020, exceptional items and the associated narrative have been incorporated into this APM section of the consolidated financial statements. This disclosure has further been disaggregated by reportable operating segment to enable a greater understanding of the performance of each of the reportable operating segments of the Group; and
– Pro forma financial information - The Group adopted IFRS 16 'Leases' on January 1, 2019 and applied the modified retrospective transition approach. In doing so, the comparative figures for 2018 were not restated. Accordingly, to provide a consistent basis for comparison with 2019, the Group introduced Pro forma financial information for 2018. As comparative figures for 2018 are no longer required, this pro forma information is no longer required.

b (Loss)/profit after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance. The exceptional items include: significant discontinuance of hedge accounting; significant restructuring; significant settlement agreements with the Group's pension schemes; significant changes in the long term fleet plans that result in the impairment of fleet assets and the recognition of associated provisions; and, legal settlements.

The table below reconciles the statutory income statement to the income statement before exceptional items of the Group:

	Year to December 31					
€ million	**Statutory 2020**	**Exceptional items**	**Before exceptional items 2020**	Statutory 2019	Exceptional items	Before exceptional items 2019
Passenger revenue[1]	**5,512**	**(62)**	**5,574**	22,468		22,468
Cargo revenue	**1,306**		**1,306**	1,117		1,117
Other revenue	**988**		**988**	1,921		1,921
Total revenue	**7,806**	**(62)**	**7,868**	25,506		25,506
Employee costs[2, 6]	**3,560**	**313**	**3,247**	5,634	672	4,962
Fuel, oil costs and emissions charges[1]	**3,735**	**1,694**	**2,041**	6,021		6,021
Handling, catering and other operating costs	**1,340**		**1,340**	2,972		2,972
Landing fees and en-route charges	**918**		**918**	2,221		2,221
Engineering and other aircraft costs[3]	**1,456**	**108**	**1,348**	2,092		2,092
Property, IT and other costs[4]	**782**	**28**	**754**	811		811
Selling costs	**405**		**405**	1,038		1,038
Depreciation, amortisation and impairment[5]	**2,955**	**856**	**2,099**	2,111		2,111
Currency differences	**81**		**81**	(7)		(7)
Total expenditure on operations	**15,232**	**2,999**	**12,233**	22,893	672	22,221
Operating (loss)/profit	**(7,426)**	**(3,061)**	**(4,365)**	2,613	(672)	3,285
Finance costs	**(670)**		**(670)**	(611)		(611)
Finance income	**41**		**41**	50		50
Net financing credit relating to pensions	**4**		**4**	26		26
Net currency retranslation credits	**245**		**245**	201		201
Other non-operating charges	**(4)**		**(4)**	(4)		(4)
Total net non-operating costs	**(384)**		**(384)**	(338)		(338)
(Loss)/profit before tax	**(7,810)**	**(3,061)**	**(4,749)**	2,275	(672)	2,947
Tax	**887**	**463**	**424**	(560)		(560)
(Loss)/profit after tax for the year	**(6,923)**	**(2,598)**	**(4,325)**	1,715	(672)	2,387

The rationale for each exceptional item is given below. In 2020 all items were associated with the impact of COVID-19, except the settlement provision in relation to the theft of customer data at British Airways in 2018 (part 4).

1 Discontinuation of hedge accounting

The exceptional charge of €1,756 million represented by an expense of €62 million relating to revenue foreign currency derivatives, an expense of €1,781 million relating to fuel derivatives and a credit of €87 million related to the associated fuel foreign currency derivatives. These amounts relate to the discontinuance of hedge accounting of the associated foreign currency and fuel derivatives on forecast revenue and fuel consumption. These losses have arisen from the substantial deterioration in demand for air travel caused by COVID-19, which has caused a significant level of hedged passenger revenue transactions and fuel purchases in US dollars to no longer be expected to occur based on the Group's operating forecasts prevailing at the Balance sheet date. The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the losses recognised in the Income statement. The exceptional charge relating to revenue derivatives and fuel derivatives have been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

The related tax credit was €273 million, with €11 million being attributable to the charge to Passenger revenue and €262 million being attributable to Fuel, oil costs and emissions charges.

2 Restructuring costs

The exceptional charge of €319 million (comprising €313 million of employee severance pay and €6 million of associated legal costs) represent the Group-wide restructuring programme, which right-sizes the Group for the near term. While the restructuring programme affects all of the Group's operating companies, the exceptional charges in the year to December 31, 2020 relate to British Airways, Aer Lingus, Iberia and LEVEL only, due to the status of negotiations with employees and their representatives. The exceptional charge has been recorded within Employee costs and Property, IT and other costs.

The related tax credit was €53 million.

3 Engineering and other aircraft costs

The exceptional charge of €108 million includes an inventory write-down expense of €71 million and a charge relating to contractual lease provisions of €37 million. The inventory write-down expense represents those expendable inventories that, given the asset impairments, are no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions represents the estimation of the additional cost to fulfil the hand back conditions associated with the leased aircraft that have been permanently stood down and impaired, which are discussed further below. The exceptional charge has been recorded within Engineering and other aircraft costs.

The related tax credit was €14 million.

4 Settlement provision

The exceptional charge of €22 million represents the fine issued by the Information Commissioner's Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018. The exceptional charge has been recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.

There is no tax impact on the recognition of this charge.

5 Impairment of fleet and associated assets

The total exceptional impairment expense of €856 million is represented by an impairment of fleet assets of €837 million and an impairment of other assets of €19 million. The fleet impairment relates to 82 aircraft, their associated engines and rotable inventories that have been stood down permanently and 2 further aircraft which have been impaired down to their recoverable value at December 31, 2020, which includes 32 Boeing 747 aircraft, 23 Airbus A320 aircraft, 15 Airbus A340 aircraft, 4 Airbus A330-200 aircraft, 2 Airbus A318 aircraft, 1 Airbus A321 aircraft, 1 Airbus A319 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €676 million is recorded within Property, plant and equipment relating to owned aircraft and €161 million is recorded within Right of use assets relating to leased aircraft.

Included within the impairment of other assets is an amount of €15 million relating to the landing rights, classified within Intangible assets, that were held by the operations of LEVEL in Paris. Following the decision to cease the operations of LEVEL in Paris, these landing rights have been recorded at the lower of their carrying value and their recoverable value.

The exceptional impairment expenses have been recorded within Depreciation, amortisation and impairment in the Income statement.

The related tax credit was €123 million.

The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium- and long-term capacity and utilisation of the fleet. Subsequent to these impairments, all assets are held at their recoverable amounts.

6 Employee benefit obligations

The exceptional expense of €672 million recognised in the year to December 31, 2019 related to the past service cost of the Airways Pension Scheme ('APS') settlement agreement described in note 30. This amount arose from the increase in the IAS 19 defined benefit liability of APS following the settlement agreement between the Trustee Directors of APS and British Airways which was approved by the High Court in November 2019. The settlement agreement established higher pensions in payment growth assumptions in future years, resulting in a non-cash increase to the IAS 19 defined benefit liability. The exceptional charge was recorded within Employee costs.

The table below provides a reconciliation of the post-exceptional to pre-exceptional condensed alternative income statement by operating segment for the years to 31 December 2020 and 2019:

	Year to December 31, 2020														
	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
€ million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	2,840	(54)	2,894	3,309	(59)	3,368	1,160	-	1,160	569	-	569	379	(3)	382
Cargo revenue	890	-	890	998	-	998	240	-	240	-	-	-	88	-	88
Other revenue	217	-	217	251	–	251	859	–	859	5	–	5	–	–	–
Total revenue	3,947	(54)	4,001	4,558	(59)	4,617	2,259	–	2,259	574	–	574	467	(3)	470
Employee costs	1,916	221	1,695	2,168	243	1,925	798	14	784	196	–	196	217	24	193
Fuel, oil costs and emissions charges	1,996	837	1,159	2,317	984	1,333	716	344	372	314	154	160	286	144	142
Depreciation, amortisation and impairment	1,475	399	1,076	1,659	445	1,214	612	242	370	345	68	277	157	24	133
Other operating costs	2,440	42	2,398	2,792	47	2,745	1,544	52	1,492	594	30	564	370	7	363
Total expenditure on operations	7,827	1,499	6,328	8,936	1,719	7,217	3,670	652	3,018	1,449	252	1,197	1,030	199	831
Operating loss	(3,880)	(1,553)	(2,327)	(4,378)	(1,778)	(2,600)	(1,411)	(652)	(759)	(875)	(252)	(623)	(563)	(202)	(361)
Operating margin (%)	(98.3)%		(58.2)%	–		–	(62.5)%		(33.6)%	(152.3)%		(108.5)%	(120.4)%		(76.8)%

	Year to December 31, 2019														
	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
€ million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	11,899	-	11,899	13,525	-	13,525	4,053	-	4,053	2,437	-	2,437	2,060	-	2,060
Cargo revenue	711	-	711	808	-	808	291	-	291	–	-	–	54	-	54
Other revenue	680	-	680	773	-	773	1,301	-	1,301	18	-	18	11	-	11
Total revenue	13,290	-	13,290	15,106	-	15,106	5,645	-	5,645	2,455	-	2,455	2,125	-	2,125
Employee costs	3,112	583	2,529	3,549	672	2,877	1,164	-	1,164	301	-	301	405	-	405
Fuel, oil costs and emissions charges	3,237	-	3,237	3,679	-	3,679	1,202	-	1,202	548	-	548	460	-	460
Depreciation, amortisation and impairment	1,106	-	1,106	1,258	-	1,258	390	-	390	250	-	250	130	-	130
Other operating costs	4,497	-	4,497	5,110	-	5,110	2,392	-	2,392	1,116	-	1,116	854	-	854
Total expenditure on operations	11,952	583	11,369	13,596	672	12,924	5,148	-	5,148	2,215	-	2,215	1,849	-	1,849
Operating profit	1,338	(583)	1,921	1,510	(672)	2,182	497	-	497	240	-	240	276	-	276
Operating margin (%)	10.1 %		14.5 %	–		–	8.8 %		8.8 %	9.8 %		9.8 %	13.0 %		13.0 %

c Basic earnings per share before exceptional items and adjusted earnings per share (KPI)

Earnings are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding. The effect of the assumed conversion of the IAG €500 million convertible bond 2022 and outstanding employee share schemes is antidilutive for the year to December 31, 2020, and therefore has not been included in the diluted earnings per share calculation.

€ million	Note	2020	2019[1]
(Loss)/profit after tax attributable to equity holders of the parent	b	**(6,923)**	1,715
Exceptional items	b	**(2,598)**	(672)
(Loss)/profit after tax attributable to equity holders of the parent before exceptional items		**(4,325)**	2,387
Interest expense on convertible bonds		**–**	26
Adjusted (loss)/earnings		**(4,325)**	2,413
Weighted average number of shares used for basic earnings per share[2]	10	**3,528**	3,056
Weighted average number of shares used for diluted earnings per share	10	**3,528**	3,137
Basic (loss)/earnings per share before exceptional items (€ cents)		**(122.6)**	78.1
Adjusted (loss)/earnings per share (€ cents)		**(122.6)**	76.9

1 Earnings per share information has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the rights issue (note 27). The discount element inherent in the rights issue has been accounted for as a bonus issue of 1,071,565 thousand shares in 2019.
2 In 2020, includes 734,657 thousand shares as the weighted average impact for 2,979,443 thousand new ordinary shares issued through the rights issue (note 27).

d Airline non-fuel costs per ASK

The Group monitors airline unit costs (per ASK, a standard airline measure of capacity) as a means of tracking operating efficiency of the core airline business. As fuel costs can vary with commodity prices, the Group monitors fuel and non-fuel costs individually. Within non-fuel costs are the costs associated with generating Other revenue, which typically do not represent the costs of transporting passengers or cargo and instead represent the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams. Airline non-fuel costs per ASK is defined as total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs divided by total available seat kilometres (ASKs), and is shown on a constant currency basis.

€ million	Note	2020 Reported	ccy adjustment[1]	2020 ccy	2019
Total expenditure on operations	b	15,232	(122)	15,110	22,893
Less: exceptional items within expenditure on operations	b	2,999		2,999	672
Less: fuel, oil costs and emission charges before exceptional items	b	2,041	(29)	2,012	6,021
Non-fuel costs		10,192	(93)	10,099	16,200
Less: Non-flight specific costs		851	1	852	1,654
Airline non-fuel costs		9,341	(94)	9,247	14,546
ASKs		113,195		113,195	337,754
Airline non-fuel unit costs per ASK (€ cents)		**8.25**		**8.17**	**4.31**

1 Refer to note h for the definition of the ccy adjustment

e Levered free cash flow (KPI)

Levered free cash flow represents the cash generated by the underlying businesses before shareholder returns and is defined as the net increase in cash and cash equivalents taken from the Cash flow statement, adjusting for movements in Current interest-bearing deposits, less the cash inflows from the rights issue and adding back the cash outflows associated with dividends paid and the acquisition of treasury shares. The Group believes that this measure is useful to the users of the financial statements in understanding the underlying cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

€ million	2020	2019
Net Increase in cash and cash equivalents	**1,940**	85
Less: (Decrease)/increase in current interest-bearing deposits	**(2,366)**	103
Less: Net proceeds from rights issue	**(2,674)**	–
Add: Dividends paid	**53**	1,308
Levered free cash flow	**(3,047)**	1,496

f Net debt to EBITDA (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits.

EBITDA is defined as operating profit before exceptional items, interest, taxation, depreciation, amortisation and impairment. The Group believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. It is a measure of the profitability of the Group and of the core operating cash flows generated by the business model.

€ million	Note	2020	2019
Interest-bearing long-term borrowings	23	**15,679**	14,254
Less: Cash and cash equivalents	19	**(5,774)**	(4,062)
Less: Current interest-bearing deposits	19	**(143)**	(2,621)
Net debt		**9,762**	7,571
Operating (loss)/profit	b	**(7,426)**	2,613
Add: Exceptional items	b	**3,061**	672
Add: Depreciation, amortisation and impairment	b	**2,099**	2,111
EBITDA		**(2,266)**	5,396
Net debt to EBITDA		**(4.3)**	1.4

g Return on invested capital (KPI)

The Group monitors return on invested capital (RoIC) as it gives an indication of the Group's capital efficiency relative to the capital invested as well as the ability to fund growth and to pay dividends. RoIC is defined as EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage.

Invested capital is defined as the average of property, plant and equipment and software intangible assets over a 12-month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets.

€ million	Note	**2020**	2019
EBITDA	f	**(2,266)**	5,396
Less: Fleet depreciation multiplied by inflation adjustment		**(1,921)**	(2,040)
Less: Other property, plant and equipment depreciation		**(258)**	(259)
Less: Software intangible amortisation		**(151)**	(131)
		(4,596)	2,966
Invested capital			
Average fleet value[2]	12	**16,020**	15,598
Less: average progress payments[3]	12	**(1,117)**	(1,297)
Fleet book value less progress payments		**14,903**	14,301
Inflation adjustment[1]		***1.18***	*1.19*
		17,520	17,065
Average net book value of other property, plant and equipment[4]	12	**2,329**	2,448
Average net book value of software intangible assets[5]	14	**652**	603
Total invested capital		**20,501**	20,116
Return on Invested Capital		**(22.4)%**	14.7 %

1 Presented to two decimal places and calculated using a 1.5 per cent inflation (December 31, 2019: 1.5 per cent inflation) rate over the weighted average age of the fleet December 31, 2020: 9.8 years (December 31, 2019: 11.9 years).
2 The average net book value of aircraft is calculated from an amount of €16,675 million at December 31, 2019 and €15,365 million at December 31, 2020.
3 The average net book value of progress payments is calculated from an amount of €1,525 million at December 31, 2019 and €710 million at December 31, 2020.
4 The average net book value of other property, plant and equipment is calculated from an amount of €2,493 million at December 31, 2019 and €2,166 million at December 31, 2020.
5 The average net book value of software intangible assets is calculated from an amount of €666 million at December 31, 2019 and €638 million at December 31, 2020.

h Results on a constant currency (ccy) basis

Movements in foreign exchange rates impact the Group's financial results. The Group reviews the results, including revenue and operating costs at constant rates of exchange (abbreviated to 'ccy'). The Group calculates these financial measures at constant rates of exchange based on a retranslation, at prior year exchange rates, of the current year's results of the Group. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a constant currency basis. Accordingly, the financial measures at constant currency within the discussion of the Group Financial review should be read in conjunction with the information provided in the Group financial statements.

The following table represents the main average and closing exchange rates for the reporting periods. Where 2020 figures are stated at a constant currency basis, they have applied the 2019 rates stated below:

Foreign exchange rates

	Average		Closing	
	2020	2019	**2020**	2019
Euro to pound sterling	**1.13**	1.13	**1.10**	1.18
US dollar to the euro	**1.13**	1.12	**1.22**	1.11
US dollar to pound sterling	**1.27**	1.27	**1.35**	1.31

Subsidiaries

British Airways

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Avios Group (AGL) Limited* Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways Holdings B.V. Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE	Dormant	Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%

Iberia

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100%
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%[1]
Iberia México, S.A.* Ejército Nacional 439, Mexico City, 11510	Storage and custody services	Mexico	100%
Iberia Operadora UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Iberia Desarrollo Barcelona, S.L.* Avenida de les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%

Aer Lingus

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Aer Lingus (Ireland) Limited Dublin Airport, Dublin	Provision of human resources support to fellow group companies	Republic of Ireland	100%
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, IM1 4LZ	Dormant	Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%[2]
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus (UK) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Dormant	Northern Ireland	100%
ALG Trustee Limited 33-37 Athol Street, Douglas, IM1 1LB	Trustee	Isle of Man	100%
Dirnan Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12	Insurance	Bermuda	100%
Santain Developments Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

IAG Loyalty

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Avios South Africa Proprietary Limited Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	Dormant	South Africa	100%
IAG Loyalty Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%

IAG Cargo

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Routestack Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Shipping solutions	England	100%
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Shipping solutions	England	100%

Vueling

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Yellow Handling, S.L.U Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Ground handling services	Spain	100%
Vueling Airlines, S.A.* Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99.5%

LEVEL

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
FLYLEVEL UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
Openskies SASU 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%

International Consolidated Airlines Group, S.A.

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%[3]
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100%
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Inflight eCommerce platform	Republic of Ireland	100%
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100%
IAG GBS Poland sp z.o.o.* Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%[1]
Veloz Holdco, S.L. Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Holding company	Spain	100%

* Principal subsidiaries
1 The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.
2 The Group holds 49.75% of the total number of voting rights and the majority of the economic rights in Aer Lingus Group DAC. The remaining voting rights, representing 50.25 per cent, correspond to a trust established for implementing the Aer Lingus nationality structure.
3 The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, are held by a trust established for the purposes of implementing the British Airways nationality structure.

Associates

Name and address	Country of incorporation	Percentage of equity owned
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Jose Martí Airport, Havana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Jose Martí Airport, Havana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Dunwoody Airline Services Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Serpista, S.A. Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Inloyalty by Travel Club, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Viajes Ame, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
DeepAir Solutions Limited Ground Floor North, 86 Brook Street, London, W1K 5AY	England	24.75%

Joint ventures

Name and address	Country of incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de O'Donnell 12, Madrid, 28009	Spain	50.5%

Other equity investments

The Group's principal other equity investments are as follows:

Name and address	Country of Incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	(71)	(10)
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.68%	GBP	287	25
Importwise Limited International House, 12 Constance Street, London, E16 2DQ	England	14.8%	GBP	n/a	n/a
Comair Limited 1 Marignane Drive, Bonaero Park, Johannesburg, 1619	South Africa	11.49%	ZAR	760	(2,091)
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
i6 Group Limited Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.42%	GBP	6	(1)
Monese Limited 1 King Street, London, EC2V 8AU	England	6.45%	GBP	(16)	(29)

LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 25, 2021, the directors of International Consolidated Airlines Group, S.A. state that, to the best of their knowledge, the individual and consolidated financial statements for the year to December 31, 2020, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the individual and consolidated management reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

February 25, 2021

Javier Ferrán Larraz
Chairman

Luis Gallego Martín
Chief Executive Officer

Giles Agutter

Peggy Bruzelius

Eva Castillo Sanz

Margaret Ewing

Heather Ann McSharry

Robin Phillips

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban

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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of the International Consolidated Airlines Group, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2020, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2020 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are applicable to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Material uncertainty related to going concern

We draw attention to Note 2 of the consolidated financial statements which discloses the significant impact on the Group's results and cash flows caused by the COVID-19 pandemic.

In its assessment of going concern, the Group have modelled two scenarios, the Base Case and the Downside Case. The Base Case takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group and overall business across the going concern period. The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a deeper and more gradual recovery relative to the Base Case.

The Directors of the Company have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the financial statements. However, as disclosed in Note 2, in the event that a more severe downside scenario than those the Directors have considered were to occur the Group will need to secure sufficient additional funding which represents a material uncertainty that could cast significant doubt upon the Group's ability to continue as a going concern. Our opinion has not been modified in this regard.

Domicilio Social: C/Raimundo Fernández Villaverde, 65, 28003 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116, C.I.F. B-78970506.
A member firm of Ernst & Young Global Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined further matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk
The assessment of the carrying value of property, plant and equipment and intangible assets (€20,739 million, 2019: €22,610 million) The impact of the COVID-19 pandemic has increased the risk that the carrying value of property, plant and equipment and intangible assets may not be recoverable or that specific fleet or other assets may no longer be used by the Group. The key assumptions may be incorrectly stated or may not be in line with external evidence. Changes to assumptions can have a significant impact on the available headroom and any impairment that may be required. *Refer to Notes 2, 3, 12, 13 and 15 of the consolidated financial statements.*	Our procedures included the following: ▶ We confirmed that the Base Case and Downside Case forecasts used in the impairment analysis were consistent with those used in other accounting assessments, including the going concern assessment. ▶ With input from full scope components, we evaluated the key assumptions in the Base Case and Downside Case forecasts, in the context of other evidence gained from our audit work. We reviewed independent external market data, including industry and analyst forecasts and competitor trading updates for indicators of contradictory evidence to challenge these forecasts. This included specific consideration of the expected rate of recovery of passenger numbers in the context of the current travel restrictions and the expectations of how long they may remain in place as well as consideration of current uncertainty over the global roll-out of vaccines and the impact of this on future capacity levels and travel demand. ▶ With the assistance of a valuation specialist, we assessed the appropriateness of the other assumptions made by management and used in the impairment assessment. We evaluated the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the Group's operating companies operate and considered whether the discount rates used to determine the net present value of the Group's cash generating units ('CGUs') were within acceptable ranges. ▶ We tested the arithmetic accuracy of the impairment calculations. We also assessed management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the Group's CGUs would cause the carrying amounts to exceed the recoverable amounts. This included consideration of the impact of COVID-19 and other external factors, including climate change related risks, and how management considered them in its forecasts. ▶ We compared the total recoverable amounts in comparison to the market capitalisation of the Group at 31 December 2020, to determine if there was contra evidence in assessing the appropriateness of the Group's cash flow forecasts. ▶ We assessed the appropriateness of the related disclosures including the disclosures of reasonably possible changes in key assumptions which would cause the carrying amounts to exceed the recoverable amount. The audit procedures performed to address this risk were performed by the Group audit team.

Building a better
working world

Risk	Our response to the risk
Passenger, cargo and other revenue recognition, (€5,512 million, €1,306 million and €988 million, 2019: €22,468 million, €1,117 million and €1,921 million) The accounting for passenger and cargo revenue is susceptible to management override through the recording of manual journal entries in the underlying ledgers or as a consolidation journal. The accounting for revenue may also be manipulated through the override of IT systems to accelerate revenue recognition or through inputs used to calculate ticket breakage. We consider this to be a risk across all the segments within the Group. The accounting for the revenue related to the Group's loyalty programmes, included in other revenue, is subject to management estimates and assumptions in respect of the allocation of contract revenue between the points issued and brand and marketing services provided, and in respect of the proportion of points that will not be redeemed (breakage). These assumptions are based on a combination of external valuations in respect of brand and marketing services, statistical models in respect of the future redemption of points and management information in respect of the cost of future redemption products. Any changes in these assumptions can have a significant impact on the revenue recognised in the year. *Refer to Note 2 of the consolidated financial statements.*	Our procedures for passenger revenue and cargo revenue were performed by all full scope components and included the following: Passenger revenue: ▶ We tested a sample of IT controls over revenue related systems to confirm their effectiveness in preventing unauthorised system override. ▶ We tested a sample of key financial controls over the sales to cash and deferred revenue to revenue processes. ▶ We assessed the appropriateness of the recognition of passenger ticket revenue by testing a sample of coupons to confirm the tickets were recognised on the flight date and the allocation of the ticket value between coupons was appropriate. ▶ We used data analysis to correlate the activity in passenger revenue accounts through accounts receivable and to cash. Manual adjustments to passenger revenue: ▶ We tested a sample of manual journal entries, to confirm whether they were valid business transactions. ▶ We tested the inputs to the expired ticket revenue calculations by re-running key reports and checking the completeness and accuracy of the underlying data. ▶ We checked that the methodology applied was consistent with the prior year and assessed the appropriateness of changes to the methodology. ▶ We assessed the appropriateness of the estimate, by comparing the estimate made in the prior year to the actual amount of revenue recognised relating to tickets that were unused. ▶ We tested a sample of vouchers and refunds issued in the year to assess whether such transactions had been appropriately recognised. Cargo revenue: ▶ We tested a sample of key financial controls over the cargo revenue process. ▶ We assessed the appropriateness of the recognition and measurement of cargo revenue by testing a sample of transactions to confirm the shipments occurred during the year and were recorded accurately. ▶ We tested a sample of manual journal entries to confirm whether they were valid business transactions. Loyalty programmes: ▶ For a sample of invoices to issuance partners, we agreed the amounts billed to the cash received, or to the intercompany statements for points issued to IAG Group airlines. ▶ We tested the allocation of cash received from issuance partners between the points issued and the brand and marketing services provided to check that the revenue deferred for points issued was appropriate. ▶ We reviewed the accounting analysis and valuation of the separate performance obligations for significant agreements. We involved a valuation specialist to assess the relief from royalty rates used to value the British Airways brand name and Avios trademark ▶ We assessed the appropriateness of the breakage assumptions used for each loyalty programme including comparison to the trends shown in the updated third-party statistical models used

Risk	Our response to the risk
	by management and considered the impact of changes in customer behaviour as a result of COVID-19. ▸ We assessed the appropriateness of management's adjustments to the third-party statistical models and the deferred revenue balance recognised. ▸ To check the completeness of deferred revenue, we reconciled the points issued and redeemed in the year and the closing balance sheet position from the financial records to the respective loyalty programme membership databases. ▸ We assessed the disclosures related to the key assumptions affecting the customer loyalty programmes. Our procedures for loyalty revenue were performed by one specific scope component which is responsible for auditing the Group's principal loyalty programmes.

Risk	Our response to the risk
Valuation of British Airways and Iberia's employee benefit liabilities (€31,281 million, 2019: €31,094 million) The valuation of the employee benefit liabilities requires technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rates, price inflation, salary increases, and demographic assumptions) can have a material impact on the valuation of the benefit obligations. British's Airways APS and NAPS defined benefit pension scheme liabilities amount to €30,294 million (2019: €30,051 million) with a net pension deficit of €120 million (2019: surplus of €228 million). Iberia's benefit commitments to its employees amount to €987 million (2019: €1,043 million), which includes obligations relating to pension schemes, early retirements and redundancy plans. *Refer to Notes 2, 24 and 30 of the consolidated financial statements.*	We involved internal pension actuaries to assist in the evaluation of the assumptions used in the valuation of the Group's long-term employee commitments. The procedures were performed by the audit teams responsible for British Airways and Iberia and included the following: ▸ We met with the Group's external actuaries to understand the process used to develop the key assumptions. ▸ We compared the key inputs used to independent sources, current market information and expectations. ▸ We compared the assumptions applied to those used in the prior year and understood the basis for any changes. ▸ We compared the assumptions selected to our own independent assessment of appropriate actuarial assumptions for the respective scheme durations. ▸ We independently checked a sample of the scheme membership data provided to the actuaries to the pension plan membership records to test the accuracy and completeness of the data used to determine the schemes' liabilities. ▸ We evaluated the independence and qualifications of management's external actuaries involved in the valuation process. ▸ The Group audit team assessed the appropriateness of the related disclosures.

Risk	Our response to the risk
Accounting for aircraft maintenance, restoration and handback costs (maintenance provisions: €1,588 million, 2019: €1,675 million) The Group operates aircraft which are owned or held under lease arrangements. Liabilities for maintenance costs are incurred during the life of the asset or the term of the lease. Costs are provided for leased assets based on obligations as to the condition of the aircraft when returned to the lessor. The accounting for maintenance obligations under lease agreements, including the end of lease hand-back requirements, is subject to management assumptions. The provisions require judgements and estimates to be made including considerations of aircraft utilisation, expected maintenance intervals, future	Our procedures were performed by all full scope components and included the following: ▸ We obtained and inspected the engine, airframe and other asset lease agreements to understand the lease obligations and to check the completeness of the restoration and return liabilities for obligations at the end of the lease. ▸ We understood the estimation processes and tested management's calculations of maintenance expenses including assessing the appropriateness of the assumptions for the timing of the maintenance work. As part of this assessment, we understood how the reduced flying hour forecasts as a result of COVID-19 impacted the allocation of maintenance expense between accounting periods (based on estimated flying hours) and the hand-back provisions (based on forecast return conditions). ▸ We challenged the appropriateness of management's inputs and assumptions in the calculation of the maintenance expense by assessing the timing of the forecast maintenance work and

Risk	Our response to the risk
maintenance costs and aircraft conditions and there is a risk that they are inappropriate and the provisions are understated as a result. *Refer to Notes 2 and 24 of the consolidated financial statements.*	compared the valuation of maintenance and restoration expenses to historic invoices, third-party price lists and/or agreed maintenance contracts.

Risk	Our response to the risk
Other matters related to the impact of the COVID-19 pandemic During 2020, the Group has been impacted by the COVID-19 pandemic with significantly reduced operating capacity. The impact on the business and the measures taken by the Group to preserve cash, resulted in a number of significant accounting matters. Other than as described in the key audit matters above, we identified the following material impacts on the financial statements: **Valuation of financial instruments and hedge effectiveness** - The Group hedges its exposures to movements in commodity prices and foreign currency rates. The COVID-19 pandemic resulted in a significant decline in the price of oil and a significant reduction in the forecast fuel usage from the reduced flying schedule, which resulted in significant losses on the Group's derivative contracts. This resulted in a charge to the income statement of €1,756 million. We focused on this area because of the significant judgement exercised by management in determining the revised estimates of jet fuel usage and foreign currency payments, the reassessment of hedge effectiveness and the material impact on the financial results of the Group. **Restructuring** - The Group implemented restructuring programmes to reduce the employee base to align with the reduced size of operations in the revised business plans. Given the scale of the restructuring programmes and the number of individuals impacted, there is a risk the restructuring provisions were not recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. **Recognition of income from government support schemes** - The Group utilised several measures announced by the UK, Spanish and Irish governments to provide assistance during COVID-19. There is a risk that the criteria of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance have not been met. *Refer to Notes 3 of the consolidated financial statements.*	During 2020 and throughout the course of the audit, we continued to assess the risks arising from the COVID-19 pandemic. We focused on areas where significant additional audit effort was required as well as those areas susceptible to a material financial impact on the performance and position of the Group. Our procedures were performed by all full scope components and included the following: With the assistance of treasury specialists, we assessed management's assumptions applicable to the de-designation of derivative financial instruments and confirmed this had been performed in line with the Group's accounting policy. In addition, we; - Inspected management's hedge documentation and re-performed the hedge effectiveness testing against the IFRS 9 requirements; - Obtained third party valuation confirmations to check the mark-to-market ('MTM') valuations. We tested the integrity of the underlying valuation data and where appropriate, re-performed the valuation of the MTM derivative balance sheet positions. - Reviewed the movements through reserves and tested a sample of settlements back to cash and to the income statement; and - Reviewed the appropriateness of the disclosures within the financial statements. In respect of the restructuring provision we performed the following procedures: - We tested a sample of payments made to employees to source documentation to check that the costs recognised were appropriate; - Where a provision was recognised, we checked there was a formal plan in place, supported by an approved business case and that a valid expectation had been raised with the affected employee groups; - We assessed management's assumptions where the cost to the business is estimated at the year-end; and - We reviewed the proposed disclosures within the financial statements to ensure they are in accordance with IAS 1. To ensure the Group met the required eligibility criteria of the respective governments' schemes, we tested a sample of individuals for which the Group claimed employee assistance to confirm the Group was entitled to claim for those employees and to determine whether the Group amount claimed was appropriately calculated. We also confirmed the disclosures were transparent in respect of the amounts and classification.

Risk	Our response to the risk
Recoverability of deferred tax assets - The Group recognised deferred tax assets of €1,075 million and unrecognised deferred tax assets of €1,275 million. Due to the significant impact of the COVID-19 pandemic and the related uncertainty, there is a risk that the deferred tax assets recognised may not be recoverable.	In respect of the recoverability of deferred tax assets we performed the following procedures: ▶ We checked the future forecasts used to support the recoverability of deferred tax assets were consistent with those used in the going concern and impairment analyses; and ▶ We challenged the assumptions and forecasts used in management's assessment of the recoverability of deferred tax assets.
Compliance with conditions pursuant to new financing arrangements - In order to secure its cash position and protect its liquidity despite the uncertainty of the Covid-19 pandemic, in addition to the Rights Issue, the Group has entered into financing arrangements with Spain's Instituto de Crédito Oficial (ICO), the UK's Coronavirus Corporate Finance Facility (CCFF) and the Ireland's Strategy Investment Fund (ISIF). These arrangements require compliance with certain conditions that otherwise would lead to the early repayment or cancellation of such facilities. The Group assesses its expected future finance position as well as other expected future transactions that could compromise their compliance with these conditions, triggering the early repayment or cancellation of these facilities.	In respect of the assessment of the Group's compliance with conditions related to financing agreements we performed the following procedures: ▶ We confirmed the availability of facilities and whether there are any restrictions in respect of these facilities. ▶ We considered whether management's disclosures, in the annual report and financial statements were sufficient and appropriate. We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 to confirm they were appropriate.

Other information: consolidated management report

Other information refers exclusively to the 2020 consolidated management report, the preparation of which is the responsibility of the Parent Company's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the consolidated management report, in conformity with prevailing audit regulations in Spain, entails:

a) Checking only that the consolidated non-financial statement and certain information included in the Corporate Governance Report, to which the Audit Law refers, was provided as stipulated by applicable regulations and, if not, disclose this fact.

b) Assessing and reporting on the consistency of the remaining information included in the consolidated management report with the consolidated financial statements, based on the knowledge of the entity obtained during the audit, in addition to evaluating and reporting on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to disclose this fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided as stipulated by applicable regulations and that the remaining information contained in the consolidated management report is consistent with that provided in the 2020 consolidated financial statements and its content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the Audit and Compliance Committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on March 2, 2021.

Term of engagement

The ordinary general shareholders' meeting held on September 8, 2020 appointed us as auditors for the financial year 2020.

Previously, we were appointed as auditors by the shareholders for one year and we have been carrying out the audit of the consolidated financial statements continuously since December 31, 2011.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

Hildur Eir Jónsdóttir

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

March 2, 2021

Additional Information

Adjusted earnings per share	Earnings are based on results before exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding
Airline non-fuel costs	Total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs. Within non-fuel costs are the costs associated with generating Other revenue, which typically do not represent the costs of transporting passengers or cargo and instead represent the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams. Shown on a constant currency basis
Airline non-fuel costs per ASK	Airline non-fuel costs divided by ASK
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo carried that generate revenue (freight and mail) multiplied by the distance flown
Dividend cover	The number of times the result for the year covers the dividends paid and proposed
EBITDA	Operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment
Gross capex	Gross capital expenditure is the total investment in fleet, customer product, IT and infrastructure before any proceeds from the sale of property, plant and equipment as shown in the Cash flow statement (‘Acquisition of property, plant and equipment and intangible assets’)
Interest cover	The number of times the (loss)/profit before taxation and exceptional items adding back net interest expense and interest income cover the net interest expense and interest income
Invested capital	The average of property, plant and equipment and software intangible assets over a 12-month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets
Levered free cash flow	The net increase in cash and cash equivalents taken from the Cash flow statement, adjusting for movements in Current interest-bearing deposits, less the cash inflows from the rights issue and adding back the cash outflows associated with dividends paid and the acquisition of treasury shares
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less cash and cash equivalents and current interest-bearing deposits

Net Promoter Score (NPS)	The Net Promoter Score (NPS) is a metric based on survey responses to the 'likelihood to recommend' question and is calculated by subtracting the percentage of customers who are 'Detractors' (score 0-6, unlikely to recommend) from the percentage of customers who are 'Promoters' (score 9-10, likely to recommend)
Operating margin	Operating result before exceptional items as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Passenger unit revenue per ASK (PASK)	Passenger revenue before exceptional items divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue before exceptional items divided by RPK
Productivity	ASK divided by average manpower equivalent
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on Invested Capital (RoIC)	EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Sector	A one-way revenue flight
Sold cargo tonnes	The number of cargo tonnes sold, including freight, courier, mail and interline
Total capital	Total equity plus net debt
Total revenue per ASK (RASK)	Total revenue before exceptional items divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure before exceptional items excluding fuel divided by ASK
Total operating expenditure per ASK (CASK)	Total operating expenditure before exceptional items divided by ASK
Total traffic revenue per ATK	Revenue from total traffic before exceptional items (passenger and cargo) divided by ATK

	Owned	Right of use1	**Total December 31, 2020**	Total December 31, 2019	Changes since December 31, 2019	Future deliveries	Options
Airbus A318	–	–	**–**	1	(1)	–	–
Airbus A319	13	36	**49**	57	(8)	–	–
Airbus A320	60	172	**232**	254	(22)	26	76
Airbus A321	19	53	**72**	66	6	38	14
Airbus A330-200	2	17	**19**	24	(5)	–	–
Airbus A330-300	4	14	**18**	16	2	1	–
Airbus A340-600	–	–	**–**	15	(15)	–	–
Airbus A350	10	7	**17**	9	8	26	52
Airbus A380	2	10	**12**	12	–	–	–
Boeing 747-400	–	–	**–**	32	(32)	–	–
Boeing 777-200	36	7	**43**	46	(3)	–	–
Boeing 777-300	2	14	**16**	12	4	–	–
Boeing 777-9	–	–	**–**	–	–	18	24
Boeing 787-8	–	12	**12**	12	–	–	–
Boeing 787-9	1	17	**18**	18	–	–	–
Boeing 787-10	2	–	**2**	–	2	10	–
Embraer E170	1	–	**1**	6	(5)	–	–
Embraer E190	9	13	**22**	18	4	2	–
Group total	161	372	**533**	598	(65)	121	166

During 2020 the Group recorded impairments for 84 aircraft, of which 63 were still held by the Group at December 31, 2020. The Group also held 9 other aircraft not in service, pending disposal.

Total Group operations		**2020**	2019	2018[2]	2017[3]	2016
Traffic and capacity						
Available seat km (ASK)	million	**113,195**	337,754	324,808	306,185	298,431
Revenue passenger km (RPK)	million	**72,262**	285,745	270,657	252,819	243,474
Cargo tonne km (CTK)	million	**3,399**	5,580	5,713	5,762	5,454
Passengers carried	'000	**31,275**	118,253	112,920	104,829	100,675
Sold cargo tonnes	'000	**444**	682	702	701	680
Sectors		**267,748**	775,486	754,700	717,325	708,615
Block hours	hours	**820,983**	2,272,904	2,207,374	2,100,089	2,067,980
Operations						
Average manpower equivalent		**60,612**	66,034	64,734	63,422	63,387
Aircraft in service at year end		**533**	598	573	546	548
Aircraft utilisation - Longhaul (average hours per aircraft per day)	hours	**6.4**	13.5	13.5	13.5	13.5
Aircraft utilisation - Shorthaul (average hours per aircraft per day)	hours	**2.7**	8.6	9.0	8.9	8.8
Punctuality – within 15 minutes	%	**88.8**	77.8	75.5	81.8	77.2
Regularity	%	**91.8**	98.7	98.7	99.1	99.3
Financial						
Passenger unit revenue per ASK (PASK)[1]	€cents	**4.92**	6.65	6.59	6.63	6.68
Passenger revenue per RPK[1]	€cents	**7.71**	7.86	7.91	8.02	8.18
Cargo revenue per CTK[1]	€cents	**38.42**	20.02	20.53	19.65	18.74
Total revenue per ASK (RASK)[1]	€cents	**6.95**	7.55	7.47	7.47	7.56
Average fuel price	($/metric tonne)	**376**	628	687	519	425
Fuel cost per ASK[1]	€cents	**1.80**	1.78	1.63	1.51	1.63
Operating (loss)/profit before depreciation and amortisation (EBITDA)[1]	€million	**(2,266)**	5,396	5,481	4,134	3,822
Total operating expenditure excluding fuel per ASK (CASK ex. fuel)[1]	€cents	**9.00**	4.80	4.77	5.00	5.08
Operating margin[1]	%	**(55.5)**	12.9	14.4	12.9	10.9
Lease adjusted operating margin[1]	%	**n/a**	n/a	14.4	14.2	12.0
Total operating expenditure per ASK (CASK)[1]	€cents	**10.81**	6.58	6.40	6.51	6.71
Dividend cover	times	**n/a**	3.8	3.9	4.0	4.0
Interest cover	times	**(6.6)**	6.3	6.7	16.4	10.8
Net debt	€million	**9,762**	7,571	6,430	655	2,087
Equity	€million	**1,316**	6,829	6,720	6,933	7,741
Adjusted net debt to EBITDAR	times	**n/a**	n/a	1.6	1.5	1.8
Net debt to EBITDA	times	**(4.3)**	1.4	1.2	n/a	n/a
Exchange rates						
Translation - weighted average	£:€	**1.13**	1.13	1.13	1.14	1.21
Transaction	£:€	**1.13**	1.13	1.13	1.14	1.21
Transaction	€:$	**1.13**	1.12	1.18	1.14	1.11
Transaction	£:$	**1.27**	1.27	1.33	1.29	1.34

1 Figures on a pre-exceptional items basis.
2 2018 figures restated for accounting standards IFRS 16 'Leases' and to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense.
3 2017 figures restated for accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments.
n/a: not available.

Registered office

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UK Registrar

Computershare Investor Services PLC

For enquiries relating to shares held through the Corporate Sponsored Nominee (UK share register):

Tel: +44 370 702 0110

Email: web.queries@computershare.co.uk

Online: www.investorcentre.co.uk/iag

IAG Investor relations team

Institutional investors: investor.relations@iairgroup.com

Private shareholders: shareholder.services@iairgroup.com

American Depositary Receipt program

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

For shareholder enquiries, contact:

Deutsche Bank Trust Company Americas c/o American Stock Transfer & Trust Co, 6201 15th Avenue, Brooklyn NY 11219, USA

Email: db@astfinancial.com

Toll free: 800 301 3517 (within the US)

International: +1 718 921 8137

Online: www.adr.db.com

Financial calendar

Financial year end: December 31, 2020
Q1 results: May 7, 2021
Half year results: July 30, 2021
Q3 results: November 5, 2021

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

ShareGift

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

Certain statements included in this report are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements often use words such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group, S.A. and its subsidiary undertakings from time to time (the ‘Group’), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group’s business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report and speak as of the date of this report. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

Actual results may differ from those expressed or implied in the forward-looking statements in this report as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this report are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group’s risk management process is set out in the Risk management and principal risk factors section in this report. All forward-looking statements made on or after the date of this report and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.

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