

# **ANNUAL FINANCIAL STATEMENTS**

**2020**

## **LIABILITY STATEMENT OF DIRECTORS**

**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

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Javier Ferrán Larraz  
Chairman

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Luis Gallego Martín  
Chief Executive Officer

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Giles Agutter

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Peggy Bruzelius

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Eva Castillo Sanz

---

Margaret Ewing

---

Heather Ann McSharry

---

Robin Phillips

---

Emilio Saracho Rodríguez de Torres

---

Lucy Nicola Shaw

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Alberto Terol Esteban

**Audit Report on Financial Statements  
issued by an Independent Auditor**

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.  
Financial Statements and Management Report  
for the year ended  
December 31, 2020**

## AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Shareholders of International Consolidated Airlines Group, S.A.:

### Report on the financial statements

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#### Opinion

We have audited the financial statements of International Consolidated Airlines Group, S.A. (the Company), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

#### 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 financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the 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 financial statements which discloses the significant impact on the Company's results and cash flows caused by the COVID-19 pandemic.

In its assessment of going concern, the Company has 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 Company 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 Company 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 Company will need to secure sufficient additional funding which represents a material uncertainty that could cast significant doubt upon the Company's ability to continue as a going concern. Our opinion has not been modified in this regard.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
<p><b>Recoverability of investments in subsidiaries (€7,573 million, FY19: €7,658 million)</b></p> <p>The impact of the COVID-19 pandemic has increased the risk that the carrying value of investments in subsidiaries may not be recoverable. 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.</p> <p><i>Refer to notes 6 of the financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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 investments were within acceptable ranges.</li> <li>▶ 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 investments 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.</li> <li>▶ 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.</li> <li>▶ 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.</li> </ul>

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### **Other information: management report**

Other information refers exclusively to the 2020 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the management report, in conformity with prevailing audit regulations in Spain, entails:

- a) Checking only that 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 management report with the 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 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 management report is consistent with that provided in the 2020 financial statements and its content and presentation are in conformity with applicable regulations.

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### **Responsibilities of the directors and the audit and compliance committee for the financial statements**

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit and compliance committee is responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the 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 Company'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 director's 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 Company'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 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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit and compliance committee of the 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 and compliance committee of the 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 and compliance committee of the Company, we determine those matters that were of most significance in the audit of the 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

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### 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.

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### Term of engagement

The ordinary general shareholders' meeting held on September 8, 2020 appointed us as auditors for 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 financial statements continuously since December 31, 2010.

ERNST & YOUNG, S.L.  
(Registered in the Official Register of  
Auditors under No. S0530)



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Hildur Eir Jónsdóttir  
(Registered in the Official Register of  
Auditors under No. 18201)

March 2, 2021

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

**Financial statements for the year to December 31, 2020**

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MANAGEMENT REPORT FOR THE YEAR TO DECEMBER 31, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**  
**Balance sheet at December 31, 2020**  
**(Expressed in thousands of euros)**

	Note	2020	2019
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>		<b>9.340.132</b>	7.864.567
<b>Investments in Group companies</b>			
Equity instruments	6	7.573.190	7.658.193
Loan receivable from Group companies	7,14	1.746.961	184.234
<b>Non-current financial assets</b>			
Equity instruments	7	17.945	14.536
<b>Deferred tax asset</b>	<b>10</b>	2.036	7.604
<b>CURRENT ASSETS</b>		<b>1.785.011</b>	1.004.129
<b>Trade and other receivables</b>			
Clients, Group companies	7,14	130.548	201.678
Current tax receivable	10	95.658	88.718
Other receivables	7	15.489	10.828
<b>Investments in Group companies</b>			
Loan receivable from Group companies	7,14	16.078	8.822
<b>Cash and cash equivalents</b>			
Cash	7,8	3.987	80.415
Cash equivalents	7,8	1.523.251	613.668
<b>TOTAL ASSETS</b>		<b>11.125.143</b>	8.868.696
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>		<b>8.580.805</b>	6.209.366
<b>SHAREHOLDERS' FUNDS</b>			
<b>Capital</b>			
Registered share capital	9	497.147	996.016
<b>Share premium</b>	<b>9</b>	7.770.439	5.327.295
<b>Reserves</b>			
Legal and statutory reserves	9	205.799	205.799
Other reserves	9	309.146	(897.437)
<b>Own shares and equity holdings</b>	<b>9</b>	(39.168)	(59.568)
<b>(Loss)/profit for the year</b>	<b>3</b>	(296.305)	763.583
<b>Interim dividend</b>	<b>3</b>	-	(287.728)
<b>Other equity instruments</b>	<b>9</b>	130.338	166.141
<b>VALUATION ADJUSTMENTS</b>			
Currency differences	9	3.409	(4.735)
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>		<b>2.273.705</b>	2.499.510
<b>Non-current debt</b>			
Bond and other marketable securities	7	1.461.828	1.448.995
<b>Group companies, non-current</b>	<b>7,14</b>	811.877	1.047.515
<b>Deferred tax liability</b>	<b>10</b>	-	3.000
<b>CURRENT LIABILITIES</b>		<b>270.633</b>	159.820
<b>Current provisions</b>			
	10	5.391	4.347
<b>Current debt</b>			
Bond and other marketable securities	7	13.125	13.125
<b>Group companies, current</b>	<b>7,14</b>	217.047	6.271
<b>Trade and other payables</b>			
Suppliers, Group companies	7,14	7.397	40.316
Various creditors	7	15.135	15.768
Payroll accruals	7	-	9.723
Current tax payable	10	-	447
Other amounts due to tax authorities	10	12.538	69.823
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11.125.143</b>	8.868.696

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**  
**Income statement for the year to December 31, 2020**  
**(Expressed in thousands of euros)**

	Note	2020	2019
<b>Continuing operations</b>			
<b>Revenue from operations</b>		<b>42.489</b>	893.487
Rendering of services to Group companies	11,14	42.489	68.341
Dividend income	14	-	825.146
<b>Employee costs</b>	11	<b>(18.949)</b>	(52.459)
Wages, salaries and other costs		(15.413)	(44.483)
Social security costs		(3.536)	(7.976)
<b>Other operating expenses</b>		<b>(19.863)</b>	(29.846)
External services received		(18.607)	(28.315)
Other operating expenses		(1.256)	(1.531)
<b>Impairment and (losses)/gains on financial instruments</b>	6	<b>(160.003)</b>	-
Impairment losses on equity instruments, Group companies		(160.003)	-
<b>OPERATING (LOSS)/PROFIT</b>		<b>(156.326)</b>	811.182
<b>Finance income</b>		<b>26.257</b>	13.250
<i>Marketable securities and other financial instruments</i>			
Receivable from debt with Group companies and associates	11,14	15.995	13.110
Receivable from third parties	11	10.262	140
<b>Finance costs</b>		<b>(52.360)</b>	(59.929)
Payable on debt with Group companies and associates	11,14	(17.950)	(15.905)
Payable on debt with third parties	11	(34.410)	(44.024)
<b>Impairment and (losses)/gains on financial instruments</b>	6,11	<b>(108.917)</b>	-
Impairment losses on loans receivable from Group companies		(108.917)	-
<b>Change in fair value of financial instruments</b>		-	(18.715)
<b>Currency differences</b>		17	344
<b>NET FINANCE EXPENSE</b>		<b>(135.003)</b>	(65.050)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(291.329)</b>	746.132
Taxes	10	(4.976)	17.451
<b>(LOSS)/PROFIT FOR THE YEAR</b>	3	<b>(296.305)</b>	763.583

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**  
**Statement of changes in equity for the year to December 31, 2020**  
(Expressed in thousands of euros)

**A) Statement of other comprehensive income**

	Note	2020	2019
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<b>3</b>	<b>(296.305)</b>	763.583
<b>Income and expenses recognised directly in equity</b>			
Currency differences		8.144	(1.134)
<b>TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY</b>	<b>9</b>	<b>8.144</b>	(1.134)
<b>TOTAL INCOME AND EXPENSES RECOGNISED</b>		<b>(288.161)</b>	762.449

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**  
**Statement of changes in equity for the year to December 31, 2020**  
(Expressed in thousands of euros)

**B) Statement of changes in equity**

	Issued share capital	Share premium	Reserves	Own shares and equity holdings	(Loss)/profit for the year	Interim dividend	Other equity instruments	Valuation adjustments <sup>1</sup>	TOTAL
BALANCE AT DECEMBER 31, 2018	996.016	6.021.802	(777.971)	(67.292)	662.180	(287.580)	186.752	(3.601)	6.730.306
<b>Total recognised income and expense</b>	-	-	-	-	763.583	-	-	(1.134)	762.449
<b>Transactions with shareholders and owners</b>	-	(694.507)	(288.267)	7.724	-	(287.728)	(53.485)	-	(1.316.263)
Vesting of share-based payment schemes	-	-	726	7.724	-	-	(14.583)	-	(6.133)
Equity portion of convertible bond redeemed	-	-	38.418	-	-	-	(38.902)	-	(484)
Dividend	-	(694.507)	(327.411)	-	-	(287.728)	-	-	(1.309.646)
<b>Other movements in equity</b>	-	-	-	-	-	-	32.874	-	32.874
Share-based payments cost (note 15)	-	-	-	-	-	-	32.874	-	32.874
<b>Appropriation of prior year profit</b>	-	-	374.600	-	(662.180)	287.580	-	-	-
BALANCE AT DECEMBER 31, 2019	996.016	5.327.295	(691.638)	(59.568)	763.583	(287.728)	166.141	(4.735)	6.209.366
<b>Total recognised income and expense</b>	-	-	-	-	(296.305)	-	-	8.144	(288.161)
<b>Transactions with shareholders and owners</b>	-	-	3.576	20.400	-	-	(25.568)	-	(1.592)
Vesting of share-based payment schemes	-	-	3.576	20.400	-	-	(25.568)	-	(1.592)
<b>Other movements in equity</b>	(498.869)	2.443.144	727.152	-	-	-	(10.235)	-	2.661.192
Share-based payments credit (note 15)	-	-	-	-	-	-	(10.235)	-	(10.235)
Share capital reduction	(796.813)	-	796.813	-	-	-	-	-	-
Rights issue	297.944	2.443.144	(69.661)	-	-	-	-	-	2.671.427
<b>Appropriation of prior year profit</b>	-	-	475.855	-	(763.583)	287.728	-	-	-
BALANCE AT DECEMBER 31, 2020	497.147	7.770.439	514.945	(39.168)	(296.305)	-	130.338	3.409	8.580.805

<sup>1</sup> Relates to currency translation adjustments only.

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**  
**Cash flow statement for the year to December 31, 2020**  
(Expressed in thousands of euros)

	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>(Loss)/profit for the year before tax</b>			
(Loss)/profit from continuing operations		(291.329)	746.132
<b>Adjustments to (loss)/profit</b>			
Finance income	11	(26.257)	(13.250)
Dividend income	14	-	(825.146)
Finance expenses	11	52.360	59.929
Change in fair value of financial instruments		-	18.715
Currency differences		(17)	(344)
Share-based payments	15	(5.086)	14.381
Impairment charge	6,14	268.920	-
<b>Changes in working capital</b>			
Trade and other payables		(48.746)	35.464
Trade and other receivables		43.947	(62.246)
Other current liabilities		-	2.225
Other current assets		-	(5.783)
<b>Other cash flows from operating activities</b>			
Interest paid		(7.887)	(1.594)
Taxation received		-	112.808
Dividend received from Group companies		-	825.146
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>(14.095)</b>	<b>906.437</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Amounts paid</b>			
Purchase of other equity instruments	7	(3.409)	(8.329)
Amount paid to Group companies		(1.753.550)	(43.054)
<b>Amounts received</b>			
Interest received		9.753	256
Amount received from Group companies		15.755	12.714
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(1.731.451)</b>	<b>(38.413)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Receipts and payments on equity instruments</b>			
Repayment of equity instruments		(13.125)	(507.465)
Proceeds from rights issue	9	2.674.321	-
<b>Receipts and payments on financial liabilities</b>			
<b>Issue</b>			
Debt with Credit institutions		-	987.062
Debt with Group companies		-	348.231
<b>Repayment</b>			
Debt with Group companies		(27.554)	(24.012)
<b>Dividend payments and receipts from other equity instruments</b>			
Dividend paid	3	(53.285)	(1.308.240)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>2.580.357</b>	<b>(504.424)</b>
<b>IMPACT OF EXCHANGE DIFFERENCES</b>		<b>(1.656)</b>	<b>(7.221)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>833.155</b>	<b>356.379</b>
Cash and cash equivalents at the beginning of the year	7,8	694.083	337.704
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>7,8</b>	<b>1.527.238</b>
		<b>694.083</b>	



# INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

## 1. CORPORATE INFORMATION AND ACTIVITY

International Consolidated Airlines Group S.A. (hereinafter the 'Company' or 'IAG') 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 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. (hereinafter 'Vueling') was acquired on April 26, 2013 and Aer Lingus Group DAC (hereinafter 'Aer Lingus') was acquired on August 18, 2015. During 2017, the Group incorporated FLY LEVEL S.L. and FLYLEVEL UK Limited (hereinafter 'LEVEL') and IAG Connect Limited (hereinafter 'IAG Connect'), with a 100 per cent investment by the Company. The objective and main activity, among others, of the Company is the acquisition, ownership, management and disposal of shares or other equity interests in other companies, provision of management services to those companies, and significant Group investments including aircraft procurement.

IAG is a Spanish Private Law entity, incorporated for an indefinite period by virtue of a public deed granted before the Public Notary of Madrid Ignacio Martínez-Gil Vich on December 17, 2009 under number 3.866 of his files, with its registered office in Madrid, at El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid, Spain and entered at the Madrid Mercantile Registry with registration number M-492129 in Volume 27312, Book 0, Section 8, Folio 11.

IAG holds a premium listing on the FTSE's UK index series. 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').

IAG is the parent Company of British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo Ltd (hereinafter 'IAG Cargo'), Veloz Holdco, S.L.U. (hereinafter 'Veloz'), IAG GBS, AERL Holding Limited (hereinafter 'AERL Holding'), LEVEL and IAG Connect all collectively defined as the 'Group'. The Group presents consolidated financial statements separately.

The Company's presentation currency is euro. The United Kingdom ('UK') branch's functional currency is pound sterling as this is the currency of the economic environment in which it operates.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

### Applicable financial reporting framework

The financial statements have been prepared in accordance with the accounting principles approved by Royal Decree 1514/2007, of November 16, which was amended in 2016 by Royal Decree 602/2016 of December 2, and the remaining prevailing mercantile law.

These financial statements have been prepared by the Directors of the Company for submission to and for approval at the General Shareholders' Meeting, where it is expected they will be approved without modification.

The Company has net assets of €8,580,805,000 (2019: €6,209,366,000) on the Balance sheet and recorded a €296,305,000 loss for the year (2019: €763,583,000 profit).

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

### 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 Company's and the Group's results and cash flows. At December 31, 2020, the Company had cash and cash equivalents of €1.5 billion and a further €0.2 billion of committed and undrawn general facilities and 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. Group 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 increase in liquidity in the Company during 2020 principally arose from the successful completion of the Rights issue in October 2020, which generated €2.7 billion of proceeds. Of these proceeds, the Company has provided long term loans to its undertakings of €1.7 billion.

In addition to the Rights issue, the Group has undertaken other mitigating actions, which amongst other actions, included 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 do not contain significant 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 the Company 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 Company and the Group have modelled two scenarios referred to below as the Base Case and the Downside Case.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

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 Company and the Group have 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 Company's and the Group's expectation is that traffic related to domestic and leisure will recover faster than longhaul and business;
- The Company and the Group have 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 Company and the Group have 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
- €1.6 billion of capital commitments are due to be paid over the going concern period and the Company and the Group have 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 of the Company consider the Downside Case to be a severe but plausible scenario.

The Company and the Group have modelled the impact of further deteriorations in capacity operated and yield, including mitigating actions to reduce operating and capital expenditure. The Company and the Group expect 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 Company and 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 of the Company have a reasonable expectation that the Company and the Group have 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 Company and 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 Company and the Group, therefore, are not able to provide certainty that there could not be a more severe downside scenario than those they have 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 Company and 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 Company's and 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 Company's and the Group's ability to continue as a going concern.

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

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS continued

#### 2.1 True and fair view

The accompanying financial statements have been prepared from the Company's accounting records in accordance with prevailing Spanish accounting legislation to give a true and fair view of its equity, financial position and reserves. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets, such as cash and cash equivalents.

#### 2.2 Comparative information

According to corporate law, the prior year information in the Balance sheet, Income statement, Statement of other comprehensive income, Statement of changes in equity and Cash flow statement is presented for comparison purposes, in addition to figures for 2020. The notes to the financial statements also include quantitative information for the prior year, unless an accounting standard specifies that it is not necessary.

#### 2.3 Critical accounting estimates and assumptions

The Directors have prepared the financial statements using estimates and assumptions based on current and historical experience and various other factors that affect the reported value of the assets and liabilities, and are considered reasonable under the circumstances. The carrying amount of assets and liabilities, which are not readily apparent from other sources, were established on the basis of these estimates. The Directors are not aware of any specific risks that might significantly alter the value of the assets or liabilities in the following year and, therefore, considers that it is not necessary to make estimates of uncertainty at the end of the reporting period.

##### Impairment of investments in Group companies

The Company assesses whether there are any indicators of impairment for non-financial assets at each reporting date. Equity investments in Group companies are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amounts of equity investments in Group companies have been determined based on the future cash flows of the investments, which require the use of estimates and assumptions, including three year business plan assumptions, long-term growth rates and discount rates.

Impairment losses can be reversed and recognised in the Income statement if there is any indication that the impairment loss no longer exists. The reversal is limited to the carrying value of the asset that would have been recognised on the reversal date had the original impairment not occurred.

##### Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Company for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model. The resulting cost in respect of employees of the Company, 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, of 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.

### 3. APPROPRIATION OF (LOSS)/PROFIT

The Company recorded a loss for the year of €296.305.000 (2019: €763.583.000 profit). Accordingly, the Board of Directors will submit the following proposed appropriation of the 2020 result for approval at the Shareholders' Meeting:

€'000	2020	2019
Proposed appropriation:		
(Loss)/profit for the year	(296.305)	763.583
	<b>(296.305)</b>	763.583
Appropriation to:		
Legal reserves	-	-
Interim dividend	-	287.728
Voluntary reserve (remaining amount of the profit for the year after the above referred distributions)	-	475.855
Prior year losses	(296.305)	-
	<b>(296.305)</b>	763.583

In addition, the Company's Board will submit for approval at the Shareholders' Meeting the reclassification of the excess of the legal reserve over the legal requirement (20% of the share capital), i.e., an amount of €106.369.600, to voluntary reserves.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 3. APPROPRIATION OF PROFIT continued

#### 3.1 Dividends

On October 30, 2019 the Board of Directors approved an interim dividend of 14,5 € cents per share. The interim cash dividend was paid on December 2, 2019 for a total amount (net of withholding tax of €54.688.000) of €287.728.000. The withholding tax was paid from December 2019.

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, IAG's Board of Directors resolved to withdraw the proposal to the subsequent Annual Shareholders' Meeting to pay a final dividend for 2019 of 17,0 € cents per share.

€'000	2020	2019
<b>Cash dividends on ordinary shares declared</b>		
Interim dividend for 2019 of 14,5 € cents per share	-	287.728
Final dividend for 2018 of 16,5 € cents per share	-	327.411
Special dividend of 35,0 € cents per share	-	694.507
<b>Proposed dividends on ordinary shares</b>		
Final dividend of 17,0 € cents per share	-	337.483

#### 3.2 Limitations on the distribution of the profit

The Company is obliged to transfer 10 per cent of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20 per cent of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders. The distributable reserves at December 31, 2020 are €7.770.439.000 (2019: €5.213.350.000).

Once the guidance provided by the law or the statutes has been covered, dividends can only be distributed from profit for the year, or from distributable reserves, if the value of equity is not or, does not become as a result of the distribution, lower than share capital. In this case, the profit charged directly to equity cannot be distributed, directly or indirectly. If losses from previous years existed, that make the Company's equity lower than share capital, the profits would be used to compensate those losses.

### 4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2020 financial statements are the following:

#### 4.1 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other lease arrangements are classified as operating leases.

For operating leases, the total minimum payments, measured at inception, are charged to the Income statement in equal annual amounts over the term of the lease.

#### 4.2 Intangible assets

Intangible assets are stated at acquisition price or the cost of development if internally generated, less accumulated amortisation and impairment losses.

The Company recognises costs incurred to acquire and develop computer software that is separable from an item of related hardware as intangible assets. These are amortised from the date the system is available for use and amortised on a straight-line basis generally over a period of five years with certain specific software developments amortised over a period of up to 10 years.

#### 4.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The Company depreciates property, plant and equipment on a straight-line basis at annual rates over their useful economic lives. The estimated useful economic lives of property, plant and equipment are as follows:

Computer equipment: 4 years  
Fixtures and fittings: 15 years

## **INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

Notes to the financial statements continued

### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES** continued

#### **4.4 Investments in Group Companies**

Equity investments in Group companies include investments in entities over which the Company has control. On initial recognition the investments are measured at fair value, which generally is equal to the fair value of the consideration paid, plus directly attributable transaction costs. Equity investments are subsequently measured at cost less, where appropriate, provisions for impairment, or distributions received recognised against the cost of the investment.

#### **4.5 Impairment of non-financial assets**

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.

Equity investments in Group companies are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to dispose and the equity value, which is based on the associated future cash flows of the related CGUs. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **4.6 Financial assets and financial liabilities**

##### **4.6.1 Financial assets**

###### a) Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method.

###### b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets including listed and unlisted investments, excluding interests in subsidiaries. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the income statement. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

###### c) Derivatives

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gain or loss arising from remeasurement is recognised in the Income statement unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow and is assessed as effective, when gains and losses are recognised in equity. Gains or 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.

###### d) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

The carrying amount of financial assets is adjusted to the Income statement when there is objective evidence of actual impairment.

To determine an impairment loss, the Company assesses the loss of individual as well as groups of assets with similar risk characteristics.

#### **Debt instruments**

There is objective evidence that debt instruments (trade receivables and loans) are impaired when an event has occurred after the initial recognition of the instrument that has a negative impact on related estimated future cash flows.

The Company classifies as impaired assets (doubtful exposures) debt instruments for which there is objective evidence of impairment, which refers primarily to the existence of unpaid balances, non-compliance issues, refinancing and data which evidences the possible irrecoverability of total agreed upon future cash flows or collection delays.

The reversal of an impairment loss is recognised in the Income statement. Such reversal is limited to the carrying amount of the financial asset that would have been recognised on the reversal date had no impairment loss been recognised.

## **INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

Notes to the financial statements continued

### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES** continued

#### **4.6 Financial assets and financial liabilities** continued

##### **4.6.1 Financial assets** continued

##### Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the carrying value may not be recovered due to a prolonged or significant decline in fair value.

For investments in Group companies, joint ventures and associates, the reversal of an impairment loss is recognised in the Income statement and is limited to the carrying value of the investment that would have been recognised on the reversal date had the original impairment not occurred. An impairment loss recognised in previous years from available-for-sale financial assets cannot be reversed.

##### **4.6.2 Financial liabilities**

Trade and other payables and borrowings

On initial recognition, the financial liabilities included in this category are recognised at fair value, which unless there is information to the contrary, is the transaction price, which will be equal to the fair value of the consideration received adjusted by directly attributable transaction costs. However, trade and other payables maturing within 12 months where there is no contractual interest rate can be measured at their nominal value when the effect of discounting is not material.

Subsequent to initial measurement, financial liabilities in this category are measured at amortised cost. However, other payables maturing within 12 months which, as indicated above, are initially recognised at their nominal value, continue to be recognised at that amount.

##### **4.6.3 Derecognition of financial assets and liabilities**

Financial assets are derecognised in the Company's balance sheet when the contractual rights on the financial assets' cash flows have expired or when they are transferred, as long as the risks and rewards of ownership are substantially transferred. The Company derecognises a financial liability when the obligation is extinguished.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts is recognised in the Income statement.

##### **4.6.4 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 convertible bonds, and is recognised within Bond and other securities payable. 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 Other equity instruments within the balance sheet 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 amounts 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 amount and the interest paid is added to the carrying amount of the liability.

### **4.7 Treasury shares**

Shares in the Company purchased and held directly by the Company are classified as Treasury shares and shown as deductions from Shareholders' funds at cost. When these shares are cancelled, Share capital is reduced by the nominal value of the cancelled shares, with an increase in the Redeemed capital reserve. No gain or loss is recognised in the Income statement on the purchase, sale, issue or cancellation of equity shares.

### **4.8 Cash and cash equivalents**

Cash and cash equivalents includes 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.

## **INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

Notes to the financial statements continued

### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES** continued

#### **4.9 Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency of the branch using the spot exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated into euro at the rate prevailing 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.

The net assets of foreign operations are translated into euros at the rate of exchange prevailing 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 until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the Income statement.

#### **4.10 Corporate tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the legislation in force.

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.

#### **4.11 Deferred tax**

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 legislation in force.

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.

#### **4.12 Revenue and expense recognition**

Revenue and expenses are recognised on an accrual basis, regardless of when the resulting monetary or financial flow arises.

#### **4.13 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. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

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.

#### **4.14 Long-term liabilities with personnel**

The Company offers a defined contribution pension plan to all IAG employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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. Current service costs are recognised within the Income statement in the year in which they arise. At each financial year end, accrued contributions payable are recognised in the Balance sheet.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES continued

#### 4.15 Share-based payment transactions

The Company operates a number of equity-settled, share-based payment plans, under which the Company awards equity instruments for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model (note 15). The resulting cost is adjusted to reflect expected and actual levels of vesting, and is charged to the Income statement over the vesting period.

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.

#### 4.16 Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid and final dividends are recognised when authorised in general meetings by shareholders.

#### 4.17 Related parties

Related party transactions are carried out at an arm's length basis and recorded according to the accounting policies set out in this note.

#### 4.18 Classification of assets and liabilities between current and non-current

Assets and liabilities are presented in the Balance sheet as either current or non-current. The assets and liabilities are classified as current when linked to the normal operating cycle of the Company.

When an asset or liability is not linked to the normal operating cycle but the Company expects the asset or liability to mature or liquidate, or plans to dispose of the asset or liability within 12 months, then these are also classified as current when they are maintained for the purposes of operations, or the instrument is related to cash and cash equivalents.

Any asset or liability whose use is restricted to beyond one year is classified as non-current.

#### 4.19 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 5. LEASES

The Company has a leased property in Madrid which is leased from Iberia and expires in one year. The contract has an option to review the duration of the lease on an annual basis. The Company also has an office in London which is leased from British Airways. The lease expires in two years.

The annual cost of the leases is €542.000 (2019: €693.000). The amount of future minimum lease payment is €531.000 (2019: €558.000) for less than one year and €390.000 for between 1 year and 2 years.

### 6. EQUITY INVESTMENTS IN GROUP COMPANIES

The details and movement of individual items that comprise this section are:

€'000	January 1	Additions	Impairment	December 31
<b>2020</b>				
Equity instruments				
Cost	8.000.959	75.000	(160.003)	7.915.956
Distribution received	(342.766)	-	-	(342.766)
	<b>7.658.193</b>	<b>75.000</b>	<b>(160.003)</b>	<b>7.573.190</b>
<b>2019</b>				
Equity instruments				
Cost	7.973.959	27.000	-	8.000.959
Distribution received	(342.766)	-	-	(342.766)
	<b>7.631.193</b>	<b>27.000</b>	-	<b>7.658.193</b>



## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 6. EQUITY INVESTMENTS IN GROUP COMPANIES continued

#### 6.1 Description of the main movements

On August 24, 2020, November 19, 2020 and December 16, 2020 the Company invested €25.000.000, €25.000.000 and €25.000.000 respectively in the equity of FLY LEVEL S.L. which is a 100 per cent owned subsidiary. The full carrying amount of the investment in LEVEL of €160.003.000 was impaired during the year as explained in section 3 of this note.

#### Prior year movements

On June 10, 2019 and December 17, 2019 the Company invested €17.000.000 and €10.000.000 respectively in the equity of FLY LEVEL S.L. which is a 100 per cent owned subsidiary.

#### 6.2 Overview of investments

Brexit has led the Company to implement plans approved by national regulators in Spain and Ireland to ensure the EU-licensed airlines continue to meet EU ownership and control rules. As required, the EU has been notified about them. They include creating a national ownership structure for Aer Lingus and changes to IAG's long-standing Spanish structure.

Information at December 31 on the Group companies, prepared in accordance with International Financial Reporting Standards, is as follows:

	Business activity	Percentage of ownership <sup>1</sup>	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Dividend received during the year	Net book value €'000
<b>2020</b>									
<b>€'000</b>									
Iberia	Passenger air transport	100%	743.420	893.504	(1.648.465)	(11.541)	(1.465.850)	-	2.388.548
Aer Lingus	Passenger air transport	Indirect <sup>1</sup>	28.015	792.924	(502.995)	317.944	(562.840)	-	-
Vueling	Passenger air transport	Indirect <sup>2</sup>	29.905	151.663	(778.773)	(597.205)	(861.685)	-	-
Veloz Holding company	Holding company	100%	33	267.420	(52.498)	214.955	(187)	-	166.139
Aerl Holding company	Holding company	100%	760.000	533.868	(3.421)	1.290.447	(94)	-	836.000
LEVEL	Passenger air transport	100%	3	106.055	(200.427)	(94.369)	(192.214)	-	-
<b>£'000</b>									
British Airways	Passenger air transport	100%	290.000	4.766.000	(3.489.000)	1.567.000	(3.881.000)	-	4.155.397
IAG Cargo	Cargo air transport	100%	-	4.459	(2.488)	1.971	(2.509)	-	-
IAG GBS	Business services	100%	20.000	(16.390)	(12.256)	(8.646)	(15.927)	-	22.218
IAG Connect	eCommerce platform	100%	-	1.985	2.064	4.049	2.546	-	4.888
<b>Polish zloty '000</b>									
IAG GBS Poland	Business services	1% <sup>4</sup>	-	4.418	1.060	5.478	1.626	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	n/a
									<b>7.573.190</b>

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 6. EQUITY INVESTMENTS IN GROUP COMPANIES continued

#### 6.2 Overview of investments continued

	Business activity	Percentage of ownership <sup>1</sup>	Capital	Reserves	Profit/(loss) after tax for the year	Total shareholders' equity	Operating profit/(loss)	Dividend received during the year	Net book value €'000
2019									
€'000									
	Iberia	100%	743.420	672.921	376.762	1.793.103	481.508	181.965	2.388.548
	Aer Lingus	Indirect <sup>3</sup>	27.015	558.943	225.589	811.547	275.639	-	-
	Vueling	Indirect <sup>2</sup>	29.905	75.793	165.076	270.774	240.835	-	-
	Veloz	100%	33	230.516	36.906	267.455	37.492	30.000	166.139
	Aerl Holding	100%	760.000	256.780	277.088	1.293.868	61	-	836.000
	LEVEL	100%	3	58.458	(39.262)	19.199	(29.735)	-	85.003
£'000									
	British Airways	100%	290.000	4.408.000	1.109.000	5.807.000	1.338.000	534.218	4.155.397
	IAG Cargo	100%	-	4.270	189	4.459	330	-	-
	IAG GBS	100%	20.000	(15.872)	(517)	3.611	479	-	22.218
	IAG Connect	100%	-	1.233	752	1.985	928	-	4.888
Polish zloty '000									
	IAG GBS Poland	1% <sup>4</sup>	-	3.403	1.015	4.418	1.533	-	-
Other Group companies			n/a	n/a	n/a	n/a	n/a	n/a	n/a
									7.658.193

<sup>1</sup> IAG holds a direct investment of 90,02 per cent in British Airways and a direct investment of 86,45 per cent in Iberia. The remaining indirect investment by IAG is represented by the cross-holdings between British Airways and Iberia.

The Company holds 49,9 per cent of 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 per cent of the economic rights in these companies. The remaining shares, representing 50,1 per cent 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.

The Company holds 49,9 per cent of the total number of voting rights and 99,65 per cent of the total nominal share capital in British Airways Plc, such stake having almost 100 per cent of the economic rights. The remaining nominal share capital and voting rights, representing 0,35 per cent and 50,1 per cent respectively, correspond to a trust established for the purposes of implementing the British Airways nationality structure.

<sup>2</sup> IAG holds an indirect investment of 99,50 per cent in Vueling through its subsidiaries Iberia (50,00 per cent) and Veloz (49,50 per cent).

<sup>3</sup> IAG holds 49,75 per cent of the total number of voting rights and almost 100 per cent of the economic rights in Aer Lingus. The remaining voting rights, representing 50,25 per cent, correspond to a trust established for implementing the Aer Lingus nationality structure.

<sup>4</sup> IAG holds a direct investment of 1 per cent in IAG GBS Poland and an indirect investment of 99 per cent through IAG GBS.

IAG holds a direct investment of 100 per cent in IAG Connect Limited.

IAG holds a direct investment of 100 per cent in FLY LEVEL S.L.

## **INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

Notes to the financial statements continued

### **6. EQUITY INVESTMENTS IN GROUP COMPANIES** continued

#### **6.2 Overview of investments** continued

British Airways' registered office is at Waterside, PO Box 365, Harmondsworth, London, UB7 0GB, United Kingdom. The main activity of British Airways is the operation of international and domestic air services for the carriage of passengers and cargo. In addition it provides ancillary services, BA Holidays and aircraft maintenance services.

Iberia's registered office is at Calle Martínez Villergas 49, 28027, Madrid, Spain. The main business of Iberia is the operation of international and domestic air services for the carriage of passengers and cargo. In addition it provides ancillary services including aircraft maintenance services.

Veloz's registered office is at Parque de Negocios Mas Blau II Pla de l'Estany 5, 08820 El Prat de Llobregat, Barcelona, Spain. The main business of Veloz consists of the acquisition and holding of shares or equity interests in Vueling, as well as the management and disposition of such equity interests.

IAG Cargo's registered office is at Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS, United Kingdom. The principal activity of IAG Cargo is commercial sales, support and management services in the provision of air freight on the British Airways, Iberia and Aer Lingus networks.

IAG GBS's registered office is at Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, Middlesex, UB7 0GB, United Kingdom. The principal activity is the provision of business services to the IAG Group.

IAG GBS Poland's registered office is at ul. Opolska 114, 31-323 Kraków, Poland. The principal activity is the provision of business services to the IAG Group.

AERL Holding's registered office is at Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, Middlesex, UB7 0GB, United Kingdom. The principal activity is acquisition and holding of equity interests in Aer Lingus Group DAC and the management and disposition of such equity interests.

FLY LEVEL S.L.'s registered office is at El Caserío, Camino de la Muñoza s/n, Iberia zona Industrial no 2, 28042 Madrid, Spain. The principal activity is passenger air transport.

IAG Connect Limited's registered office is at Dublin Airport, County Dublin, Republic of Ireland. The principal activity is the provision of the Group's inflight eCommerce platform.

In accordance with article 155 of the Spanish Companies Law (Ley de Sociedades de Capital), the Company has duly notified the abovementioned subsidiaries of the acquisitions of its share capital.

#### **6.3 Impairment review**

The principal equity investments in Group companies comprise British Airways, Iberia, Veloz (the holding company of Vueling) and AERL Holding (the holding company of Aer Lingus).

##### *Basis for calculating recoverable amount*

The recoverable amounts of investments have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The recoverable amounts are determined by the difference between the carrying amount of the investments and their respective value-in-use calculations. 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 pre-tax discount rate for each investment.

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 investment 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 Company's investments the key assumptions used in the value-in-use calculations are as follows:

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 6. EQUITY INVESTMENTS IN GROUP COMPANIES continued

#### 6.3 Impairment review continued

Per cent	2020			
	British Airways	Iberia	Veloz	Aerl Holding
Operating margin	(20)-16	(12)-11	(22)-12	(14)-13
ASK as a proportion of 2019 <sup>1</sup>	45-95	49-98	46-107	40-100
Long-term growth rate	2,1	2,0	1,8	1,9
Pre-tax discount rate	11,2	11,6	11,5	10,4

<sup>1</sup> 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.

Per cent	2019			
	British Airways	Iberia	Veloz	Aerl Holding
Operating margin	15	10-15	10-14	13-15
Average ASK growth per annum	2-4	3,0	1-5	2-11
Long-term growth rate	2,2	1,8	1,5	1,8
Pre-tax discount rate	8,0	9,1	9,4	8,0

Jet fuel price (\$ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
<b>2020</b>	<b>373</b>	<b>420</b>	<b>449</b>	<b>449</b>
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 investment 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 investment, 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 investment. 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. Investment specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

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

#### Summary of results

At December 31, 2020 Management reviewed the recoverable amount of each of the investments and concluded the recoverable amounts exceeded the carrying values. The impairment review of the carrying value of the Company investment in FLY LEVEL S.L is presented in the next section of this note.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each investment, 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 AERL Holding investments, while the recoverable amounts are estimated to exceed the carrying amounts by €11,038 million, €1,307 million and €1,621 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes in assumptions in each of the following scenarios:

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 6. EQUITY INVESTMENTS IN GROUP COMPANIES continued

#### 6.3 Impairment review continued

- British Airways: (i) if ASKs had been five per cent lower combined with a fuel price increase of 29 per cent;
- Iberia: (i) if ASKs had been five per cent lower combined with a reduction of the long-term growth rate to 1.4 per cent; and (ii) if operating margin had been two per cent lower combined with a reduction of the long-term growth rate to 1.4 per cent; (iii) if ASKs had been five per cent lower combined with a fuel price increase of 2 per cent; and (iv) if the fuel price had been 14 per cent higher; and
- AERL Holding: (i) if ASKs had been five per cent lower combined with a fuel price increase of 36 per cent.

For the remainder of the reasonable possible changes in key assumptions applied to the British Airways, Iberia and AERL Holding investments and for all the reasonable possible changes in key assumptions applied to the remaining investments, no impairment arises.

#### Carrying value of FLY LEVEL S.L.

In response to the COVID-19 pandemic and the resultant structural change to the airline sector, the FLY LEVEL S.L. subsidiary, Openskies SASU, operating its flights from Paris, France, commenced and completed a consultation process during the second half of 2020 regarding the permanent cessation of operations. Accordingly, as at December 31, 2020, Openskies SASU, and as a result FLY LEVEL S.L., had no further cash generating operations and the Company has assessed the recoverability of its investment in and its trading and non-trading receivable balances due from FLY LEVEL S.L., which acts in its capacity as a holding company of Openskies SASU.

In undertaking this assessment, the Company has taken into consideration the remaining expected costs to cease existing operations, the closing cash and cash equivalents and the fair value, sourced from external market data, of the aircraft that Openskies SASU owns. The principal closure costs relate to the executed severance agreements and the discharge of the existing third party liabilities of Openskies SASU.

As a result of this analysis an impairment charge of €160.003.000 has been recorded against the investment value of FLY LEVEL S.L. and a further impairment charge of €108.917.000 against Loan receivable from Group company. These charges have been included in the "Impairment losses on equity instruments, Group companies" and "Impairment losses on loans receivable from Group companies" lines in the Income statement.

### 7. FINANCIAL INSTRUMENTS

#### 7.1 Financial assets

Details of the Company's financial assets at December 31 by nature and classification for measurement purposes is as follows:

At December 31, 2020 €'000	Loans and receivables	Available- for-sale	Total
<b>Non-current assets</b>			
Loan receivable from Group company (note 14.1)	1.746.961	-	1.746.961
Investment in other equity instruments (note 7.1.2)	-	17.945	17.945
	<b>1.746.961</b>	<b>17.945</b>	<b>1.764.906</b>
<b>Current assets</b>			
Trade and other receivables (note 7.1.1)	146.037	-	146.037
Loan receivable from Group company (note 14.1)	16.078	-	16.078
Cash and cash equivalents (note 8)	1.527.238	-	1.527.238
	<b>1.689.353</b>	-	<b>1.689.353</b>

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 7. FINANCIAL INSTRUMENTS continued

#### 7.1 Financial assets continued

At December 31, 2019 €'000	Loans and receivables	Available- for-sale	Total
<b>Non-current assets</b>			
Loan receivable from Group company (note 14.1)	184.234	-	184.234
Investment in other equity instruments (note 7.1.2)	-	14.536	14.536
	184.234	14.536	198.770
<b>Current assets</b>			
Trade and other receivables (note 7.1.1)	212.506	-	212.506
Loan receivable from Group company (note 14.1)	8.822	-	8.822
Cash and cash equivalents (note 8)	694.083	-	694.083
	915.411	-	915.411

#### 7.1.1 Trade and other receivables

The breakdown of trade and other receivables at December 31 is as follows:

€'000	2020	2019
<b>Current</b>		
Receivables from Group companies (note 14.1)	130.548	201.678
Other receivables	15.489	10.828
	<b>146.037</b>	212.506

#### 7.1.2 Non-current investments in other equity instruments

The breakdown of non-current investments in other equity instruments at December 31 is as follows:

€'000	2020	2019
<b>Cost</b>		
Unlisted investments	17.945	14.536
	<b>17.945</b>	14.536

### 7.2 Financial liabilities

Details of the Company's financial liabilities at December 31 by nature and classification for measurement purposes is as follows:

€'000	Loans and payables 2020	Loans and payables 2019
<b>Non-current liabilities</b>		
Bond and other marketable securities	1.461.828	1.448.995
Group companies (note 14.1)	811.877	1.047.515
	<b>2.273.705</b>	2.496.510
<b>Current liabilities</b>		
Trade and other payables (note 7.2.1)	15.135	25.491
Group companies (note 14.1)	224.444	46.587
Bond and other marketable securities	13.125	13.125
	<b>252.704</b>	85.203

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 7. FINANCIAL INSTRUMENTS continued

#### 7.2 Financial liabilities continued

Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0,25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0,625 per cent raising net proceeds of €494 million and due in 2022. The conversion price for both tranches was set at a premium of 62,5 per cent over the Group's share price on the date of issuance. The Group holds an option to redeem the outstanding convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. In July 2019 the Group early redeemed all of the €500 million 0,25 per cent convertible bonds due in 2020 with no conversion to ordinary shares.

In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due 4 July 2023 and €500 million due 4 July 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.

#### 7.2.1 Trade and other payables

The breakdown of trade and other payables at December 31 is as follows:

€'000	2020	2019
<b>Current Trade and other payables</b>		
Various creditors	15.135	15.768
Payroll accruals	-	9.723
	<b>15.135</b>	<b>25.491</b>

#### 7.2.2 Average payment days to suppliers

The information on average period for payment to suppliers in commercial transactions at December 31, is as follows:

Days	2020	2019
Average days for payment to suppliers	59	58
Ratio of transactions paid	60	59
Ratio of transactions outstanding for payment	31	47

	2020	2019
Total payments made	19.998	26.117
Total payments outstanding	3.202	2.206

### 8. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as at December 31 is as follows:

€'000	2020	2019
Cash at bank	3.987	80.415
Cash equivalents	1.523.251	613.668
	<b>1.527.238</b>	<b>694.083</b>

There are no restrictions on the use of these amounts.

At December 31, 2020 and 2019, the Company had no outstanding bank overdrafts.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 9. EQUITY – CAPITAL AND RESERVES

#### 9.1 Share capital

At December 31, 2020, the share capital of the Company amounts to €497.147.000, divided into 4.971.476.000 ordinary shares of the same class and series and with a nominal value of 0,10 € each, fully subscribed and paid.

#### 9.1.1 Share capital reduction

On September 8, 2020, the Company undertook a share capital reduction of €796.813.000, 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 9.2).

#### 9.1.2 Rights issue

On October 2, 2020, the Company raised €2.741.088.000 (and incurred related transaction costs of €69.661.000 as detailed in Note 9.2) 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.

The share capital and premium for the Company is as follows:

	Number of shares '000s	Share capital €'000	Share premium €'000
At December 31, 2018	1.992.033	996.016	6.021.802
Special 2019 dividend of 0,35 € per share	-	-	(694.507)
<b>At December 31, 2019: Ordinary shares of 0,50 € each</b>	<b>1.992.033</b>	<b>996.016</b>	<b>5.327.295</b>
Share capital reduction	-	(796.813)	-
Rights issue	2.979.443	297.944	2.443.144
<b>At December 31, 2020: Ordinary shares of 0,10 € each</b>	<b>4.971.476</b>	<b>497.147</b>	<b>7.770.439</b>

Details of shareholders and their equity at December 31 is as follows:

Per cent	2020	2019
Significant shareholders:		
Qatar Airways (Q.C.S.C.)	25,100	21,426
Marshall Wace LLP	3,022	-
Invesco Limited	1,327	2,050
Lansdowne Partners International Limited	1,255	3,957
Allan & Gill Gray Foundation	1,100	-
Capital Research and Management Company	-	10,013
Europacific Growth Fund	-	5,261
Lansdowne Developed Markets Master Fund Limited	-	1,999
Citadel Multi-Strategy Equities Master Fund Limited	-	1,006
Other shareholders	68,196	54,288
	100	100



## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 9. EQUITY – CAPITAL AND RESERVES continued

#### 9.2 Reserves and prior year results

Details of any movements through reserves for the years to December 31 is as follows:

€'000	January 1	Appropriation of prior year profit/(loss)	Vesting of share based payments	Conversion of bond	Dividend	Share capital reduction	Equity related transactions costs	December 31
<b>2020</b>								
Legal reserve	205.799	-	-	-	-	-	-	205.799
Other reserve	(897.437)	475.855	3.576	-	-	796.813	(69.661)	309.146
	<b>(691.638)</b>	<b>475.855</b>	<b>3.576</b>	<b>-</b>	<b>-</b>	<b>796.813</b>	<b>(69.661)</b>	<b>514.945</b>
<b>2019</b>								
Legal reserve	205.799	-	-	-	-	-	-	205.799
Other reserve	(983.770)	374.600	726	38.418	(327.411)	-	-	(897.437)
	<b>(777.971)</b>	<b>374.600</b>	<b>726</b>	<b>38.418</b>	<b>(327.411)</b>	<b>-</b>	<b>-</b>	<b>(691.638)</b>

According to the Spanish Companies Law, the legal reserve is not distributable to shareholders until it exceeds 20 per cent of the share capital, and may only be used in the case that no other reserves are available to offset losses. This reserve may also be used to increase the share capital in excess of 10 per cent of the increased capital stock.

As permitted by the Spanish Companies law, the Company may decrease its share capital without granting its creditors the right of objection legally contemplated in connection with such capital reduction if it records from unrestricted reserves a reserve for redeemed capital for an amount equal to the nominal value of the cancelled shares. This reserve can only be used if the same requirements as those applicable to the reduction of share capital are met.

Other reserves include a Redeemed capital reserve of €70.478.000 (2019: €70.478.000) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €796.813.000 (2019: nil) associated with a reduction in the nominal value of the Company's share capital.

Equity related transactions costs of €69.661.000 were incurred in 2020 associated with the Rights Issue.

#### 9.3 Equity – valuation reserve

A breakdown of movements through the valuation reserve for the years to December 31 is as follows:

€'000	January 1	Valuation adjustment	December 31
<b>2020</b>			
Currency translation differences	(4.735)	8.144	3.409
	<b>(4.735)</b>	<b>8.144</b>	<b>3.409</b>
<b>2019</b>			
Currency translation differences	(3.601)	(1.134)	(4.735)
	<b>(3.601)</b>	<b>(1.134)</b>	<b>(4.735)</b>

The currency differences include the impact of converting the functional currency of the UK branch into the Company's presentation currency.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 9. EQUITY – CAPITAL AND RESERVES continued

#### 9.4 Treasury shares

The Company has authority to acquire its own shares, subject to specific conditions. The treasury shares balance consists of shares held directly by the Company. A total of 2.605.000 shares (2019: 1.019.000) were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2020 the Group held 5.097.000 shares (2019: 7.702.000) which represented 0.10 per cent of the issued share capital of the Company.

€'000	January 1	Share-based payment scheme vesting	December 31
<b>2020</b>			
Treasury shares	(59.568)	20.400	(39.168)
	<b>(59.568)</b>	<b>20.400</b>	<b>(39.168)</b>
<b>2019</b>			
Treasury shares	(67.292)	7.724	(59.568)
	<b>(67.292)</b>	<b>7.724</b>	<b>(59.568)</b>

#### 9.5 Other equity instruments

The detail of balances related to other equity instruments at December 31 is as follows:

€'000	January 1	Equity instruments movement for the year	December 31
<b>2020</b>			
Share-based payments credit (note 15)	249.971	(10.235)	239.736
Vesting of share-based payment	(145.866)	(25.568)	(171.434)
Equity portion of convertible bond issue (note 7.2)	62.036	-	62.036
	<b>166.141</b>	<b>(35.803)</b>	<b>130.338</b>
<b>2019</b>			
Share-based payments cost (note 15)	217.097	32.874	249.971
Vesting of share-based payment	(131.283)	(14.583)	(145.866)
Equity portion of convertible bond issue (note 7.2)	100.938	(38.902)	62.036
	<b>186.752</b>	<b>(20.611)</b>	<b>166.141</b>

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 10. TAXES

#### 10.1 Current taxes

##### 10.1.1 Current taxes

The detail of balances related to tax assets and liabilities at December 31 is as follows:

€'000	2020	2019
Other balances with public administrations:		
Spanish current tax receivable	95.658	88.718
Receivables, Spanish group companies (tax)	3.118	45.285
UK current tax liability	-	(447)
Liabilities, UK group companies (tax)	(6.860)	(4.061)
Provisions for taxes	(5.391)	(4.347)
Social security payable	(12.538)	(16.538)
Value added tax receivable	8.805	4.592
Withholding tax payable on interim dividend	-	(53.285)
	<b>82.792</b>	<b>59.917</b>

The reconciliation of the accounting (loss)/profit to taxable loss is as follows:

€'000	2020	2019
(Loss)/profit for the year from continuing operations	(296.305)	763.583
Current tax	790	(17.406)
Deferred tax	2.160	(844)
Impact of rate change	(756)	-
Adjustments in respect of prior years	2.782	799
<b>(Loss)/profit before tax</b>	<b>(291.329)</b>	<b>746.132</b>
Permanent differences	163.922	(819.974)
Timing differences	102.921	4.444
<b>Taxable loss</b>	<b>(24.486)</b>	<b>(69.398)</b>

The reconciliation between the accounting (loss)/profit and tax (charge)/credit is as follows:

€'000	2020			2019		
	Total	Spain	UK	Total	Spain	UK
(Loss)/profit before tax	(291.329)	(303.072)	11.743	746.132	751.012	(4.880)
Tax at the standard rates in Spain and the UK	73.537	75.768	(2.231)	(186.826)	(187.753)	927
Permanent differences increasing the tax charge	-	-	-	206.808	206.287	521
Permanent differences decreasing the tax charge	(40.941)	(40.825)	(116)	(1.732)	(8)	(1.724)
Share based payments	(3.603)	-	(3.603)	-	-	-
Adjustment in respect of prior years	(2.782)	-	(2.782)	(799)	(220)	(579)
Prior year tax liabilities derecognised	3.000	3.000	-	-	-	-
Impact of rate change	756	-	756	-	-	-
Unrecognised losses and deductible differences arising in the year	(34.943)	(34.943)	-	-	-	-
<b>Tax (charge)/credit</b>	<b>(4.976)</b>	<b>3.000</b>	<b>(7.976)</b>	<b>17.451</b>	<b>18.306</b>	<b>(855)</b>

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

### Notes to the financial statements continued

#### 10. TAXES continued

##### 10.1 Current taxes continued

##### 10.1.1 Current taxes continued

Permanent differences decreasing the tax credit primarily relate to non-deductible expenses and other taxable income.

Part of the impairment booked in 2020 (€108.917.000) corresponding to a loan with Openskies SASU has been considered as an unrecognised temporary difference (non-deductible expense). The remaining impairment booked (€160.003.000) is related to the investment in a subsidiary FLY LEVEL, S.L. and has been classified as a permanent difference accounting wise. However, from a tax standpoint, it is considered as a temporary difference to the extent that it will be reversed in the future.

From January 1, 2015 onwards the Spanish companies IAG, Vueling, Veloz, the Avios Spanish branch, the IAG GBS Spanish branch and the IAG Cargo Spanish branch filed consolidated tax returns as part of the Spanish tax unity (0061/15, pursuant to title VII, Chapter VI of the Spanish Corporate Income Tax Law set forth in the Law 27/2014 of 27 November 2014). Fly Level S.L. joined the tax unity on 7 November 2017. Yellow Handling S.L. joined the tax unity on 17 October 2019. Vueling and Yellow Handling S.L. are no longer part of the Spanish tax unity in 2020 due to modifications in their shareholding. IAG will be responsible for filing consolidated tax returns with these other companies that belong to this tax unity.

##### 10.1.2 Taxable loss

The taxable loss for the year to December 31, arises between the UK and Spain as follows:

€'000	2020			2019		
	Total	Spain	UK	Total	Spain	UK
(Loss)/profit before tax	<b>(291.329)</b>	(303.072)	11.743	746.132	751.012	(4.880)
Permanent differences	<b>163.922</b>	163.301	621	(819.974)	(825.114)	5.140
Timing differences	<b>102.921</b>	108.917	(5.996)	4.444	-	4.444
<b>Taxable loss</b>	<b>(24.486)</b>	(30.854)	6.368	(69.398)	(74.102)	4.704

#### 10.2 Current provisions

€'000	2020	2019
Provisions for taxes	5.391	4.347
	<b>5.391</b>	<b>4.347</b>

Under prevailing tax regulations, tax returns in Spain may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. In December 2015 the Spanish Tax Authority opened audits into all corporate income tax, VAT and withholding taxes for which the company is liable, covering the preceding four years. The Company's directors have decided to book a tax provision in the balance sheet amounting to €600.000 (2019: €600.000) that arise as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

Under prevailing tax regulations, tax returns in the UK may not be considered final until they have either been inspected by tax authorities or until the six-year inspection period for discovery assessment has expired. In December 2016 the UK Tax Authority opened an audit into corporate income tax for the year ended 31 December 2014. Audits into subsequent years have since been opened each year for all years up to and including 31 December 2018. The Company's directors have decided to book a tax provision in the balance sheet amounting to €4.791.000 (2019: €3.747.000) that arise as a result of potentially varying interpretations of the tax legislation applicable to the Company's transactions.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 10. TAXES continued

#### 10.3 Deferred tax asset

The detail and movements of balances related to deferred tax assets at December 31 is as follows:

€'000	January 1	Variations reflected in			December 31
		Income statement	Equity	Exchange difference	
<b>2020</b>					
Temporary differences on share-based payments	7.604	(3.860)	(1.235)	(473)	2.036
	<b>7.604</b>	<b>(3.860)</b>	<b>(1.235)</b>	<b>(473)</b>	<b>2.036</b>
<b>2019</b>					
Temporary differences on share-based payments	6.755	844	(279)	284	7.604
	<b>6.755</b>	<b>844</b>	<b>(279)</b>	<b>284</b>	<b>7.604</b>

The deferred tax asset has been booked at the UK tax rate of 19 per cent (2019: 17 per cent).

#### 10.4 Deferred tax liability

The detail and movements of balances related to deferred tax liabilities at December 31 is as follows:

€'000	January 1	Variations reflected in			December 31
		Income statement	Equity	Exchange difference	
<b>2020</b>					
Temporary differences on unremitted earnings	(3.000)	3.000	-	-	-
	<b>(3.000)</b>	<b>3.000</b>	-	-	-
<b>2019</b>					
Temporary differences on unremitted earnings	(3.000)	-	-	-	(3.000)
	<b>(3.000)</b>	-	-	-	<b>(3.000)</b>

The deferred tax liability has been booked at the Spanish tax rate of 25 per cent (2019: 25 per cent).

#### 10.5 Unrecognised tax attributes

The Company has €8,3 million of tax losses that arose in Spain in 2014 before the tax unity was formed and €23,5 million of deductible temporary differences that arose in Spain in 2015 and 2016. These are not recognised.

#### 10.6 Tax related contingent liabilities

The Company has certain contingent liabilities, across all taxes, which at December 31, 2020 amounted to €92 million. No material losses are likely to arise from such contingent liabilities. As such the Company does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liability is 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.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 11. INCOME AND EXPENSES

#### 11.1 Revenue

The Company has a sole activity as described in note 1, which is the acquisition, ownership, management and disposal of shares or other equity interests in other companies and provision of management services to those companies. The distribution of management service revenue for the year to December 31, from continuing operations by geographical segments can be represented by the following information:

€'000	2020	2019
Revenue by area of geographical sale:		
UK	42.489	68.341
	<b>42.489</b>	68.341

#### 11.2 Finance income and costs

The breakdown of finance income and cost is as follows:

€'000	2020	2019
<b>Finance income</b>		
Receivable from third parties	10.262	140
Receivable on debt with Group companies and associates	15.995	13.110
	<b>26.257</b>	13.250
<b>Finance costs</b>		
Payable on debt with Group companies and associates	(17.950)	(15.905)
Payable interest on convertible bond and other securities payables	(25.841)	(41.362)
Payable to third parties	(8.569)	(2.662)
	<b>(52.360)</b>	(59.929)
<b>Changes in fair value of financial instruments</b>		
Changes in fair value of financial instruments	-	(18.715)
	-	(18.715)
<b>Impairment and (losses)/gains on financial instruments</b>		
Impairment losses on loans receivable from Group companies	(108.917)	-
	<b>(108.917)</b>	-

#### 11.3 Employee costs

The breakdown of personnel expenses is as follows:

€'000	2020	2019
<b>Wages, salaries and other costs</b>		
Salaries and wages	20.344	30.102
Share-based payments (credit)/charge (note 15)	(4.931)	14.381
<b>Social security costs</b>		
Social security	855	4.665
Other social costs	2.681	3.311
	<b>18.949</b>	52.459

The Company offers a defined contribution pension plan to all IAG employees. The contributions paid into the defined contribution scheme during the year to December 31, 2020 totalled €2.681.000 (2019: €3.311.000), and have been recognised in Other social costs.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 12. FOREIGN CURRENCY

IAG is a Spanish Company with a UK branch which has a pound sterling functional currency. The breakdown of assets and liabilities of the UK branch, all denominated in pound sterling, is as follows:

<b>Pound sterling '000</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Investment in other equity instruments	39.218	36.314
Deferred tax asset	1.848	6.437
Amounts owed by Group companies	184.159	175.803
Other receivables	568	4.881
Cash and cash equivalents	7.199	26.312
	<b>232.992</b>	<b>249.747</b>
<b>Liabilities</b>		
Current tax liability	-	3.623
Provisions for taxes	4.351	3.366
Other taxes and social security	12.962	13.997
Accruals and others payables	8.777	19.167
Amounts due from Group companies	280.073	282.644
	<b>306.163</b>	<b>322.797</b>
<b>Net liabilities</b>	<b>(73.171)</b>	<b>(73.050)</b>

The Income statement, all denominated in '000 pound sterling, of the branch is as follows:

<b>Pound sterling '000</b>	<b>2020</b>	<b>2019</b>
Revenue	37.310	60.115
Finance income	1.138	160
Employee costs	(13.080)	(41.756)
Other costs	(12.235)	(21.195)
Finance costs	(3.240)	(1.552)
<b>Profit/(loss) for the year before tax</b>	<b>9.893</b>	<b>(4.228)</b>

### 13. FINANCIAL RISK MANAGEMENT

The nature of the Company's business model and its ability to pay dividends to shareholders means the Company is primarily exposed to capital and credit risk.

#### Counterparty risk

The Company 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. 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 carrying amount of financial assets represents the maximum exposure to counterparty risk.

#### Foreign Currency risk

The Company undertakes external foreign exchange derivatives trading activity to mitigate the exposure arising from potential dividends received in currencies other than the Euro.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 13. FINANCIAL RISK MANAGEMENT continued

#### Liquidity risk

The Company 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 Company has also committed revolving credit facilities. At December 31, 2020 the Company had undrawn revolving credit facilities of €166 million (2019: €20 million).

#### Capital risk

The Company'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.

### 14. RELATED PARTY TRANSACTIONS

The Company has the following related parties at December 31:

	Nature of relationship
British Airways Plc	Other Group companies
Iberia Líneas Aéreas de España S.A. Operadora	Other Group companies
Veloz Holdco, S.L.U.	Other Group companies
Vueling Airlines, S.A.	Other Group companies
IAG Cargo Ltd	Other Group companies
IAG GBS Ltd	Other Group companies
IAG GBS Poland sp. z o.o.	Other Group companies
Aerl Holding Limited	Other Group companies
Aer Lingus Group DAC	Other Group companies
Avios Group (AGL) Limited	Other Group companies
IAG Connect	Other Group companies
FLY LEVEL S.L.	Other Group companies
FLYLEVEL UK Limited	Other Group companies
Invesco Limited	Significant shareholder
Allan & Gill Gray Foundation	Significant shareholder
Marshall Wace LLP	Significant shareholder
Lansdowne Partners International Limited	Significant shareholder
Qatar Airways (Q.C.S.C.)	Significant shareholder
Key management personnel	Directors and Management Committee



## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 14. RELATED PARTY TRANSACTIONS continued

#### 14.1 Related entities

The following transactions took place with related parties for the financial years to December 31:

€'000	2020	2019
<b>Revenue from operations</b>		
Rendering of services to Group companies	42.489	68.341
Dividend income received from Group companies	-	825.146
<b>Purchases of services</b>		
Purchases from Group companies	5.838	9.572
<b>Finance income</b>		
Receivable from debt with Group companies	15.995	13.110
<b>Finance Costs</b>		
Payable on debt with Group companies	17.950	15.905
<b>Transfer of assets to Group companies</b>	-	18.528
<b>December balances</b>		
	<b>2020</b>	<b>2019</b>
<b>Receivables from related parties</b>		
Amounts owed by Group companies	130.548	201.678
Loan receivable from Group companies	1.763.039	193.056
<b>Payables to related parties</b>		
Amounts owed to Group companies	7.397	40.316
Loan payable to Group companies	1.028.924	1.053.786

The details of the loans receivable from Group companies is as follows:

€'000	Amount outstanding December 31		Due date	Interest rate	Finance Income	
	2020	2019			2020	2019
IAG GBS	-	3.030	2020	6 months LIBOR +0,90 per cent	-	43
AERL Holdings	64.676	60.425	2021	3 year mid swap vs 3 months EURIBOR +4,00 per cent	4.150	4.798
LEVEL	16.065	54.751	2021-2023	5 year euro mid swap rate +6,00 per cent	3.475	3.591
LEVEL	-	74.850	2021-2023	5 year euro mid swap rate +6,00 per cent	4.620	4.678
British Airways	1.632.285	-	2024	3 months EURIBOR + 4,60 per cent	3.737	-
Aer Lingus	50.013	-	2022	3 months EURIBOR + 4,70 per cent	13	-
	<b>1.763.039</b>	193.056			<b>15.995</b>	13.110

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 14. RELATED PARTY TRANSACTIONS continued

#### 14.1 Related entities continued

The details of the loans payable to Group companies is as follows:

€'000	Amount outstanding December 31		Due date	Interest rate	Finance Costs	
	2020	2019			2020	2019
Veloz	-	-	2019	1 year euro mid swap rate (floored at zero) +0,50 per cent	-	360
Veloz	109.044	109.413	2024	1,20 per cent	1.308	43
Avios	203.967	219.615	2021	2 year GILT + 1,491 per cent	3.112	1.814
Iberia	200.302	200.457	2022	6 months euro mid swap rate + 1,75 per cent	2.815	2.928
Iberia	100.762	100.762	2023	5 year euro mid swap rate +1,95 per cent	2.105	2.210
Aer Lingus	100.447	100.429	2023	5 year euro mid swap rate +2,00 per cent	2.322	2.336
Aer Lingus	100.027	100.046	2023	5 year euro mid swap rate +2,00 per cent	2.410	2.399
Aer Lingus	100.014	100.012	2024	5 year euro mid swap rate +1,03 per cent	1.086	829
British Airways	48.193	51.866	2021-2023	5 year euro mid swap rate +2,00 per cent	1.221	1.306
British Airways	66.168	71.186	2021-2023	5 year euro mid swap rate +2,00 per cent	1.571	1.680
	<b>1.028.924</b>	<b>1.053.786</b>			<b>17.950</b>	<b>15.905</b>

Ordinary transactions with Group companies were carried out at an arm's length basis according with the Group's transfer pricing policies. Outstanding balances that relate to trading balances are placed on intragroup accounts with payment terms of 90 days.

Non-current loans owed by Group companies bear market rates of interest in accordance with the intragroup loan agreements.

#### Loans receivable from Group companies:

In 2015, IAG GBS borrowed €3.291.000 from IAG, bearing interest at 0,90 per cent over the 6 month LIBOR rate. The loan was for general treasury management purposes. The loan was fully repaid in January 2020, carrying nil balance as at December 31, 2020 (2019: €3.030.000). Interest receivable for the year was nil (2019: €43.000).

In 2015, AERL Holding borrowed €804.568.000 from IAG, bearing interest at 0,90 per cent over the 6 months EURIBOR rate. The purpose of this loan was for consideration and expenses relating to the acquisition of Aer Lingus. During 2017 AERL Holding repaid €836.000.000 of the loan by issuing ordinary shares to IAG. During 2018, IAG made payments on behalf of AERL Holding of €155.778.000, received a distribution on behalf of AERL Holding of €225.000.000 and received a dividend declared by AERL Holding of €74.000.000. During 2019, AERL Holding borrowed €301.745.000 from IAG and IAG received a distribution on behalf of AERL Holding of €285.000.000. Interest receivable for the year was €4.150.000 (2019: €4.798.000). As at December 31, 2020 the amount outstanding was €64.676.000 (2019: €60.425.000). The loan is repayable in 2021.

In 2013, Veloz borrowed €149.705.000 from the Company for the purpose of the increase in the Group's shareholding in Vueling. The holding was 99,50 per cent at December 31, 2020. In December 2018 €146.000.000 of the loan was capitalised and the Company borrowed €74.000.000, bearing interest at 0.50 per cent over the 1 year euro mid swap rate (floored at zero). Accrued interest receivable for 2019 was €360.000. In December 2019, the loan was repaid and the Company borrowed the amount of €109.000.000. Accrued interest for the new loan was €1.308.000 (2019: €43.000). The amount repaid during the year was €1.308.000 (2019: nil). As at December 31, 2020 the outstanding balance was €109.044.000 which is repayable in 2024.

In May 2018, LEVEL borrowed €57.000.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €3.475.000 (2019: €3.591.000). The amount repaid during the year was €5.426.000 (2019: €5.427.000). The balance outstanding at the end of the year was partially impaired and a loss of €36.735.000 was recognised in the Income statement. As at December 31, 2020 the borrowed balance was €16.065.000 (2019: €54.751.000) which is repayable from 2021 to 2023.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

### Notes to the financial statements continued

#### 14. RELATED PARTY TRANSACTIONS continued

##### 14.1 Related entities continued

In July 2018 LEVEL borrowed €77.000.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €4.620.000 (2019: €4.678.000). The amount repaid during the year was €7.288.000 (2019: €7.288.000). The balance outstanding at the end of the year was fully impaired and a loss of €72.182.000 was recognised in the Income statement. As at December 31, 2020 the borrowed balance was nil (2019: €74.850.000).

In December 2020, British Airways borrowed €1.645.000.000 net of fees of €16.450.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €3.737.000. The borrowed balance as at December 31, 2020 was €1.632.285.000 and is repayable in 2024.

In December 2020, Aer Lingus borrowed €50.000.000 from IAG for general corporate purposes. Accrued interest receivable for the year was €13.000. The borrowed balance as at December 31, 2020 was €50.013.000 and is repayable in 2022.

##### *Loans payable to Group companies:*

In 2017, the Company borrowed €200.000.000 from Iberia for general corporate purposes. Accrued interest payable for the year was €2.815.000 (2019: €2.928.000). The amount repaid during the year was €2.970.000 (2019: €2.683.000). As at December 31, 2020 the borrowed balance was €200.302.000 (2019: €200.457.000) which is repayable in 2022.

In 2018, the Company borrowed €100.000.000 from Iberia for general corporate purposes. Accrued interest payable for the year was €2.105.000 (2019: €2.210.000). The amount repaid during the year was €2.105.000 (2019: €2.553.000). As at December 31, 2020 the borrowed balance was €100.762.000 (2019: €100.762.000) which is repayable in 2023.

In May 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €2.410.000 (2019: €2.399.000). The amount repaid during the year was €2.429.000 (2019: €2.540.000). As at December 31, 2020 the borrowed balance was €100.027.000 (2019: €100.046.000) which is repayable in 2023.

In June 2018, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €2.322.000 (2019: €2.336.000). The amount repaid during the year was €2.304.000 (2019: €2.188.000). As at December 31, 2020 the borrowed balance was €100.447.000 (2019: €100.429.000) which is repayable in 2023.

In March 2019, the Company borrowed €100.000.000 from Aer Lingus for general corporate purposes. Accrued interest payable for the year was €1.086.000 (2019: €829.000). The amount repaid during the year was €1.084.000 (2019: €817.000). As at December 31, 2020 the borrowed balance was €100.014.000 (2019: €100.012.000) which is repayable in 2024.

In May 2018, the Company borrowed €57.000.000 from British Airways for general corporate purposes. Accrued interest payable for the year was €1.221.000 (2019: €1.306.000). The amount repaid during the year was €4.894.000 (2019: €4.848.000). As at December 31, 2020 the borrowed balance was €48.193.000 (2019: €51.866.000) which is repayable from 2021 to 2023.

In July 2018, the Company borrowed €77.000.000 from British Airways for general corporate purposes. Accrued interest payable for the year was €1.571.000 (2019: €1.680.000). The amount repaid during the year was €6.589.000 (2019: €6.534.000). As at December 31, 2020 the borrowed balance was €66.168.000 (2019: €71.186.000) which is repayable from 2021 to 2023.

In June 2019, the Company borrowed €218.540.000 (£185.000.000) from Avios for general corporate purposes. Accrued interest payable for the year was €3.112.000 (2019: €1.814.000). The amount repaid during the year was €3.872.000 (2019: €739.000). As at December 31, 2020 the borrowed balance was €203.967.000 (2019: €219.615.000) which is repayable in 2021.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 14. RELATED PARTY TRANSACTIONS continued

#### 14.2 Board of Directors and Management Committee remuneration

A breakdown of the remuneration received by the Board of Directors and Management Committee for the years to December 31 is as follows:

€'000	2020	2019
<b>Board of Directors</b>		
Salaries (fixed and variable)	2.924	7.481
Benefits in kind	548	663
Life insurance policies	19	27
	3.491	8.171
<b>Management Committee</b>		
Salaries (fixed and variable)	4.499	12.212
Benefits in kind	1.022	1.372
Life insurance policies	19	36
Pension contributions	25	11
	5.565	13.631

The pension obligation outstanding, which represents the transfer value of the accrued pension was €1.293.000 (2019: €985.000) for the Management Committee.

At December 31, 2020 and 2019, no advances or loans had been given to members of the Board of Directors.

The Directors have also confirmed that they have not engaged in activities on their own behalf or on behalf of others that involve effective competition, whether actual or potential, with the Company or that in any other way places them in permanent conflict with the interests of the company.

### 15. SHARE-BASED PAYMENTS

The Company 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 nil cost and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

#### 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 was £1.61 per award.

#### 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.

## INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Notes to the financial statements continued

### 15. SHARE-BASED PAYMENTS continued

#### Share-based payment schemes summary

	Outstanding at January 1, 2020	Granted number	Rights issue adjustment	Lapsed number	Exercised number	Outstanding at December 31, 2020	Exercisable December 31, 2020
	000s	000s	000s	000s	000s	000s	000s
Incentive Award Deferral Plan	1.982	715	1.221	-	295	3.623	-
Performance Share Plan	7.646	2.538	4.417	1.595	789	12.217	307
	<b>9.628</b>	<b>3.253</b>	<b>5.638</b>	<b>1.595</b>	<b>1.084</b>	<b>15.840</b>	<b>307</b>

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2020 was €2,90 (2019: not applicable).

The fair value of equity-settled share-based payment plans determined using the Monte Carlo model, taking into account the terms and conditions upon which the options were granted, used the following weighted average assumptions:

	2020	2019
Weighted average fair value (£)	1,84	1,93
Expected share price volatility (per cent)	35	35
Expected comparator group volatility (per cent)	20	20
Expected comparator correlation (per cent)	70	55
Expected life of options (years)	4,4	4,8
Share price at date of grant (£)	4,59	5,67

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 IAG Performance Share plan takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Company recognised a share-based payments credit of €4.931.000 for the year to December 31, 2020 (2019: €14.381.000 charge). A debit of €10.235.000 (2019: €32.874.000 credit) representing the total Group charge was recognised in Reserves including the deferred tax asset debit of €1.245.000 (2019: debit of €279.000). Group companies are recharged for the grants made to employees of those Group companies.

### 16. OTHER DISCLOSURES

#### 16.1 Employee numbers

Professional category	Number of employees at year end			Average number of employees
	Men	Women	Total	
<b>2020</b>				
Management Committee	9	2	11	10
All other employees	70	58	128	133
	<b>79</b>	<b>60</b>	<b>139</b>	<b>143</b>
<b>2019</b>				
Management Committee	8	2	10	10
All other employees	77	56	133	132
	<b>85</b>	<b>58</b>	<b>143</b>	<b>142</b>

There are no employees with a certified disability greater than 33 per cent.

At December 31, 2020, the Board consisted of 12 people, including 7 men and 5 women (2019: 12 people, including 8 men and 4 women).

## **INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

**Notes to the financial statements** continued

### **16. OTHER DISCLOSURES** continued

#### **16.1 Employee numbers** continued

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 Board of Directors was changed so that it has a majority of independent EU non-executive directors. Further details of these appointments are set out in the Nominations Committee report of the Group Annual Report and Accounts 2020.

#### **16.2 Audit fees**

The fees for the audit of the Company's financial statements, the audit of the Group consolidation and non-audit services provided to the Company by the auditor Ernst & Young S.L. are as follows:

<b>€'000</b>	<b>2020</b>	<b>2019</b>
Fees for the audit of the financial statements	924	704
Other audit related services	189	144
All other services	30	-
	<b>1.143</b>	<b>848</b>

Information on services provided to the Company and its subsidiaries by Ernst & Young S.L. and other network firms is included in the Group's consolidated financial statements.

#### **16.3 Information on environmental issues**

The undersigned, as Directors of the Company, hereby state that the accounting records relating to these financial statements do not contain any item of an environmental nature that should be included pursuant to point 5 of the Valuation Standard 4<sup>a</sup> Financial Statements, or Section 3 of the Spanish National Chart of Accounts (Royal Decree 1514/2010, of 16 November).

### **17. POST BALANCE SHEET EVENTS**

There have been no post balance sheet events subsequent to the year end that require disclosure in the accounts.

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.**

**Management report for the year to December 31, 2020**

## MANAGEMENT REPORT

International Consolidated Airlines Group, known as International Airlines Group or IAG is the parent company of British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo, Veloz, IAG GBS, AERL Holding, LEVEL and IAG Connect. The Group was formed on January 21, 2011 when the merger between British Airways and Iberia was completed.

### Business review

IAG is a Spanish registered company with the majority its Board meetings held in Spain. IAG operates a head office through its UK branch in London, with an average staff of 143 (2019: 142) managing key support functions for the Group. The Company's focus is on the Group strategy, synergies, digital and connectivity, and support of finance, legal and communications functions as well as the administration of the Company.

Costs in relation to work carried out for the operating companies of the Group are recharged back to those companies.

It is expected that the IAG Company will remain relatively small within the Group, whilst continuing to provide support to the operating companies where required and providing leadership for the Group strategy.

Our vision is to be the world's leading airline group, maximising sustainable value creation for our shareholders, customers and other stakeholders.

The Group's current strategic priorities include:

- Strengthening a portfolio of world-class brands and operations
- Growing global leadership positions
- Enhancing the common integrated platform

How we create value:

- Unrivalled customer proposition
- Value accretive and sustainable growth
- Efficiency and innovation

IAG is committed to creating a supportive and inclusive environment for all employees, as well as to ensuring equal development opportunities. The Board monitors and reports on diversity at all levels across the Group. In particular, diversity has been a key consideration in planning the long-term composition of the Board itself. The Board diversity policy is described on the Company's website, where the gender diversity figures are also disclosed.

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 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 areas: capacity, operating costs, working capital, capital expenditure and funding. For further information please refer to the Group Annual Report and Accounts 2020.

### Finance review

#### Income statement

Revenue which is derived from charging the airline companies for the services that IAG provides to them, totalled €42 million for the year to December 31, 2020 (2019: €68 million). Such services cover financial control over treasury policy, treasury support including hedging, financing and refinancing, major capital investments, co-ordination and delivery support of the synergies, strategy and general management of the Group. Revenue in 2020 was 38 per cent lower than in prior year reflecting the lower employee and external services costs incurred in the year.

The Company did not receive dividend income from its operating companies during the year (2019: €825 million from British Airways, Iberia and Veloz).

The Company's expenses are split between employee costs, services received and other operating expenses.

Employee costs for the year are €19 million (2019: €52 million). The decrease in employee costs reflects salary reductions implemented in response to the COVID-19 pandemic and a credit in relation to share-based payment cost and related social security of €6 million (2019: €16m charge).

Services received largely relate to supporting the activities of the key departments, other expenses reflect the cost of operating the IAG offices and IT costs, as well as the costs supporting the Group's market listings with CNMV and UKLA. Operating expenses reduced by 33 per cent to €20 million in 2020 (2019: €30 million) reflecting management actions implemented in response to market environment and resulting in all non-essential discretionary spend and non-urgent projects being suspended.

The increase in finance income from third party relates mostly to a refund received from the Spanish Tax Authorities regarding interest on prior years tax overpayments following a judgement issued by the Constitutional Court. Finance cost payable on debt with third parties of €34 million (2019: €44 million) includes interest expense on the bonds and negative yields on deposits and money market funds. The Company did not enter derivative contracts in 2020. The change in fair value of financial instruments in 2019 reflects €19 million loss on derivatives not qualifying for hedge accounting.

Loss before tax for the year was €291 million (2019: €746 million profit).



The tax charge of €5 million (2019: €17 million credit) reflects:

- UK tax on the profits of the Company's UK branch at the tax rate of 19 per cent,
- an adjustment in relation to prior years, and
- the derecognition of the deferred tax asset related to the share-based payments and the derecognition of the deferred tax liability in connection with a subsidiary company.

The loss after tax for the year from continuing operations is €296 million (2019: €764 million profit).

### **Balance sheet**

IAG's primary assets are its subsidiaries. IAG's investments in British Airways and Iberia were created at the time of the merger on January 21, 2011 and amounted to €6.208 million. During 2020, the Company made investments of €75 million in LEVEL. In response to the COVID-19 pandemic and the resultant structural change to the airline sector, the FLY LEVEL S.L. subsidiary, Openskies SASU, operating its flights from Paris, France, commenced and completed a consultation process during the second half of 2020 regarding the permanent cessation of operations resulting in an impairment of the full carrying amount of the investment in LEVEL of €160m and €109m of the loan payable to the Company. At the year end, IAG held an investment of €4.155 million in British Airways, €2.389 million in Iberia, €836 million in AERL Holding, €166 million in Veloz, €22 million in IAG GBS and €5 million in IAG Connect totalling €7.573.190 million. It also holds the investment in IAG Cargo.

### *Prior year movements in investments*

During 2019, the Company made investments of €27 million in LEVEL.

### **Treasury shares**

At December 31, 2020 the Company held 5.1 million shares (2019: 7.7 million).

A total number of 2.6 million shares vested during the year in relation to share-based payment schemes. The total number of the Company's treasury shares as at December 31, 2020 accounts for 0,10 per cent (2019: 0,39 per cent) of the total issued capital at that date.

### **Dividends**

On February 27, 2020 IAG's Board of Directors proposed a distribution in cash of a final 2019 dividend of 17 € cents per share at the Annual Shareholders' Meeting. As a result of the impact of COVID-19, on April 2, 2020, IAG's Board of Directors resolved to withdraw the proposal to the next Annual Shareholders' Meeting to pay a final dividend for 2019 of 17 € cents per share.

### **Post balance sheet events**

There have been no post balance sheet events subsequent to the year end that require disclosure in the accounts.

### **Research and development**

The Company does not undertake any research or development activity.

### **Financial risk management**

The nature of the Company's business model and ability to pay dividends to shareholders means the Company is primarily exposed to capital and credit risk. The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure in order to reduce the cost of capital and to provide future returns to shareholders.

### **Principal risks and uncertainties**

The Directors of the Company believe that the risks and uncertainties described below are the ones that may have the most significant impact on the day to day operations of IAG as a parent company. These risks are considered by the IAG management team as part of its wider consideration of Group risks under the IAG Enterprise Risk Management framework. The list is not intended to be exhaustive.

### **Cyber-attack and data security**

The Company could face financial loss, disruption or damage to brand reputation arising from an attack on the Company's systems. There is oversight of critical systems and suppliers to ensure that the Company understands the data it holds, that it is secure and regulations are adhered to.

### **Financial risk - counterparty credit risk**

The failure to manage the financial counterparties credit exposure arisen from cash investments and derivatives trading may result in financial losses. The Company is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. 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.

### **Group Governance Structure**

The governance structure the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's routes and operating licences. IAG could face a challenge to its ownership and control structure. Following the UK's exit from the EU on 31 December 2020, after the transition period, the Group initiated the remedial plans on the ownership and control of its European airlines that were agreed with all national regulators in 2019. IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.

**IT systems and IT infrastructure**

The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption. Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption, particularly if the Company needs to defer investment to preserve cash.

System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. IAG Tech works with the business to deliver digital and IT change initiatives to enhance security and stability.

**People risk**

The Company fails to attract, motivate, retain or develop its people. Succession planning, engagement surveys and action plans mitigate this risk.

**Non-compliance with key regulation and laws**

The Company is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses. The Company has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. There are mandatory training programmes in place to educate employees in these matters, including an IAG Code of Conduct framework and training.

**Reputation**

As a listed entity in Spain and the United Kingdom, and as owner of British Airways, Iberia, IAG Cargo, Vueling, Aer Lingus, Avios and LEVEL, the Company is exposed to reputational risk and consequent impact to the Group's brands. This risk is mitigated through a Disclosure Committee that meets monthly to consider the adequacy and accuracy of external communications. The Company's communications department also works closely with the operating companies to ensure consistency in external communications.

**Tax**

The Company is exposed to systemic tax risks arising from either changes to tax legislation and accounting standards or challenges by tax authorities on the interpretation or application of tax legislation. The Company may be subject to higher levels of taxation as governments seek to recover the national debts arising from pandemic support measures. 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 IAG tax department and overseen by the Board through the Audit and Compliance Committee.

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](http://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](http://www.iairgroup.com)).

## **ANNUAL CORPORATE GOVERNANCE REPORT**

The 2020 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 1/2020, of October 6, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2020 Financial Statements, is available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

**FORMULATION OF THE INDIVIDUAL FINANCIAL STATEMENTS AND OF THE INDIVIDUAL MANAGEMENT REPORT FOR THE YEAR 2020**

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 25, 2021 the individual financial statements and the individual management report of the company for the year to December 31, 2020, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 25, 2021:

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Javier Ferrán Larraz  
Chairman

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Luis Gallego Martín  
Chief Executive Officer

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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

**Audit Report on Consolidated Financial Statements  
issued by an Independent Auditor**

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.  
AND SUBSIDIARIES  
Consolidated Financial Statements and  
Consolidated Management Report  
for the year ended  
December 31, 2020**

## **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**

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#### **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.

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#### **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.

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#### **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.

## 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
<p><b>The assessment of the carrying value of property, plant and equipment and intangible assets (€20,739 million, 2019: €22,610 million)</b></p> <p>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.</p> <p><i>Refer to Notes 2, 3, 12, 13 and 15 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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.</li> </ul> <p>The audit procedures performed to address this risk were performed by the Group audit team.</p>

Risk	Our response to the risk
<p><b>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)</b></p> <p>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.</p> <p>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.</p> <p>We consider this to be a risk across all the segments within the Group.</p> <p>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).</p> <p>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.</p> <p><i>Refer to Note 2 of the consolidated financial statements.</i></p>	<p>Our procedures for passenger revenue and cargo revenue were performed by all full scope components and included the following:</p> <p>Passenger revenue:</p> <ul style="list-style-type: none"> <li>▶ We tested a sample of IT controls over revenue related systems to confirm their effectiveness in preventing unauthorised system override.</li> <li>▶ We tested a sample of key financial controls over the sales to cash and deferred revenue to revenue processes.</li> <li>▶ 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.</li> <li>▶ We used data analysis to correlate the activity in passenger revenue accounts through accounts receivable and to cash.</li> </ul> <p>Manual adjustments to passenger revenue:</p> <ul style="list-style-type: none"> <li>▶ We tested a sample of manual journal entries, to confirm whether they were valid business transactions.</li> <li>▶ 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.</li> <li>▶ We checked that the methodology applied was consistent with the prior year and assessed the appropriateness of changes to the methodology.</li> <li>▶ 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.</li> <li>▶ We tested a sample of vouchers and refunds issued in the year to assess whether such transactions had been appropriately recognised.</li> </ul> <p>Cargo revenue:</p> <ul style="list-style-type: none"> <li>▶ We tested a sample of key financial controls over the cargo revenue process.</li> <li>▶ 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.</li> <li>▶ We tested a sample of manual journal entries to confirm whether they were valid business transactions.</li> </ul> <p>Loyalty programmes:</p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ 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</li> <li>▶ 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</li> </ul>



Risk	Our response to the risk
<p><b>Valuation of British Airways and Iberia's employee benefit liabilities (€31,281 million, 2019: €31,094 million)</b></p> <p>The valuation of the employee benefit liabilities requires technical expertise to select appropriate valuation assumptions.</p> <p>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.</p> <p>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.</p> <p><i>Refer to Notes 2, 24 and 30 of the consolidated financial statements.</i></p>	<p>by management and considered the impact of changes in customer behaviour as a result of COVID-19.</p> <ul style="list-style-type: none"> <li>▶ We assessed the appropriateness of management's adjustments to the third-party statistical models and the deferred revenue balance recognised.</li> <li>▶ 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.</li> <li>▶ We assessed the disclosures related to the key assumptions affecting the customer loyalty programmes.</li> </ul> <p>Our procedures for loyalty revenue were performed by one specific scope component which is responsible for auditing the Group's principal loyalty programmes.</p>
<p><b>Valuation of British Airways and Iberia's employee benefit liabilities (€31,281 million, 2019: €31,094 million)</b></p> <p>The valuation of the employee benefit liabilities requires technical expertise to select appropriate valuation assumptions.</p> <p>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.</p> <p>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.</p> <p><i>Refer to Notes 2, 24 and 30 of the consolidated financial statements.</i></p>	<p>Our response to the risk</p> <p>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:</p> <ul style="list-style-type: none"> <li>▶ We met with the Group's external actuaries to understand the process used to develop the key assumptions.</li> <li>▶ We compared the key inputs used to independent sources, current market information and expectations.</li> <li>▶ We compared the assumptions applied to those used in the prior year and understood the basis for any changes.</li> <li>▶ We compared the assumptions selected to our own independent assessment of appropriate actuarial assumptions for the respective scheme durations.</li> <li>▶ 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.</li> <li>▶ We evaluated the independence and qualifications of management's external actuaries involved in the valuation process.</li> <li>▶ The Group audit team assessed the appropriateness of the related disclosures.</li> </ul>
<p><b>Accounting for aircraft maintenance, restoration and handback costs (maintenance provisions: €1,588 million, 2019: €1,675 million)</b></p> <p>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.</p> <p>The accounting for maintenance obligations under lease agreements, including the end of lease hand-back requirements, is subject to management assumptions.</p> <p>The provisions require judgements and estimates to be made including considerations of aircraft utilisation, expected maintenance intervals, future</p>	<p>Our response to the risk</p> <p>Our procedures were performed by all full scope components and included the following:</p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ 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).</li> <li>▶ 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</li> </ul>

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**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.*

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**Our response to the risk**

compared the valuation of maintenance and restoration expenses to historic invoices, third-party price lists and/or agreed maintenance contracts.

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**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.*

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**Our response to the risk**

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
<p><b>Recoverability of deferred tax assets</b> - 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.</p>	<p>In respect of the recoverability of deferred tax assets we performed the following procedures:</p> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ We challenged the assumptions and forecasts used in management’s assessment of the recoverability of deferred tax assets.</li> </ul>
<p><b>Compliance with conditions pursuant to new financing arrangements</b> - 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.</p>	<p>In respect of the assessment of the Group’s compliance with conditions related to financing agreements we performed the following procedures:</p> <ul style="list-style-type: none"> <li>▶ We confirmed the availability of facilities and whether there are any restrictions in respect of these facilities.</li> <li>▶ We considered whether management’s disclosures, in the annual report and financial statements were sufficient and appropriate.</li> </ul> <p>We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 to confirm they were appropriate.</p>

#### 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.

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## **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.

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## **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.

- ▶ 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**

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#### **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.

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#### **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)



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Hildur Eir Jónsdóttir  
(Registered in the Official Register of  
Auditors under No. 18201)

March 2, 2021

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.  
AND SUBSIDIARIES**

Consolidated financial statements  
for the year ended  
December 31, 2020

## CONSOLIDATED INCOME STATEMENT

€ million	Note	Year to December 31	
		2020	2019 <sup>1</sup>
Passenger revenue		5,512	22,468
Cargo revenue		1,306	1,117
Other revenue		988	1,921
<b>Total revenue</b>	4	<b>7,806</b>	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
<b>Operating (loss)/profit</b>		<b>(7,426)</b>	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)
<b>(Loss)/profit before tax</b>		<b>(7,810)</b>	2,275
Tax	9	887	(560)
<b>(Loss)/profit after tax for the year</b>		<b>(6,923)</b>	1,715
<b>Attributable to:</b>			
Equity holders of the parent		(6,923)	1,715
Non-controlling interest		-	-
		<b>(6,923)</b>	1,715
<b>Basic (loss)/earnings per share (€ cents)<sup>2</sup></b>	10	<b>(196.2)</b>	56.1
<b>Diluted (loss)/earnings per share (€ cents)<sup>2</sup></b>	10	<b>(196.2)</b>	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.

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31	
		2020	2019
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity		<b>(2,171)</b>	610
Reclassified and reported in net profit		<b>1,871</b>	141
Fair value movements on cost of hedging		<b>(16)</b>	36
Cost of hedging reclassified and reported in net profit		<b>(19)</b>	(10)
Currency translation differences	29	<b>(192)</b>	296
 <i>Items that will not be reclassified to net profit</i>			
Fair value movements on other equity investments		<b>(53)</b>	(8)
Fair value movements on cash flow hedges		<b>(45)</b>	(70)
Fair value movements on cost of hedging		<b>26</b>	32
Remeasurements of post-employment benefit obligations		<b>(632)</b>	(788)
Total other comprehensive (loss)/income for the year, net of tax		<b>(1,231)</b>	239
(Loss)/profit after tax for the year		<b>(6,923)</b>	1,715
<b>Total comprehensive (loss)/income for the year</b>		<b>(8,154)</b>	1,954
Total comprehensive (loss)/income is attributable to:			
Equity holders of the parent		<b>(8,154)</b>	1,954
Non-controlling interest	29	<b>-</b>	-
		<b>(8,154)</b>	1,954

Items in the consolidated Statement of other comprehensive income above are disclosed net of tax.



## CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2020	December 31, 2019 <sup>1</sup>
<b>Non-current assets</b>			
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
		<b>22,424</b>	24,124
<b>Current assets</b>			
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
		<b>7,840</b>	11,327
<b>Total assets</b>		<b>30,264</b>	35,451
<b>Shareholders' equity</b>			
Issued share capital	27	497	996
Share premium	27	7,770	5,327
Treasury shares		(40)	(60)
Other reserves		(6,917)	560
<b>Total shareholders' equity</b>		<b>1,310</b>	6,823
Non-controlling interest	29	6	6
<b>Total equity</b>		<b>1,316</b>	6,829
<b>Non-current liabilities</b>			
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
		<b>17,432</b>	15,874
<b>Current liabilities</b>			
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
		<b>11,516</b>	12,748
<b>Total liabilities</b>		<b>28,948</b>	28,622
<b>Total equity and liabilities</b>		<b>30,264</b>	35,451

<sup>1</sup> 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.

## CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31	
		2020	2019
<b>Cash flows from operating activities</b>			
Operating (loss)/profit		<b>(7,426)</b>	2,613
Depreciation, amortisation and impairment	5	<b>2,955</b>	2,111
Movement in working capital		<b>1,227</b>	(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	<b>(383)</b>	(180)
Employer contributions to pension schemes		<b>(318)</b>	(870)
Pension scheme service costs	30	<b>5</b>	5
Provisions and other non-cash movements		<b>556</b>	951
Unrealised loss on discontinuance of fuel and foreign exchange hedge accounting		<b>569</b>	-
Interest paid		<b>(548)</b>	(481)
Interest received		<b>22</b>	42
Tax received/(paid)		<b>45</b>	(119)
<b>Net cash (outflows)/inflows from operating activities</b>		<b>(3,296)</b>	4,002
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		<b>(1,939)</b>	(3,465)
Sale of property, plant and equipment and intangible assets		<b>1,133</b>	911
Decrease/(increase) in current interest-bearing deposits		<b>2,366</b>	(103)
Other investing movements		<b>2</b>	(1)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>1,562</b>	(2,658)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>3,567</b>	2,286
Repayment of borrowings		<b>(978)</b>	(730)
Repayment of lease liabilities		<b>(1,536)</b>	(1,507)
Dividend paid	11	<b>(53)</b>	(1,308)
Proceeds from rights issue		<b>2,674</b>	-
<b>Net cash inflows/(outflows) from financing activities</b>		<b>3,674</b>	(1,259)
Net increase in cash and cash equivalents		<b>1,940</b>	85
Net foreign exchange differences		<b>(228)</b>	140
Cash and cash equivalents at 1 January		<b>4,062</b>	3,837
<b>Cash and cash equivalents at year end</b>	19	<b>5,774</b>	4,062
<b>Interest-bearing deposits maturing after more than three months</b>	19	<b>143</b>	2,621
<b>Cash, cash equivalents and interest-bearing deposits</b>	19	<b>5,917</b>	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	<b>Total shareholders' equity</b>	Non- controlling interest (note 29)	<b>Total equity</b>
January 1, 2020	996	5,327	(60)	(2,579)	3,139	<b>6,823</b>	6	<b>6,829</b>
Loss for the year	-	-	-	-	(6,923)	<b>(6,923)</b>	-	<b>(6,923)</b>
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	50	-	<b>50</b>	-	<b>50</b>
Fuel and oil costs	-	-	-	356	-	<b>356</b>	-	<b>356</b>
Currency differences	-	-	-	18	-	<b>18</b>	-	<b>18</b>
Finance costs	-	-	-	12	-	<b>12</b>	-	<b>12</b>
Discontinuance of hedge accounting	-	-	-	1,435	-	<b>1,435</b>	-	<b>1,435</b>
Net change in fair value of cash flow hedges	-	-	-	(2,216)	-	<b>(2,216)</b>	-	<b>(2,216)</b>
Net change in fair value of equity investments	-	-	-	(53)	-	<b>(53)</b>	-	<b>(53)</b>
Net change in fair value of cost of hedging	-	-	-	10	-	<b>10</b>	-	<b>10</b>
Cost of hedging reclassified and reported in the net profit	-	-	-	(19)	-	<b>(19)</b>	-	<b>(19)</b>
Currency translation differences	-	-	-	(192)	-	<b>(192)</b>	-	<b>(192)</b>
Remeasurements of post-employment benefit obligations	-	-	-	-	(632)	<b>(632)</b>	-	<b>(632)</b>
Total comprehensive loss for the year	-	-	-	(599)	(7,555)	<b>(8,154)</b>	-	<b>(8,154)</b>
Hedges reclassified and reported in property, plant and equipment	-	-	-	(18)	-	<b>(18)</b>	-	<b>(18)</b>
Cost of share-based payments	-	-	-	-	(10)	<b>(10)</b>	-	<b>(10)</b>
Vesting of share-based payment schemes	-	-	20	-	(22)	<b>(2)</b>	-	<b>(2)</b>
Share capital reduction	(797)	-	-	797	-	<b>-</b>	-	<b>-</b>
Rights issue	298	2,443	-	-	(70)	<b>2,671</b>	-	<b>2,671</b>
<b>December 31, 2020</b>	<b>497</b>	<b>7,770</b>	<b>(40)</b>	<b>(2,399)</b>	<b>(4,518)</b>	<b>1,310</b>	<b>6</b>	<b>1,316</b>

**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.

## 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 rotatable 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.



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.

### **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.

### 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.

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 be 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 rotatable 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.

#### **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	2020					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	3,242	1,148	577	376	169	<b>5,512</b>
Cargo revenue	994	224	-	88	-	<b>1,306</b>
Other revenue	232	605	5	-	146	<b>988</b>
<b>External revenue</b>	<b>4,468</b>	<b>1,977</b>	<b>582</b>	<b>464</b>	<b>315</b>	<b>7,806</b>
Inter-segment revenue	90	282	(8)	3	343	<b>710</b>
<b>Segment revenue</b>	<b>4,558</b>	<b>2,259</b>	<b>574</b>	<b>467</b>	<b>658</b>	<b>8,516</b>
Depreciation and amortisation charge	(1,214)	(370)	(277)	(133)	(84)	<b>(2,078)</b>
Impairment charge	(445)	(242)	(68)	(24)	(98)	<b>(877)</b>
<b>Operating loss</b>	<b>(4,378)</b>	<b>(1,411)</b>	<b>(875)</b>	<b>(563)</b>	<b>(199)</b>	<b>(7,426)</b>
Exceptional items <sup>2</sup>	(1,778)	(652)	(252)	(202)	(177)	<b>(3,061)</b>
<b>Operating loss before exceptional items</b>	<b>(2,600)</b>	<b>(759)</b>	<b>(623)</b>	<b>(361)</b>	<b>(22)</b>	<b>(4,365)</b>
Net non-operating costs						<b>(384)</b>
<b>Loss before tax</b>						<b>(7,810)</b>
Total assets	17,707	7,009	2,850	1,814	884	<b>30,264</b>
Total liabilities	(15,979)	(7,014)	(3,299)	(1,495)	(1,161)	<b>(28,948)</b>

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	2019					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
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
<b>Segment revenue</b>	<b>15,106</b>	<b>5,645</b>	<b>2,455</b>	<b>2,125</b>	<b>1,459</b>	<b>26,790</b>
Depreciation, amortisation and impairment	(1,258)	(390)	(250)	(130)	(83)	(2,111)
<b>Operating profit</b>	<b>1,510</b>	<b>497</b>	<b>240</b>	<b>276</b>	<b>90</b>	<b>2,613</b>
Exceptional items <sup>2</sup>	(672)					(672)
<b>Operating profit before exceptional items</b>	<b>2,182</b>	<b>497</b>	<b>240</b>	<b>276</b>	<b>90</b>	<b>3,285</b>
Net non-operating costs						(338)
<b>Profit before tax</b>						<b>2,275</b>
Total assets <sup>3</sup>	22,102	8,733	3,756	2,131	(1,271)	35,451
Total liabilities <sup>3</sup>	(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.

## b Geographical analysis

### Revenue by area of original sale

€ million	Year to December 31	
	2020	2019
UK	<b>2,390</b>	8,362
Spain	<b>1,845</b>	4,399
USA	<b>933</b>	4,379
Rest of world	<b>2,638</b>	8,366
	<b>7,806</b>	25,506

### Assets by area

December 31, 2020

€ million	Property, plant and equipment	Intangible assets
UK	<b>11,313</b>	<b>1,251</b>
Spain	<b>4,850</b>	<b>1,353</b>
USA	<b>122</b>	<b>15</b>
Rest of world	<b>1,246</b>	<b>589</b>
	<b>17,531</b>	<b>3,208</b>

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	<b>1,153</b>	1,153
Depreciation charge on owned assets	<b>720</b>	776
Impairment charge on owned property, plant and equipment	<b>681</b>	-
Amortisation and impairment of intangible assets	<b>196</b>	142
Impairment charge on right of use assets	<b>161</b>	-
Depreciation charge on other leasehold interests	<b>44</b>	40
	<b>2,955</b>	2,111

Cost of inventories:

€ million	2020	2019
Cost of inventories recognised as an expense, mainly fuel	<b>1,405</b>	3,242
Impairment charge on inventories <sup>1</sup>	<b>71</b>	-
	<b>1,476</b>	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	<b>4,180</b>	3,916
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	<b>696</b>	632
Other services pursuant to legislation	<b>532</b>	496
Other services relating to taxation	<b>30</b>	3
Other assurance services	<b>350</b>	727
Services relating to working capital review	<b>1,036</b>	1,218
Services relating to corporate finance transactions	<b>370</b>	175
All other services	<b>55</b>	3
	<b>7,249</b>	7,170

## 7 Employee costs and numbers

€ million	2020	2019
Wages and salaries	<b>2,236</b>	3,334
Social security costs	<b>385</b>	561
Costs related to pension scheme benefits	<b>247</b>	932
Share-based payment (credit)/charge	<b>(8)</b>	34
Other employee costs <sup>1</sup>	<b>700</b>	773
Total employee costs	<b>3,560</b>	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		
	Average number of employees <sup>1</sup>	December 31, 2020 Number of employees	Percentage of women	Average number of employees	December 31, 2019 Number of employees	Percentage of women
In the air:						
Cabin crew	<b>7,689</b>	<b>17,946</b>	<b>71%</b>	25,774	25,342	71%
Pilots	<b>4,787</b>	<b>7,794</b>	<b>6%</b>	8,217	8,310	6%
On the ground:						
Airports	<b>8,841</b>	<b>14,339</b>	<b>39%</b>	19,689	18,970	39%
Corporate	<b>7,954</b>	<b>11,246</b>	<b>48%</b>	11,798	11,855	48%
Maintenance	<b>5,153</b>	<b>6,410</b>	<b>7%</b>	7,620	7,593	8%
Senior executives	<b>196</b>	<b>193</b>	<b>30%</b>	201	198	30%
	<b>34,620</b>	<b>57,928</b>		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)
	<b>(670)</b>	<b>(611)</b>

### b Finance income

€ million	2020	2019
Interest on interest-bearing deposits	21	47
Other finance income	20	3
	<b>41</b>	<b>50</b>

### 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
	<b>(4)</b>	<b>(4)</b>

## 9 Tax

### a Tax charges

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity:

€ million	2020				2019			
	Income statement	Other comprehensive income	Statement of changes in equity	Total	Income statement	Other comprehensive income	Statement of changes in equity	Total
<b>Current tax</b>								
Movement in respect of prior years	6	-	-	6	26	(8)	-	18
Movement in respect of current year	273	(17)	-	256	(494)	146	-	(348)
<b>Total current tax</b>	279	(17)	-	262	(468)	138	-	(330)
<b>Deferred tax</b>								
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
<b>Total deferred tax</b>	608	173	(2)	779	(92)	(400)	(1)	(493)
<b>Total tax</b>	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)
<b>Balance at December 31</b>	<b>53</b>	<b>(6)</b>
Current tax asset	101	186
Current tax liability	(48)	(192)
<b>Balance at December 31</b>	<b>53</b>	<b>(6)</b>

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 <sup>1</sup>	(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)	-
<b>Balance at December 31, 2020</b>	<b>(589)</b>	<b>(248)</b>	<b>21</b>	<b>194</b>	<b>298</b>	<b>195</b>	<b>10</b>	<b>1,090</b>	<b>64</b>	<b>1,035</b>
Balance at January 1, 2019 <sup>1</sup>	(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 <sup>1</sup>	(732)	(195)	24	312	323	70	19	401	34	256

€ million	2020	2019 <sup>1</sup>
Deferred tax asset	1,075	546
Deferred tax liability	(40)	(290)
<b>Balance at December 31</b>	<b>1,035</b>	<b>256</b>

<sup>1</sup> 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.



#### 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	<b>(7,810)</b>	2,275
Weighted average tax credit/(charge) of the Group <sup>1</sup>	<b>1,615</b>	(440)
Unrecognised losses and deductible temporary differences arising in the year	<b>(342)</b>	(11)
Disposal and write down of investments	<b>(83)</b>	-
Effect of tax rate changes	<b>(74)</b>	1
Employee benefit plans accounted for net of withholding tax - recurring	<b>2</b>	7
Employee benefit plans accounted for net of withholding tax - non-recurring	<b>-</b>	(128)
Prior year assets derecognised	<b>(176)</b>	-
Investment incentives	<b>2</b>	11
Effect of lower tax rate in the Canary Islands	<b>(40)</b>	(3)
Movement in respect of prior years	<b>(2)</b>	12
Non-deductible expenses - recurring items	<b>(22)</b>	(14)
Other items	<b>7</b>	5
<b>Tax credit/(charge) in the income statement</b>	<b>887</b>	(560)

<sup>1</sup> 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	<b>400</b>	555
UK Air Passenger Duty	<b>307</b>	967
	<b>707</b>	1,522

#### f Factors that may affect future tax charges

##### Unrecognised deductible temporary differences and losses

€ million	2020	2019
<i>Income tax losses</i>		
Spanish corporate income tax losses	<b>848</b>	11
Openskies SASU trading losses	<b>450</b>	249
UK trading losses	<b>39</b>	25
	<b>1,337</b>	285
<i>Other losses and temporary differences</i>		
UK capital losses	<b>350</b>	335
Spanish deductible temporary differences	<b>1,287</b>	36
Irish capital losses	<b>25</b>	25
	<b>1,662</b>	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	<b>(6,923)</b>	1,715
Interest expense on convertible bonds	-	26
Diluted (losses)/earnings attributable to equity holders of the parent and diluted (losses)/earnings per share	<b>(6,923)</b>	1,741

	2020 Number '000	2019 Number '000
Weighted average number of ordinary shares in issue <sup>2</sup>	<b>3,528,052</b>	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	<b>3,528,052</b>	3,137,341

€ cents	2020	2019 <sup>1</sup>
Basic earnings per share	<b>(196.2)</b>	56.1
Diluted earnings per share	<b>(196.2)</b>	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
<b>Cash dividend declared</b>		
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
<b>Cost</b>				
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	<b>2,970</b>
Modification of leases	21	16	(1)	<b>36</b>
Disposals	(3,878)	(95)	(50)	<b>(4,023)</b>
Reclassifications	(4)	8	(4)	-
Exchange movements	(1,439)	(193)	(81)	<b>(1,713)</b>
<b>December 31, 2020</b>	<b>26,936</b>	<b>2,982</b>	<b>1,501</b>	<b>31,419</b>
<b>Depreciation and impairment</b>				
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	<b>1,917</b>
Impairment charge for the year <sup>1</sup>	820	-	22	<b>842</b>
Disposals	(2,886)	(52)	(44)	<b>(2,982)</b>
Exchange movements	(729)	(80)	(61)	<b>(870)</b>
<b>December 31, 2020</b>	<b>11,571</b>	<b>1,282</b>	<b>1,035</b>	<b>13,888</b>
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.				
<b>Net book values</b>				
<b>December 31, 2020</b>	<b>15,365</b>	<b>1,700</b>	<b>466</b>	<b>17,531</b>
December 31, 2019	16,675	1,913	580	19,168
<b>Analysis at December 31, 2020</b>				
Owned	5,457	920	382	<b>6,759</b>
Right of use assets (note 13)	9,124	695	56	<b>9,875</b>
Progress payments	710	85	28	<b>823</b>
Assets not in current use	74	-	-	<b>74</b>
<b>Property, plant and equipment</b>	<b>15,365</b>	<b>1,700</b>	<b>466</b>	<b>17,531</b>
<b>Analysis at December 31, 2019</b>				
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			<b>2020</b>	2019
Freehold			<b>485</b>	560
Right of use assets (note 13)			<b>695</b>	774
Long leasehold improvements > 50 years			<b>297</b>	321
Short leasehold improvements < 50 years			<b>223</b>	258
<b>Property</b>			<b>1,700</b>	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
<b>Cost</b>				
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 <sup>1</sup>	(290)	(4)	(16)	(310)
Exchange movements	509	45	4	558
<b>December 31, 2019</b>	<b>13,854</b>	<b>882</b>	<b>123</b>	<b>14,859</b>
Additions	1,194	58	1	<b>1,253</b>
Modifications of leases	21	16	(1)	<b>36</b>
Disposals	(77)	(6)	(22)	<b>(105)</b>
Reclassifications <sup>1</sup>	(389)	-	3	<b>(386)</b>
Exchange movements	(595)	(57)	(5)	<b>(657)</b>
<b>December 31, 2020</b>	<b>14,008</b>	<b>893</b>	<b>99</b>	<b>15,000</b>
<b>Depreciation and impairment</b>				
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 <sup>1</sup>	(123)	-	-	(123)
Exchange movements	164	4	2	170
<b>December 31, 2019</b>	<b>4,108</b>	<b>108</b>	<b>55</b>	<b>4,271</b>
Depreciation charge for the year	1,035	103	15	<b>1,153</b>
Impairment charge for the year <sup>2</sup>	161	-	-	<b>161</b>
Disposals	(53)	(5)	(22)	<b>(80)</b>
Reclassifications <sup>1</sup>	(166)	-	(3)	<b>(169)</b>
Exchange movements	(201)	(8)	(2)	<b>(211)</b>
<b>December 31, 2020</b>	<b>4,884</b>	<b>198</b>	<b>43</b>	<b>5,125</b>
<b>Net book value</b>				
<b>December 31, 2020</b>	<b>9,124</b>	<b>695</b>	<b>56</b>	<b>9,875</b>
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	<b>11,046</b>	11,123
Additions	<b>1,179</b>	1,017
Modifications of leases	<b>20</b>	182
Repayments	<b>(1,919)</b>	(1,941)
Interest expense	<b>442</b>	489
Exchange movements	<b>(744)</b>	176
<b>December 31</b>	<b>10,024</b>	11,046
<b>Current</b>	<b>1,560</b>	1,694
<b>Non-current</b>	<b>8,464</b>	9,352

## b Amounts recognised in the Consolidated income statement

€ million	2020	2019
<i>Amounts not included in the measurement of lease liabilities</i>		
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
<i>Amounts expensed as a result of the recognition of ROU assets and lease liabilities</i>		
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 <sup>1</sup>	Software	Other	Total
<b>Cost</b>							
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	<b>192</b>
Disposals	-	-	-	-	(18)	(121)	<b>(139)</b>
Reclassifications	-	-	-	-	43	(46)	<b>(3)</b>
Exchange movements	(5)	-	-	(61)	(68)	(5)	<b>(139)</b>
<b>December 31, 2020</b>	<b>593</b>	<b>451</b>	<b>253</b>	<b>1,555</b>	<b>1,474</b>	<b>161</b>	<b>4,487</b>
<b>Amortisation and impairment</b>							
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	<b>161</b>
Impairment charge for the year	-	-	-	15	20	-	<b>35</b>
Disposals	-	-	-	-	(7)	-	<b>(7)</b>
Exchange movements	-	-	-	(4)	(38)	(2)	<b>(44)</b>
<b>December 31, 2020</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>132</b>	<b>836</b>	<b>62</b>	<b>1,279</b>
<b>Net book values</b>							
<b>December 31, 2020</b>	<b>344</b>	<b>451</b>	<b>253</b>	<b>1,423</b>	<b>638</b>	<b>99</b>	<b>3,208</b>
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
<b>2020</b>					
<b>Iberia</b>					
January 1 and December 31, 2020	-	423	306	-	<b>729</b>
<b>British Airways</b>					
January 1, 2020	49	816	-	-	<b>865</b>
Exchange movements	(5)	(53)	-	-	<b>(58)</b>
December 31, 2020	44	763	-	-	<b>807</b>
<b>Vueling</b>					
January 1 and December 31, 2020	28	94	35	-	<b>157</b>
<b>Aer Lingus</b>					
January 1 and December 31, 2020	272	62	110	-	<b>444</b>
<b>IAG Loyalty</b>					
January 1 and December 31, 2020	-	-	-	253	<b>253</b>
<b>Other CGUs</b>					
January 1, 2020	-	12	-	-	<b>12</b>
Impairment charge for the year	-	(12)	-	-	<b>(12)</b>
December 31, 2020	-	-	-	-	<b>-</b>
<b>December 31, 2020</b>	<b>344</b>	<b>1,342</b>	<b>451</b>	<b>253</b>	<b>2,390</b>

€ 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:

Per cent	2020				
	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 <sup>1</sup>	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

<sup>1</sup> 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.

Per cent	2019				
	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
<b>2020</b>	<b>373</b>	<b>420</b>	<b>449</b>	<b>449</b>
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.



## 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
<b>Listed securities</b>		
Comair Limited	-	10
<b>Unlisted securities</b>	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
<b>Amounts falling due within one year</b>		
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
<b>Amounts falling due after one year</b>		
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%
<b>Provision for expected credit loss</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>8</b>	<b>113</b>

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)
	<b>7,571</b>	<b>1,479</b>	<b>(613)</b>	<b>1,179</b>	<b>146</b>	<b>9,762</b>

€ 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 <sup>1</sup>	<b>1,609</b>	2,311
Other creditors	<b>679</b>	1,099
Other taxation and social security	<b>149</b>	271
Accruals and deferred income	<b>373</b>	663
	<b>2,810</b>	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	<b>43</b>	33
Ratio of transactions paid	<b>36</b>	32
Ratio of transactions outstanding for payment	<b>135</b>	43

€ million	2020	2019
Total payments made	<b>3,694</b>	7,165
Total payments outstanding	<b>293</b>	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	<b>5,486</b>
Changes in estimates	-	291	<b>291</b>
Revenue recognised in the income statement <sup>1,2</sup>	(260)	(6,032)	<b>(6,292)</b>
Loyalty points issued to customers	361	8	<b>369</b>
Cash received from customers <sup>3,4</sup>	850	4,714	<b>5,564</b>
Exchange movements	(143)	(145)	<b>(288)</b>
<b>Balance at December 31, 2020</b>	<b>2,725</b>	<b>2,405</b>	<b>5,130</b>
Analysis:			
Current	2,252	2,405	<b>4,657</b>
Non-current	473	-	<b>473</b>
	<b>2,725</b>	<b>2,405</b>	<b>5,130</b>

€ 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 <sup>1,2</sup>	(805)	(22,691)	(23,496)
Loyalty points issued to customers	844	47	891
Cash received from customers <sup>4</sup>	-	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
	<b>140</b>	71

## 23 Long-term borrowings

### a Current

€ million	2020	2019
Bank and other loans	90	75
Bank and other loans less than 12 months <sup>1</sup>	329	-
Asset financed liabilities	139	74
Other financing liabilities <sup>2</sup>	97	-
Lease liabilities	1,560	1,694
Interest-bearing borrowings	<b>2,215</b>	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	<b>13,464</b>	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.

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 <sup>1</sup>	1,009	-
€500 million fixed rate 0.50 per cent bond 2023 <sup>2</sup>	498	497
€500 million fixed rate 1.50 per cent bond 2027 <sup>2</sup>	497	496
€500 million fixed rate 0.625 per cent convertible bond 2022 <sup>3</sup>	480	470
CCFF pound sterling commercial paper <sup>4</sup>	329	-
Floating rate euro mortgage loans secured on aircraft <sup>5</sup>	198	226
Fixed rate unsecured bonds <sup>6</sup>	137	136
Fixed rate unsecured US dollar mortgage loan <sup>7</sup>	97	71
ISIF facility <sup>8</sup>	75	-
Fixed rate Chinese yuan mortgage loans secured on aircraft <sup>9</sup>	25	40
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) <sup>10</sup>	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
<b>Loans</b>		
Bank:		
US dollar	\$121	\$79
Pound sterling	£299	£-
Euro	€1,303	€380
Chinese yuan	CNY 201	CNY 314
	<b>€1,756</b>	€491
Fixed rate bonds:		
Euro	€1,613	€1,463
	<b>€1,613</b>	€1,463
<b>Asset financed liabilities</b>		
US dollar	\$2,080	\$996
Euro	€448	€319
Japanese yen	¥4,883	¥4,867
	<b>€2,189</b>	€1,254
<b>Other financing liabilities</b>		
Euro	€97	€-
	<b>€97</b>	€-
<b>Lease liabilities</b>		
US dollar	\$8,436	\$8,408
Euro	€1,858	€2,142
Japanese yen	¥74,734	¥77,984
Pound sterling	£608	£597
	<b>€10,024</b>	€11,046
<b>Total interest-bearing borrowings</b>	<b>€15,679</b>	€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	<b>3,047</b>
Reclassifications	-	-	-	(22)	-	<b>(22)</b>
Provisions recorded during the year	377	320	76	42	31	<b>846</b>
Utilised during the year	(213)	(383)	(27)	(9)	(29)	<b>(661)</b>
Release of unused amounts	(136)	(27)	-	(7)	(4)	<b>(174)</b>
Unwinding of discount	10	-	3	1	-	<b>14</b>
Exchange differences	(125)	(6)	(2)	(3)	(2)	<b>(138)</b>
<b>Net book value December 31, 2020</b>	<b>1,588</b>	<b>432</b>	<b>714</b>	<b>84</b>	<b>94</b>	<b>2,912</b>
Analysis:						
Current	270	200	62	47	47	<b>626</b>
Non-current	1,318	232	652	37	47	<b>2,286</b>
	<b>1,588</b>	<b>432</b>	<b>714</b>	<b>84</b>	<b>94</b>	<b>2,912</b>

### 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<sub>2</sub> 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.



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
<b>2020</b>	<b>10</b>	<b>885</b>	<b>297</b>	<b>10</b>	<b>162</b>	<b>(167)</b>	<b>10</b>	<b>(10)</b>	<b>(42)</b>
	<b>(10)</b>	<b>(931)</b>	<b>(359)</b>	<b>(10)</b>	<b>(161)</b>	<b>157</b>	<b>(10)</b>	<b>10</b>	<b>42</b>
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
<b>2020</b>	<b>50</b>	-	-	<b>50</b>	<b>9</b>	<b>(8)</b>	<b>50</b>	-	-
	<b>(50)</b>	-	-	<b>(50)</b>	<b>(9)</b>	<b>7</b>	<b>(50)</b>	-	-
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:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography	
	2020	2019
United Kingdom	<b>53%</b>	41%
Spain	<b>3%</b>	3%
Ireland	<b>7%</b>	3%
Rest of Eurozone	<b>16%</b>	30%
Rest of world	<b>21%</b>	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	€ equivalent
<i>General facilities<sup>1</sup></i>		
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
		<b>905</b>
<i>Committed aircraft facilities</i>		
US dollar facility expiring March 2021 <sup>2</sup>	\$428	351
US dollar facilities expiring July 2023 <sup>3</sup>	\$1,013	829
		<b>1,180</b>

Million	2019	
	Currency	€ equivalent
<i>General facilities<sup>1</sup></i>		
Euro facilities expiring between January and June 2020	€129	129
US dollar facility expiring June 2020	\$1,330	1,196
		1,325
<i>Committed aircraft facilities</i>		
US dollar facilities expiring December 2021 <sup>3,4</sup>	\$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
<b>Interest-bearing loans and borrowings:</b>						
Asset financing liabilities	(101)	(97)	(193)	(571)	(1,673)	<b>(2,635)</b>
Lease liabilities	(901)	(919)	(1,500)	(4,122)	(5,962)	<b>(13,404)</b>
Fixed rate borrowings	(360)	(37)	(631)	(666)	(587)	<b>(2,281)</b>
Floating rate borrowings	(78)	(32)	(58)	(1,179)	(41)	<b>(1,388)</b>
Other financing liabilities	(97)	-	-	-	-	<b>(97)</b>
Trade and other payables	(2,810)	-	-	-	-	<b>(2,810)</b>
<b>Derivative financial instruments (assets):</b>						
Forward contracts	73	41	33	8	-	<b>155</b>
Fuel derivatives	6	2	1	-	-	<b>9</b>
<b>Derivative financial instruments (liabilities):</b>						
Interest rate swaps	(13)	(13)	(25)	(14)	(2)	<b>(67)</b>
Forward contracts	(370)	(91)	(115)	(56)	-	<b>(632)</b>
Fuel derivatives	(423)	(314)	(108)	(4)	-	<b>(849)</b>
<b>December 31, 2020</b>	<b>(5,074)</b>	<b>(1,460)</b>	<b>(2,596)</b>	<b>(6,604)</b>	<b>(8,265)</b>	<b>(23,999)</b>

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2019
<b>Interest-bearing loans and borrowings:</b>						
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)
<b>Derivative financial instruments (assets):</b>						
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
<b>Derivative financial instruments (liabilities):</b>						
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 <sup>1</sup>	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet <sup>1</sup>	Net amount
<b>Financial assets</b>					
Derivative financial assets	165	(1)	164	(13)	151
<b>Financial liabilities</b>					
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
<b>Financial assets</b>					
Derivative financial assets	550	42	592	(9)	583
<b>Financial liabilities</b>					
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

€ million	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial assets	
<b>Non-current assets</b>					
Other equity investments	-	29	-	-	29
Derivative financial instruments	-	-	42	-	42
Other non-current assets	119	10	-	99	228
<b>Current assets</b>					
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

€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial liabilities	
<b>Non-current liabilities</b>					
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
<b>Current liabilities</b>					
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

December 31, 2019

€ million	Financial assets			Non-financial assets	Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement		
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

€ million	Financial liabilities			Non-financial liabilities	Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement		
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			Total	Carrying value Total
	Level 1	Level 2	Level 3		
<b>Financial assets</b>					
Other equity investments	-	-	29	29	<b>29</b>
Derivative financial assets:					
Interest rate swaps <sup>1</sup>	-	1	-	1	<b>1</b>
Foreign exchange contracts <sup>1</sup>	-	154	-	154	<b>154</b>
Fuel derivatives <sup>1</sup>	-	9	-	9	<b>9</b>
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	2,417	-	2,417	<b>2,189</b>
Fixed rate borrowings	1,510	560	-	2,070	<b>2,163</b>
Floating rate borrowings	-	1,206	-	1,206	<b>1,206</b>
Other financing liabilities	-	97	-	97	<b>97</b>
Derivative financial liabilities:					
Interest rate derivatives <sup>2</sup>	-	63	-	63	<b>63</b>
Foreign exchange contracts <sup>2</sup>	-	620	-	620	<b>620</b>
Fuel derivatives <sup>2</sup>	-	787	-	787	<b>787</b>

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			Total	Carrying value Total
	Level 1	Level 2	Level 3		
<b>Financial assets</b>					
Other equity investments	10	-	72	82	82
Derivative financial assets:					
Interest rate swaps <sup>1</sup>	-	1	-	1	1
Foreign exchange contracts <sup>1</sup>	-	488	-	488	488
Fuel derivatives <sup>1</sup>	-	103	-	103	103
<b>Financial liabilities</b>					
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 <sup>2</sup>	-	67	-	67	67
Foreign exchange contracts <sup>2</sup>	-	240	-	240	240
Fuel derivatives <sup>2</sup>	-	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.

### 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
<b>Closing balance for the year</b>	<b>29</b>	<b>72</b>

### 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 <sup>1</sup>	168	(80)
Crude, gas oil and jet kerosene derivative contracts <sup>1</sup>	295	113
Derivatives used to hedge interest rates <sup>1</sup>	66	72
Instruments for which hedge accounting no longer applies <sup>1</sup>	276	355
	<b>1,025</b>	<b>601</b>
Related deferred tax credit	(168)	(94)
<b>Total amount included within equity</b>	<b>857</b>	<b>507</b>

<sup>1</sup> 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 <sup>1</sup>	1.15 – 1.50	2,402	1,321	442	<b>4,165</b>
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros <sup>1</sup>	0.74 – 1.37	1,009	960	155	<b>2,124</b>

<sup>1</sup> 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 <sup>1</sup>	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 <sup>1</sup>	0.74 – 1.39	1,397	1,091	483	2,971

<sup>1</sup> Represents the value of the hedged item.

For the year to December 31, 2020 (€ million)	Amounts recognised in Other comprehensive income <sup>1</sup>	Amounts associated with ineffectiveness recognised in the Income statement <sup>2</sup>	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)	-
	<b>2,639</b>	<b>2</b>	<b>(1,725)</b>	<b>916</b>	<b>(518)</b>	<b>-</b>

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 <sup>1</sup>	Amounts associated with ineffectiveness recognised in the Income statement <sup>2</sup>	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)	-
	<b>(690)</b>	<b>8</b>	<b>(682)</b>	<b>(164)</b>	<b>7</b>

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	<b>1,725</b>	-
Fair value movements subsequently recorded in the Income statement	<b>31</b>	-
<b>Total effect of discontinuance of hedge accounting in the Income statement<sup>1</sup></b>	<b>1,756</b>	-

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
<b>December 31, 2020: Ordinary shares of €0.10 each</b>	<b>4,971,476</b>	<b>497</b>	<b>7,770</b>

### 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	<b>32,800</b>	1,299
Incentive Award Deferral Plans	4,473	1,694	2,795	12	583	<b>8,367</b>	14
	<b>23,651</b>	<b>9,082</b>	<b>14,118</b>	<b>3,287</b>	<b>2,397</b>	<b>41,167</b>	<b>1,313</b>

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
<b>Weighted average fair value (£)</b>	<b>1.84</b>	<b>1.93</b>

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						Total other reserves	Non-controlling interest
	Unrealised gains and losses <sup>1</sup>	Cost of hedging reserve <sup>2</sup>	Currency translation <sup>3</sup>	Equity portion of convertible bond <sup>4</sup>	Merger reserve <sup>5</sup>	Capital reserves <sup>6</sup>		
January 1, 2020	(464)	60	160	62	(2,467)	70	<b>(2,579)</b>	6
Other comprehensive loss for the year:								
Cash flow hedges reclassified and reported in net loss:								
Passenger revenue	50	-	-	-	-	-	<b>50</b>	-
Fuel and oil costs	356	-	-	-	-	-	<b>356</b>	-
Currency differences	18	-	-	-	-	-	<b>18</b>	-
Finance costs	12	-	-	-	-	-	<b>12</b>	-
Discontinuance of hedge accounting	1,435	-	-	-	-	-	<b>1,435</b>	-
Net change in fair value of cash flow hedges	(2,216)	-	-	-	-	-	<b>(2,216)</b>	-
Net change in fair value of other equity investments	(53)	-	-	-	-	-	<b>(53)</b>	-
Net change in fair value of cost of hedging	-	10	-	-	-	-	<b>10</b>	-
Cost of hedging reclassified and reported in the net profit	-	(19)	-	-	-	-	<b>(19)</b>	-
Currency translation differences	-	-	(192)	-	-	-	<b>(192)</b>	-
Hedges reclassified and reported in property, plant and equipment	(5)	(13)	-	-	-	-	<b>(18)</b>	-
Share capital reduction	-	-	-	-	-	797	<b>797</b>	-
<b>December 31, 2020</b>	<b>(867)</b>	<b>38</b>	<b>(32)</b>	<b>62</b>	<b>(2,467)</b>	<b>867</b>	<b>(2,399)</b>	<b>6</b>

€ million	Other reserves							Non-controlling interest
	Unrealised gains and losses <sup>1</sup>	Cost of hedging reserve <sup>2</sup>	Currency translation <sup>3</sup>	Equity portion of convertible bond <sup>4</sup>	Merger reserve <sup>5</sup>	Redeemed capital reserve <sup>6</sup>	Total other reserves	
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								
Currency translation differences	-	(10)	-	-	-	-	(10)	-
Currency translation differences	-	-	296	-	-	-	296	-
Hedges reclassified and reported in property, plant and equipment								
Redemption of convertible bond	(7)	(4)	-	-	-	-	(11)	-
Redemption of convertible bond	-	-	-	(39)	-	-	(39)	-
December 31, 2019	(464)	60	160	62	(2,467)	70	(2,579)	6

- 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.
- The cost of hedging reserve records, amongst others, fair value changes on the time value of options.
- 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.
- 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.
- 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).
- 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

€ million	2020			
	APS	NAPS	Other <sup>1</sup>	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 <sup>2</sup>	(124)	(479)	-	(603)
Other employee benefit obligations	-	-	(11)	(11)
<b>December 31, 2020</b>	<b>270</b>	<b>(390)</b>	<b>(317)</b>	<b>(437)</b>
Represented by:				
Employee benefit assets				282
Employee benefit obligations				(719)
				<b>(437)</b>
€ million	2019 <sup>3</sup>			
	APS	NAPS	Other <sup>1</sup>	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 <sup>2</sup>	(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)
				<b>(86)</b>

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.

## 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 <sup>1,2</sup>	7	665
	12	670
Defined contribution plans	235	262
<b>Pension costs recorded as employee costs</b>	<b>247</b>	<b>932</b>

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
<b>Net financing income relating to pensions</b>	<b>(4)</b>	<b>(26)</b>

## c Remeasurements recognised in the Statement of other comprehensive income

€ million	2020	2019 <sup>1</sup>
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)
<b>Pension remeasurements charged to Other comprehensive income</b>	<b>678</b>	<b>660</b>

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 <sup>1</sup>	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
<b>Return seeking investments – equities</b>		
UK	1,465	2,310
Rest of world	4,705	4,774
	<b>6,170</b>	7,084
<b>Return seeking investments – other</b>		
Private equity	1,062	1,035
Property	1,798	2,135
Alternative investments	880	1,081
	<b>3,740</b>	4,251
<b>Liability matching investments</b>		
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
	<b>13,485</b>	12,835
<b>Other</b>		
Cash and cash equivalents	947	689
Derivatives	(228)	(344)
Insurance contract	1,660	1,740
Longevity swap	4,424	4,547
Other	987	879
	<b>31,185</b>	31,681

All equities and bonds have quoted prices in active markets.

For APS and NAPS, the composition of the scheme assets is:

€ million	December 31, 2020		December 31, 2019	
	APS	NAPS	APS	NAPS
Return seeking investments	138	9,576	347	10,844
Liability matching investments	2,286	11,092	1,897	10,828
	<b>2,424</b>	<b>20,668</b>	2,244	21,672
Insurance contract and related longevity swap	6,058	-	6,260	-
Other	55	1,572	326	751
<b>Fair value of scheme assets</b>	<b>8,537</b>	<b>22,240</b>	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).

## 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	<b>30,782</b>	25,383
Current service cost	<b>5</b>	5
Past service cost/(credit)	<b>7</b>	665
Interest expense	<b>581</b>	710
Remeasurements – financial assumptions	<b>3,633</b>	3,423
Remeasurements of experience (gains)/losses	<b>(355)</b>	193
Benefits paid	<b>(1,573)</b>	(1,269)
Employee contributions	<b>14</b>	6
Exchange movements	<b>(2,086)</b>	1,666
<b>December 31</b>	<b>31,008</b>	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 <sup>1</sup>
January 1	<b>974</b>	1,868
Interest expense	<b>14</b>	39
Remeasurements	<b>(320)</b>	(1,027)
Exchange movements	<b>(65)</b>	94
<b>December 31</b>	<b>603</b>	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:

Per cent per annum	2020			2019		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate <sup>1</sup>	<b>1.20</b>	<b>1.40</b>	<b>0.5 – 2.4</b>	1.85	2.05	0.8 – 3.2
Rate of increase in pensionable pay <sup>2</sup>	<b>2.95</b>	-	<b>2.5</b>	2.90	-	2.5
Rate of increase of pensions in payment <sup>3</sup>	<b>2.95</b>	<b>2.25</b>	<b>1.1 – 3.5</b>	2.90	2.15	1.2 – 3.5
RPI rate of inflation	<b>2.95</b>	<b>2.80</b>	<b>2.5 – 2.7</b>	2.90	-	2.5 – 2.8
CPI rate of inflation	<b>2.25</b>	<b>2.25</b>	<b>1.1 – 3.0</b>	-	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	<b>28.2</b>	28.2
- male currently aged 40	<b>29.9</b>	29.9
- female currently aged 60	<b>29.3</b>	29.0
- female currently aged 40	<b>31.8</b>	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:

€ million	(Decrease)/increase in scheme liabilities		
	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
<b>Total expected deficit payments for NAPS</b>	<b>1,280</b>

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.



### 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
<b>Sales of goods and services</b>		
Sales to associates and joint ventures <sup>1</sup>	12	6
Sales to significant shareholders <sup>2</sup>	23	32
<b>Purchases of goods and services</b>		
Purchases from associates <sup>3</sup>	42	76
Purchases from significant shareholders <sup>2</sup>	80	149
<b>Receivables from related parties</b>		
Amounts owed by associates <sup>4</sup>	1	2
Amounts owed by significant shareholders <sup>5</sup>	1	8
<b>Payables to related parties</b>		
Amounts owed to associates <sup>6</sup>	2	3
Amounts owed to significant shareholders <sup>5</sup>	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, Ibeica, 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, Ibeica, 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, Ibeica, 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, Ibeica, 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:

€ million	Year to December 31	
	2020	2019
<b>Base salary, fees and benefits</b>		
<b>Board of Directors</b>		
Short-term benefits	3	5
Share based payments	-	3
<b>Management Committee</b>		
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.

## ALTERNATIVE PERFORMANCE MEASURES

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:

€ million	Year to December 31					
	Statutory 2020	Exceptional items	Before exceptional items 2020	Statutory 2019	Exceptional items	Before exceptional items 2019
Passenger revenue <sup>1</sup>	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
<b>Total revenue</b>	<b>7,806</b>	<b>(62)</b>	<b>7,868</b>	<b>25,506</b>		<b>25,506</b>
Employee costs <sup>2,6</sup>	3,560	313	3,247	5,634	672	4,962
Fuel, oil costs and emissions charges <sup>1</sup>	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 <sup>3</sup>	1,456	108	1,348	2,092		2,092
Property, IT and other costs <sup>4</sup>	782	28	754	811		811
Selling costs	405		405	1,038		1,038
Depreciation, amortisation and impairment <sup>5</sup>	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
<b>Operating (loss)/profit</b>	<b>(7,426)</b>	<b>(3,061)</b>	<b>(4,365)</b>	<b>2,613</b>	<b>(672)</b>	<b>3,285</b>
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)
<b>(Loss)/profit before tax</b>	<b>(7,810)</b>	<b>(3,061)</b>	<b>(4,749)</b>	<b>2,275</b>	<b>(672)</b>	<b>2,947</b>
Tax	887	463	424	(560)		(560)
<b>(Loss)/profit after tax for the year</b>	<b>(6,923)</b>	<b>(2,598)</b>	<b>(4,325)</b>	<b>1,715</b>	<b>(672)</b>	<b>2,387</b>

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 rotatable 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		
	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
€ million															
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	-	-	-
<b>Total revenue</b>	<b>3,947</b>	<b>(54)</b>	<b>4,001</b>	<b>4,558</b>	<b>(59)</b>	<b>4,617</b>	<b>2,259</b>	<b>-</b>	<b>2,259</b>	<b>574</b>	<b>-</b>	<b>574</b>	<b>467</b>	<b>(3)</b>	<b>470</b>
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
<b>Operating loss</b>	<b>(3,880)</b>	<b>(1,553)</b>	<b>(2,327)</b>	<b>(4,378)</b>	<b>(1,778)</b>	<b>(2,600)</b>	<b>(1,411)</b>	<b>(652)</b>	<b>(759)</b>	<b>(875)</b>	<b>(252)</b>	<b>(623)</b>	<b>(563)</b>	<b>(202)</b>	<b>(361)</b>
<b>Operating margin (%)</b>	<b>(98.3)%</b>		<b>(58.2)%</b>				<b>(62.5)%</b>		<b>(33.6)%</b>	<b>(152.3)%</b>		<b>(108.5)%</b>	<b>(120.4)%</b>		<b>(76.8)%</b>

## Year to December 31, 2019

€ million	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
	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 <sup>(KPI)</sup>

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 <sup>1</sup>
(Loss)/profit after tax attributable to equity holders of the parent	b	<b>(6,923)</b>	1,715
Exceptional items	b	<b>(2,598)</b>	(672)
<b>(Loss)/profit after tax attributable to equity holders of the parent before exceptional items</b>		<b>(4,325)</b>	2,387
Interest expense on convertible bonds		-	26
<b>Adjusted (loss)/earnings</b>		<b>(4,325)</b>	2,413
Weighted average number of shares used for basic earnings per share <sup>2</sup>	10	<b>3,528</b>	3,056
Weighted average number of shares used for diluted earnings per share	10	<b>3,528</b>	3,137
<b>Basic (loss)/earnings per share before exceptional items (€ cents)</b>		<b>(122.6)</b>	78.1
<b>Adjusted (loss)/earnings per share (€ cents)</b>		<b>(122.6)</b>	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 <sup>1</sup>	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
<b>Airline non-fuel costs</b>		<b>9,341</b>	<b>(94)</b>	<b>9,247</b>	<b>14,546</b>
ASKs		113,195		113,195	337,754
<b>Airline non-fuel unit costs per ASK (€ cents)</b>		<b>8.25</b>		<b>8.17</b>	<b>4.31</b>

1 Refer to note h for the definition of the ccy adjustment

#### e Levered free cash flow <sup>(KPI)</sup>

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
<b>Net Increase in cash and cash equivalents</b>	<b>1,940</b>	85
Less: (Decrease)/increase in current interest-bearing deposits	<b>(2,366)</b>	103
Less: Net proceeds from rights issue	<b>(2,674)</b>	-
Add: Dividends paid	<b>53</b>	1,308
<b>Levered free cash flow</b>	<b>(3,047)</b>	1,496

#### f Net debt to EBITDA <sup>(KPI)</sup>

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	<b>15,679</b>	14,254
Less: Cash and cash equivalents	19	<b>(5,774)</b>	(4,062)
Less: Current interest-bearing deposits	19	<b>(143)</b>	(2,621)
<b>Net debt</b>		<b>9,762</b>	7,571
Operating (loss)/profit	b	<b>(7,426)</b>	2,613
Add: Exceptional items	b	<b>3,061</b>	672
Add: Depreciation, amortisation and impairment	b	<b>2,099</b>	2,111
<b>EBITDA</b>		<b>(2,266)</b>	5,396
<b>Net debt to EBITDA</b>		<b>(4.3)</b>	1.4



## g Return on invested capital <sup>(KPI)</sup>

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	<b>(2,266)</b>	5,396
Less: Fleet depreciation multiplied by inflation adjustment		<b>(1,921)</b>	(2,040)
Less: Other property, plant and equipment depreciation		<b>(258)</b>	(259)
Less: Software intangible amortisation		<b>(151)</b>	(131)
		<b>(4,596)</b>	2,966
<b>Invested capital</b>			
Average fleet value <sup>2</sup>	12	<b>16,020</b>	15,598
Less: average progress payments <sup>3</sup>	12	<b>(1,117)</b>	(1,297)
Fleet book value less progress payments		<b>14,903</b>	14,301
<i>Inflation adjustment<sup>1</sup></i>		<b>1.18</b>	1.19
		<b>17,520</b>	17,065
Average net book value of other property, plant and equipment <sup>4</sup>	12	<b>2,329</b>	2,448
Average net book value of software intangible assets <sup>5</sup>	14	<b>652</b>	603
<b>Total invested capital</b>		<b>20,501</b>	20,116
<b>Return on Invested Capital</b>		<b>(22.4)%</b>	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	<b>1.13</b>	1.13	<b>1.10</b>	1.18
US dollar to the euro	<b>1.13</b>	1.12	<b>1.22</b>	1.11
US dollar to pound sterling	<b>1.27</b>	1.27	<b>1.35</b>	1.31

## Subsidiaries

### British Airways

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
<b>Avios Group (AGL) Limited*</b> Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
<b>BA and AA Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Call Centre India Private Limited (callBA)</b> F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100%
<b>BA Cityflyer Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>BA European Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Excepted Group Life Scheme Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
<b>BA Healthcare Trust Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
<b>BA Holdco Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Number One Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>BA Number Two Limited</b> IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
<b>Bealine Plc</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>BritAir Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>British Airways (BA) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>British Airways 777 Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
<b>British Airways Associated Companies Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>British Airways Avionic Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Capital Limited</b> Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
<b>British Airways Holdings B.V.</b> Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
<b>British Airways Holidays Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
<b>British Airways Interior Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
<b>British Airways Maintenance Cardiff Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
<b>British Airways Pension Trustees (No 2) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
<b>British Midland Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
<b>British Midland Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>Diamond Insurance Company Limited</b> 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE	Dormant	Isle of Man	100%
<b>Flyline Tele Sales &amp; Services GmbH</b> Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
<b>Gatwick Ground Services Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
<b>Overseas Air Travel Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
<b>Speedbird Insurance Company Limited*</b> Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
<b>British Mediterranean Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%

## Iberia

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
<b>Compañía Explotación Aviones Cargueros Cargosur, S.A.</b> Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100%
<b>Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.*</b> Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
<b>Iberia Líneas Aéreas de España, S.A. Operadora*</b> Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100% <sup>1</sup>
<b>Iberia México, S.A.*</b> Ejército Nacional 439, Mexico City, 11510	Storage and custody services	Mexico	100%
<b>Iberia Operadora UK Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
<b>Iberia Tecnología, S.A.*</b> Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
<b>Auxiliar Logística Aeroportuaria, S.A.*</b> Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
<b>Compañía Auxiliar al Cargo Exprés, S.A.*</b> Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
<b>Iberia Desarrollo Barcelona, S.L.*</b> 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
<b>Aer Lingus (Ireland) Limited</b> Dublin Airport, Dublin	Provision of human resources support to fellow group companies	Republic of Ireland	100%
<b>Aer Lingus 2009 DCS Trustee Limited</b> Dublin Airport, Dublin	Dormant	Republic of Ireland	100%
<b>Aer Lingus Beachey Limited</b> Penthouse Suite, Analyst House, Peel Road, IM1 4LZ	Dormant	Isle of Man	100%
<b>Aer Lingus Group DAC*</b> Dublin Airport, Dublin	Holding company	Republic of Ireland	100% <sup>2</sup>
<b>Aer Lingus Limited*</b> Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
<b>Aer Lingus (UK) Limited</b> Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Dormant	Northern Ireland	100%
<b>ALG Trustee Limited</b> 33-37 Athol Street, Douglas, IM1 1LB	Trustee	Isle of Man	100%
<b>Dirnan Insurance Company Limited</b> Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12	Insurance	Bermuda	100%
<b>Santain Developments Limited</b> Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

## IAG Loyalty

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
<b>Avios South Africa Proprietary Limited</b> Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	Dormant	South Africa	100%
<b>IAG Loyalty Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Dormant	England	100%

## IAG Cargo

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
<b>Routestack Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Shipping solutions	England	100%
<b>Zenda Group Limited</b> 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
<b>Yellow Handling, S.L.U</b> Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Ground handling services	Spain	100%
<b>Vueling Airlines, S.A.*</b> 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
<b>FLYLEVEL UK Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Airline operations	England	100%
<b>Openskies SASU</b> 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
<b>AERL Holding Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Holding company	England	100%
<b>British Airways Plc*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Airline operations	England	100% <sup>3</sup>
<b>FLY LEVEL, S.L.</b> Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100%
<b>IAG Cargo Limited*</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
<b>IAG Connect Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Inflight eCommerce platform	Republic of Ireland	100%
<b>IAG GBS Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	IT, finance, procurement services	England	100%
<b>IAG GBS Poland sp z.o.o.*</b> Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
<b>IB Opco Holding, S.L.</b> Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100% <sup>1</sup>
<b>Veloz Holdco, S.L.</b> Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Holding company	Spain	100%

\* Principal subsidiaries

- 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.
- 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.
- 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
<b>Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.</b> Avenida de Vantroi y Final, Jose Martí Airport, Havana	Cuba	50%
<b>Empresa Logística de Carga Aérea, S.A.</b> Carretera de Wajay km 15, Jose Martí Airport, Havana	Cuba	50%
<b>Multiservicios Aeroportuarios, S.A.</b> Avenida de Manóteras 46, 2ª planta, Madrid, 28050	Spain	49%
<b>Dunwoody Airline Services Limited</b> Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
<b>Serpista, S.A.</b> Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
<b>Air Miles España, S.A.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>Inloyalty by Travel Club, S.L.U.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>Viajes Ame, S.A.</b> Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
<b>DeepAir Solutions Limited</b> Ground Floor North, 86 Brook Street, London, W1K 5AY	England	24.75%

## Joint ventures

Name and address	Country of incorporation	Percentage of equity owned
<b>Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.</b> 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)
<b>Servicios de Instrucción de Vuelo, S.L.</b> Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	(71)	(10)
<b>The Airline Group Limited</b> 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.68%	GBP	287	25
<b>Importwise Limited</b> International House, 12 Constance Street, London, E16 2DQ	England	14.8%	GBP	n/a	n/a
<b>Comair Limited</b> 1 Marignane Drive, Bonaero Park, Johannesburg, 1619	South Africa	11.49%	ZAR	760	(2,091)
<b>Travel Quinto Centenario, S.A.</b> Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
<b>i6 Group Limited</b> Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.42%	GBP	6	(1)
<b>Monese Limited</b> 1 King Street, London, EC2V 8AU	England	6.45%	GBP	(16)	(29)

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.  
AND SUBSIDIARIES**

Consolidated management report  
for the year ended  
December 31, 2020

## CONTENTS

This Management Report has been prepared 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 company, 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 contains the following sections:

2	Business model and strategy
4	Our strategic priorities and key performance indicators
8	Financial overview
9	Financial review
22	IAG Platform
23	Sustainability
56	Risk management and principal risk factors
67	Regulatory environment

Both the Annual Corporate Governance Report and 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), are part of this Management Report.

# Our resilient business model

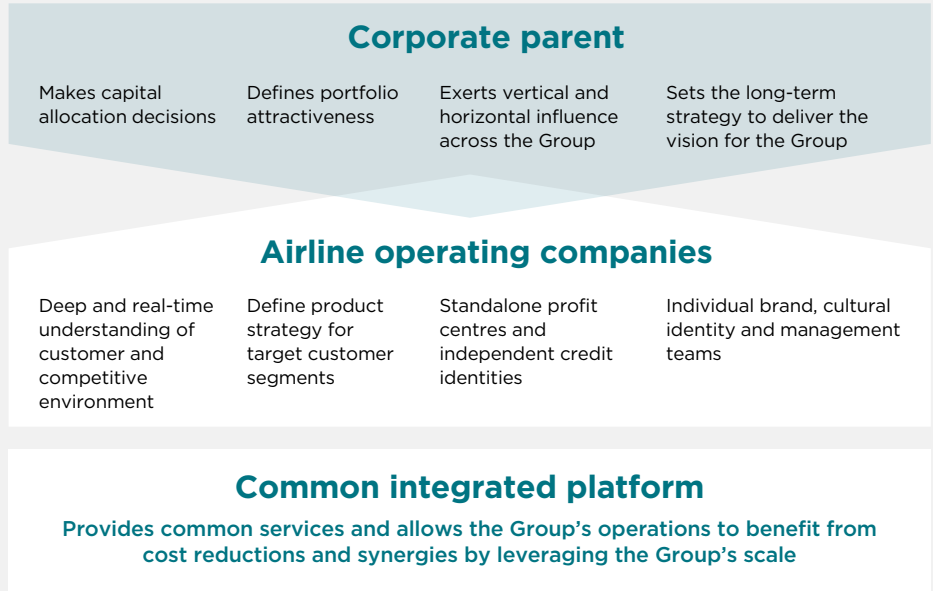
## Our vision

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.



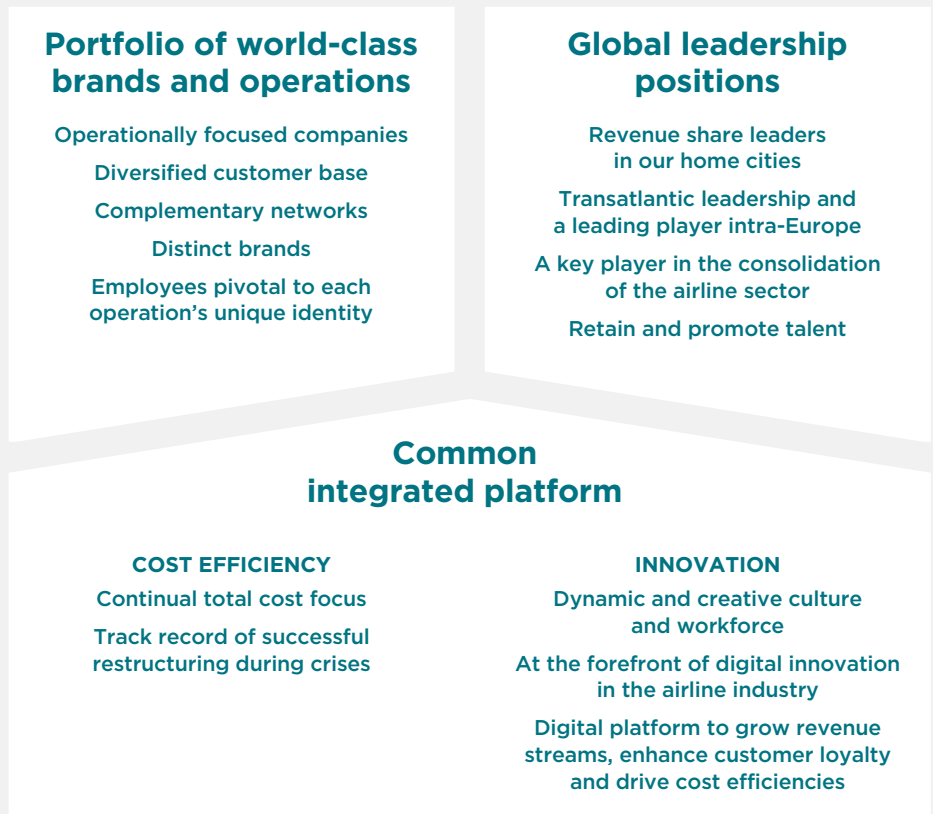
### Our resources

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.

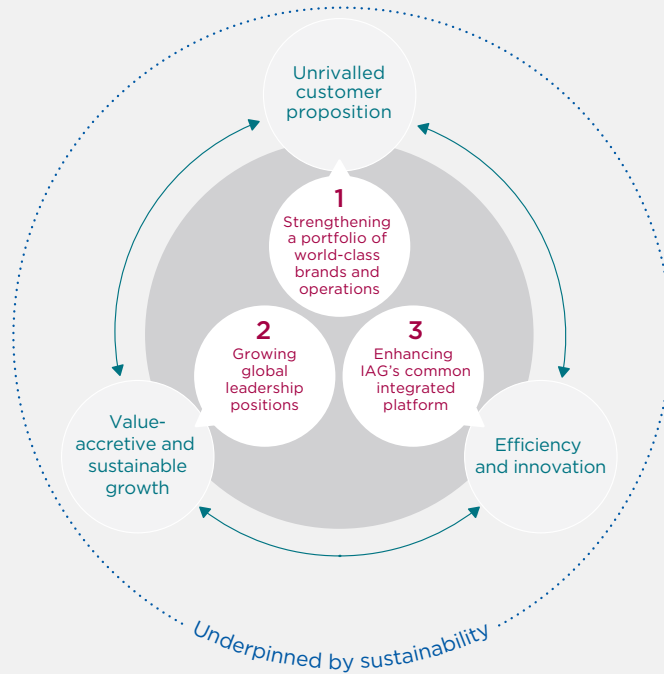




## Our strategic priorities

### 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<sub>2</sub> 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<sub>2</sub>/pkm

☰ See section Sustainability

# Strategic priorities and key performance indicators

<p><b>Strategic priority</b></p>	<p><b>1 Strengthening a portfolio of world-class brands and operations</b></p>		
<p><b>How we create value</b></p>	<p><b>Unrivalled customer proposition</b></p>		
<p><b>Our performance</b></p>	<p><b>Our activity in 2020</b></p> <p>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.</p> <p>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,</p>	<p>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.</p> <p>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 oneworld 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</p>	<p>entry requirements for relevant destinations and an overview of the enhanced cleaning measures adopted by the airline.</p> <p><b>Our priorities for 2021</b></p> <p>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.</p>
<p><b>KPI or industry measure</b></p>	<p><b>Net Promoter Score (NPS)</b></p> <p>2020</p> <p><b>36.7</b></p> <p>+10.9 pts vly</p> <p><b>Definition and purpose</b></p> <p>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</p>	<p>advantage, leading to faster organic growth.</p> <p><b>Performance</b></p> <p>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.</p> <p>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</p>	<p>reassurance measures has been overwhelmingly positive.</p> <p>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.</p> <p>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.</p>

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

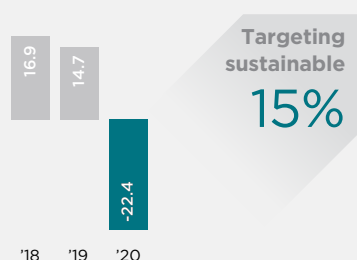
cities by managing and optimising its networks to meet demand.

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 (%)<sup>1</sup>**



**A Definition and purpose**

Return on Invested Capital (RoIC) is defined as EBITDA<sup>1</sup>, 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.

**R 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 (%)<sup>1</sup>**



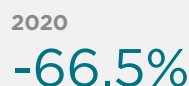
**A Definition and purpose**

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)**



**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)**



**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<sup>3</sup> 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)<sup>1</sup>**



**A 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.

**A** Alternative performance measure

**R** Measure linked to remuneration of Management Committee

# 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

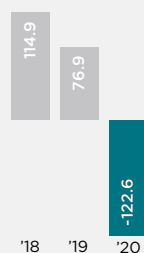
IAG Loyalty of approximately €750 million.

### 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)<sup>1,2</sup>



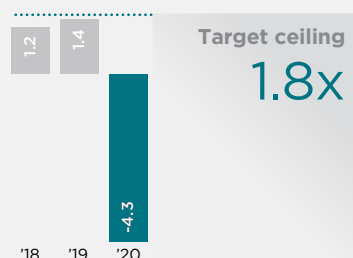
#### A Definition and purpose

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<sup>1</sup>



#### 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

- 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.
- 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.
- 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**

<b>Demand and capacity</b>	<ul style="list-style-type: none"> <li>• Passenger capacity 66.5% lower than 2019</li> <li>• Additional cargo flights, including for essential equipment and supplies</li> </ul>
<b>Fleet reductions</b>	<ul style="list-style-type: none"> <li>• Temporary grounding and parking of aircraft</li> <li>• Early retirement of aircraft, including British Airways Boeing 747-400s and Iberia Airbus A340-600s, plus lease returns</li> </ul>
<b>Operating costs</b>	<ul style="list-style-type: none"> <li>• Pay cuts, wage support, furlough and temporary reductions in hours worked and employee numbers</li> <li>• Restructuring in British Airways and Aer Lingus, with increased flexibility</li> <li>• Non-essential discretionary spend reduced</li> <li>• Negotiated price reductions for supplier costs</li> </ul>
<b>Capital expenditure</b>	<ul style="list-style-type: none"> <li>• Deferral of delivery of 68 aircraft</li> <li>• Reduction in other capital expenditure; cyber spend retained</li> </ul>
<b>Working capital</b>	<ul style="list-style-type: none"> <li>• 2019 final dividend proposal withdrawn and no 2020 dividend</li> <li>• Reduction in trade receivables</li> <li>• Impact of reduction in bookings for future travel mitigated by customers opting to take vouchers in lieu of cash refunds</li> <li>• With agreement, deferred supplier payments treasury settlements and lease payments</li> <li>• American Express loyalty contract renewal, with significant pre-payment</li> <li>• Accelerated tax refunds from 2021 to 2020 and deferral of UK HMRC payments</li> <li>• Deferred UK and US pension contributions</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>• Aircraft financed throughout year (sale and leaseback and new €1 billion EETC facility)</li> <li>• British Airways Revolving Credit Facility extended by one year; other credit lines secured</li> <li>• €328 million commercial paper issued under UK's CCF</li> <li>• €1 billion debt through ICO-backed loans in Spain</li> <li>• €75 million debt through ISIF-backed loans in Ireland, potential for further €75 million</li> <li>• £2 billion UK Export Finance loan agreed</li> <li>• €2.7 billion equity increase</li> </ul>

## 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
<b>Total network</b>	<b>(66.5)%</b>	<b>63.8</b>	<b>(20.8) pts</b>

### 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)

LAG'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	<b>(7,426)</b>	2,613	(10,039)
(Loss)/profit before tax	<b>(7,810)</b>	2,275	(10,085)
(Loss)/profit after tax	<b>(6,923)</b>	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 <sup>1</sup>	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	-

<sup>1</sup> 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 <sup>1</sup>	5,512	(16,956)	(75.5)%
Cargo revenue	1,306	189	16.9%
Other revenue	988	(933)	(48.6)%
<b>Total revenue</b>	<b>7,806</b>	<b>(17,700)</b>	<b>(69.4)%</b>

<sup>1</sup> 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 suppressed 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 <sup>1</sup>	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.

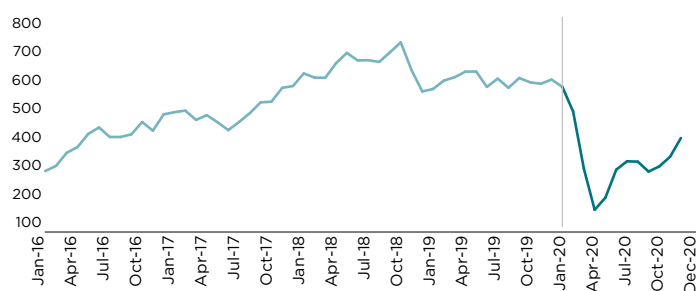
### Fuel, oil and emissions costs

€ million	2020	Higher/ (lower) vly	Higher/ (lower) vly
Fuel, oil costs and emissions charges <sup>1</sup>	<b>3,735</b>	(2,286)	(38.0)%

<sup>1</sup> 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	<b>1,340</b>	(1,632)	(54.9)%
Landing fees and en-route charges	<b>918</b>	(1,303)	(58.7)%
Engineering and other aircraft costs <sup>1</sup>	<b>1,456</b>	(636)	(30.4)%
Property, IT and other costs <sup>2</sup>	<b>782</b>	(29)	(3.6)%
Selling costs	<b>405</b>	(633)	(61.0)%
Currency differences	<b>81</b>	88	nm

<sup>1</sup> 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.

<sup>2</sup> 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 <sup>1</sup>	<b>2,955</b>	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

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

€ million Favourable/(adverse)	2019		
	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
<b>Translation – Balance sheet</b>			
£ to €	<b>1.10</b>	1.18	(6.8%)
<b>Translation – Income statement (weighted average)</b>			
£ to €	<b>1.13</b>	1.13	0.0%
<b>Transaction (weighted average)</b>			
£ to €	<b>1.13</b>	1.13	0.0%
€ to \$	<b>1.13</b>	1.12	0.9%
£ to \$	<b>1.27</b>	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 derivative 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

Post-exceptional items <sup>1</sup>	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
	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)%
<b>Total revenue</b>	<b>3,947</b>	<b>(9,343)</b>	<b>(70)%</b>	<b>467</b>	<b>(1,658)</b>	<b>(78)%</b>	<b>2,259</b>	<b>(3,386)</b>	<b>(60)%</b>	<b>574</b>	<b>(1,881)</b>	<b>(77)%</b>
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 <sup>2</sup>	1,475	369	33%	157	27	21%	612	222	57%	345	95	38%
<b>Operating loss</b>	<b>(3,880)</b>	<b>(5,218)</b>	<b>nm</b>	<b>(563)</b>	<b>(839)</b>	<b>nm</b>	<b>(1,411)</b>	<b>(1,908)</b>	<b>nm</b>	<b>(875)</b>	<b>(1,115)</b>	<b>nm</b>
<i>Operating margin</i>	<i>(98.3)%</i>	<i>(108.4) pts</i>		<i>(120.4)%</i>	<i>(133.4) pts</i>		<i>(62.5)%</i>	<i>(71.3) pts</i>		<i>(152.3)%</i>	<i>(162.1) pts</i>	
Alternative Performance Measures <sup>1</sup>												
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)%
<b>Total revenue before exceptional items</b>	<b>4,001</b>	<b>(9,289)</b>	<b>(70)%</b>	<b>470</b>	<b>(1,655)</b>	<b>(78)%</b>	<b>2,259</b>	<b>(3,386)</b>	<b>(60)%</b>	<b>574</b>	<b>(1,881)</b>	<b>(77)%</b>
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 <sup>2</sup>	1,076	(30)	(3)%	133	3	2%	370	(20)	(5)%	277	27	11%
<b>Operating loss before exceptional items</b>	<b>(2,327)</b>	<b>(4,248)</b>	<b>nm</b>	<b>(361)</b>	<b>(637)</b>	<b>nm</b>	<b>(759)</b>	<b>(1,256)</b>	<b>nm</b>	<b>(623)</b>	<b>(863)</b>	<b>nm</b>
<i>Operating margin before exceptional items</i>	<i>(58.2)%</i>	<i>(72.7) pts</i>		<i>(76.8)%</i>	<i>(89.8) pts</i>		<i>(33.6)%</i>	<i>(42.4) pts</i>		<i>(108.5)%</i>	<i>(118.3) pts</i>	

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
<b>Total</b>	<b>34</b>	<b>45</b>

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	-
<b>Total</b>	<b>121</b>	<b>147</b>

### 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	<b>14,254</b>	12,704	1,550
Cash and cash equivalents and interest-bearing deposits	<b>(6,683)</b>	(6,274)	(409)
<b>Net debt at January 1</b>	<b>7,571</b>	6,430	1,141
<b>Decrease/(increase) in cash net of exchange</b>	<b>766</b>	(409)	1,175
Net cash outflow from repayments of borrowings and lease liabilities	<b>(2,514)</b>	(2,237)	(277)
Net cash inflow from new borrowings	<b>3,567</b>	2,286	1,281
Non-cash impact from new leases	<b>1,179</b>	1,199	(20)
<b>Increase in net debt from financing</b>	<b>2,232</b>	1,248	984
Exchange and other non-cash movements	<b>(807)</b>	302	(1,109)
<b>Net debt at December 31</b>	<b>9,762</b>	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 CCF 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	<b>1,389</b>	3,055	(1,666)
Iberia	<b>822</b>	1,121	(299)
Aer Lingus	<b>266</b>	580	(314)
Vueling	<b>590</b>	820	(230)
IAG and other Group companies	<b>2,850</b>	1,107	1,743
<b>Cash and deposits</b>	<b>5,917</b>	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	<b>(7,426)</b>	2,613	(10,039)
Depreciation, amortisation and impairment	<b>2,955</b>	2,111	844
Movement in working capital	<b>1,227</b>	(70)	1,297
Payment related to restructuring	<b>(383)</b>	(180)	(203)
Pension contributions net of service costs	<b>(313)</b>	(865)	552
Provisions and other non-cash movements	<b>556</b>	951	(395)
Unrealised loss on discontinuance of fuel and foreign exchange hedge accounting	<b>569</b>	-	569
Interest paid	<b>(548)</b>	(481)	(67)
Interest received	<b>22</b>	42	(20)
Tax received/(paid)	<b>45</b>	(119)	164
<b>Net cash (outflows)/inflows from operating activities</b>	<b>(3,296)</b>	4,002	(7,298)
Acquisition of PPE and intangible assets	<b>(1,939)</b>	(3,465)	1,526
Sale of PPE and intangible assets	<b>1,133</b>	911	222
Decrease/(increase) in current interest-bearing deposits	<b>2,366</b>	(103)	2,469
Other investing movements	<b>2</b>	(1)	3
<b>Net cash flows from investing activities</b>	<b>1,562</b>	(2,658)	4,220
Proceeds from borrowings	<b>3,567</b>	2,286	1,281
Repayments of borrowings	<b>(978)</b>	(730)	(248)
Repayment of lease liabilities	<b>(1,536)</b>	(1,507)	(29)
Dividend paid	<b>(53)</b>	(1,308)	1,255
Proceeds from rights issue	<b>2,674</b>	-	2,674
<b>Net cash flows from financing activities</b>	<b>3,674</b>	(1,259)	4,933
Net increase in cash and cash equivalents	<b>1,940</b>	85	1,855
Net foreign exchange differences	<b>(228)</b>	140	(368)
Cash and cash equivalents at January 1	<b>4,062</b>	3,837	225
<b>Cash and cash equivalents at year end</b>	<b>5,774</b>	4,062	1,712
<b>Interest-bearing deposits maturing after more than three months</b>	<b>143</b>	2,621	(2,478)
<b>Cash, cash equivalents and interest-bearing deposits</b>	<b>5,917</b>	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.

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

## IAG Platform



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.

# 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 Altolto 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.

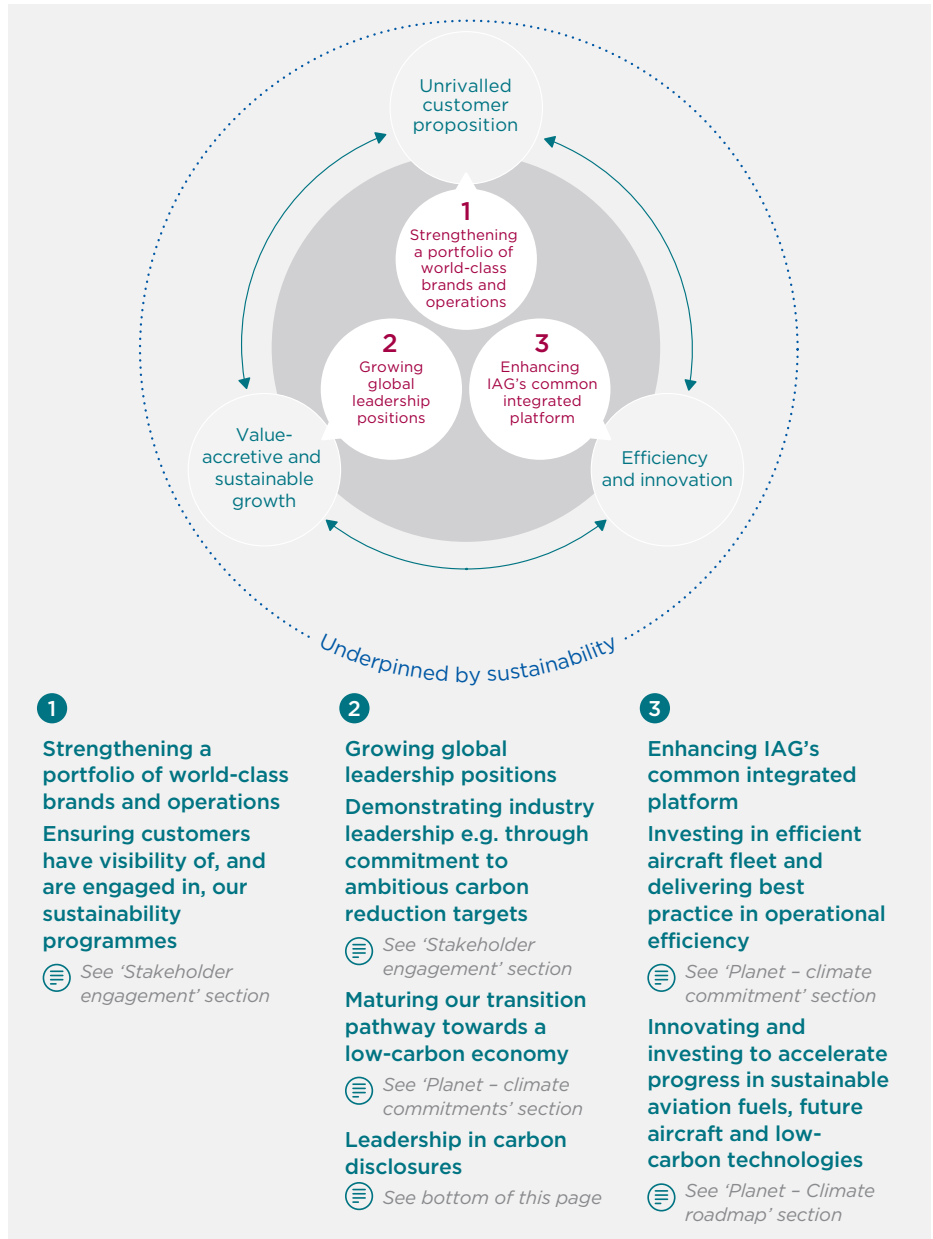
IAG's sustainability strategy is aligned to IAG's three strategic priorities, as demonstrated in the diagram to the right.

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)<sup>1</sup> – **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<sup>2</sup> 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<sup>5</sup>



### Planet

- Climate change<sup>3</sup>
- Energy use
- Waste<sup>4</sup>
- 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.

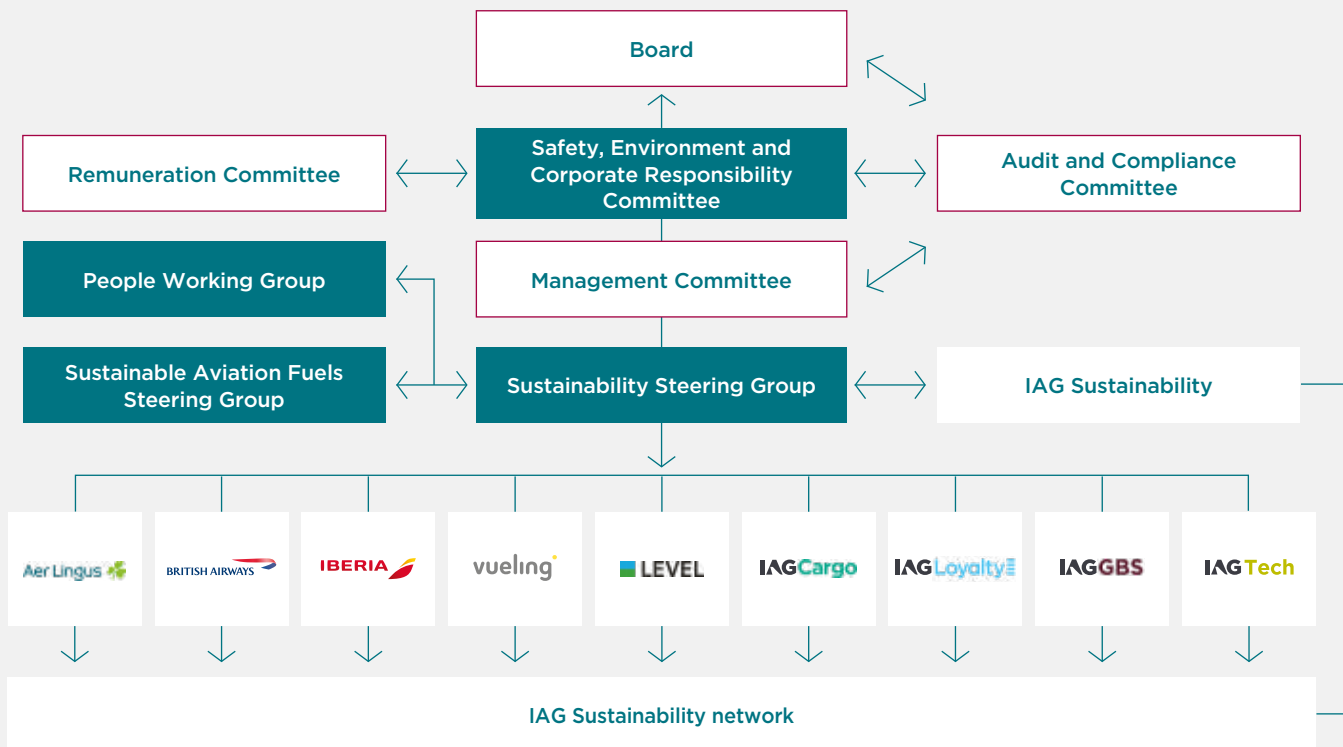
5 Short-term investor returns and long-term financial sustainability. Covered outside the sustainability section.

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



■ Introduced in 2020



## 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)<sup>1</sup> 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<sup>2</sup> (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.

<sup>1</sup> 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).

<sup>2</sup> 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<sup>1</sup> 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 through 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<sup>1</sup>:



Increase



Stable



Decrease



short-term  
(1-2 years)



medium-term  
(2-5 years)



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	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 <sup>2</sup>	<ul style="list-style-type: none"> <li>• Via the <a href="#">Flightpath Net Zero</a> programme, setting and working towards ambitious climate targets to minimise the IAG footprint and exposure to climate regulation</li> <li>• Lobbying for effective global regulation and robust and fair policies to meet global climate goals</li> <li>• Factoring carbon price forecasts into business decisions on fleet planning and investment</li> <li>• Continuing investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency</li> <li>• An effective procurement strategy for carbon credits to protect against price volatility</li> <li>• Driving and supporting low-carbon innovation via the Hangar 51 accelerator programme</li> </ul>



<sup>1</sup> Risk and opportunity trends as assessed by IAG Sustainability in relation to external changes, rather than mitigating actions.


<sup>2</sup> Pre-pandemic.


## Key climate-related risks

TCFD risk category: Regulatory (emerging)			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>A global patchwork of uncoordinated national and regional climate policies</p> 	<p>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.</p>	<p>Revenue impact due to reduced demand as a result of higher pricing</p>	<ul style="list-style-type: none"> <li>• Lobbying for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022</li> <li>• 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</li> <li>• Supporting implementation and adoption of CORSIA, robust rules for monitoring and criteria for emissions reductions, and lobbying for universal adoption</li> </ul>
TCFD risk category: Market			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>Changing customer behaviour</p> 	<p>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.</p>	<p>Potential revenue impact from reduced or changed travel behaviours and corporate travel budgets</p>	<ul style="list-style-type: none"> <li>• Using all available tools, as well as influencing global policy and driving industry-wide action, to minimise IAG's carbon footprint</li> <li>• Acting in advance of potential changes in behaviour by effectively communicating the <a href="#">Flightpath Net Zero</a> programme to customers and suppliers and offering climate mitigation options such as voluntary offsetting</li> </ul>
TCFD risk category: Acute physical			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>Increased severity and frequency of extreme weather events and local climate-related circumstances</p> 	<p>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.</p>	<p>Costs of delays and operational disruption including turbulence</p>	<ul style="list-style-type: none"> <li>• 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<sub>2</sub> emissions</li> </ul>


## Other climate-related risks

### TCFD risk category: Technology


Risk title	Risk description	Potential financial impacts	Mitigating actions
Sustainable aviation fuels mandates 	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	<ul style="list-style-type: none"> <li>Contributing to the 2020 World Economic Forum “Cleaner Skies for Tomorrow” initiative to develop scenarios on SAF uptake</li> <li>Contributing to the 2020 EC ReFuelEU consultation, to ensure that any mandates do not create competitive distortion or carbon leakage</li> <li>Working at UK and international levels to strengthen global climate regulations on SAF</li> <li>Supporting policy incentives that help deliver SAF at prices competitive with conventional fuels through new technology development</li> <li>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</li> </ul>

 See ‘Sustainable Aviation Fuels’ case study






### TCFD risk category: Market

Risk title	Risk description	Potential financial impacts	Mitigating actions
Destinations becoming unattractive for visitors 	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	<ul style="list-style-type: none"> <li>Ongoing lobbying and engagement in projects and initiatives designed to reduce the industry’s impact on climate change</li> <li>Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes</li> <li>Strategy to ensure aircraft and crew flexibility means we are prepared and able to respond to shifting demand patterns</li> </ul>

### TCFD risk category: Reputation








Risk title	Risk description	Potential financial impacts	Mitigating actions
Potential target for direct action protests 	Direct action e.g. protests could disrupt flight operations and/or restrict staff and passenger access.	Operational disruption	<ul style="list-style-type: none"> <li>Close liaison with government agencies, airport operators and commercial organisations to assess challenges</li> <li>Contingency and business interruption planning</li> </ul>

## 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) 	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	<ul style="list-style-type: none"> <li>Minimising IAG's carbon footprint via the <a href="#">Flightpath Net Zero</a> programme</li> <li>Embedding sustainability considerations into business planning and operational decision-making</li> <li>Engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns</li> <li>Effectively communicating actions to customers and suppliers and offering climate mitigation options such as voluntary offsetting</li> </ul>
TCFD risk category: Regulatory (emerging)			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Regulation on non-CO <sub>2</sub> impacts (NEW) 	New external research indicates the non-CO <sub>2</sub> impacts of aviation are at least as significant as CO <sub>2</sub> . 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	<ul style="list-style-type: none"> <li>Via the <a href="#">Flightpath Net Zero</a> programme</li> <li>Working through trade associations and research partnerships to improve understanding of aviation's climate impacts</li> <li>Engaging in research to better understand non-CO<sub>2</sub> benefits of SAF</li> </ul>
TCFD risk category: Market			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Cost of capital tied to decarbonisation strategy (NEW) 	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	<ul style="list-style-type: none"> <li>Quantifying the financial impacts of climate risks and opportunities</li> <li>Robust and transparent external disclosures on climate impact and strategy</li> <li>Engaging with financial stakeholders via IAG Investor Relations</li> </ul> <p> See 'Stakeholder engagement' section</p>
TCFD risk category: Chronic physical			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Persistent drought-induced water scarcity in some destinations 	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	<ul style="list-style-type: none"> <li>Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes</li> </ul>



## Climate-related opportunities

TCFD category: Technology			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Use of new aircraft technologies 	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	<ul style="list-style-type: none"> <li>Continually investing in fleet modernisation that supports business needs and aligns with the <a href="#">Flightpath Net Zero</a> programme</li> <li>Retirement of older, less-efficient aircraft</li> <li>Investment to realise opportunity: aircraft purchases and engine changes</li> </ul>
Use of lower-emission sources of energy (SAF) 	Commercial and environmental opportunity to source cost-effective sustainable fuel and reduce CO <sub>2</sub> emissions, thereby reducing compliance costs for CORSIA and the EU ETS.	Carbon cost savings from use of SAF/hydrogen	<ul style="list-style-type: none"> <li>Ongoing lobbying for support for the development of new SAF technologies at the global, EU and UK levels   <i>See associated technology risk</i></li> <li>Investment to realise opportunity: direct investments in SAF production, offtake agreements</li> </ul>
TCFD category: Market			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Differentiate our brands 	To differentiate IAG brands by showing leadership, innovation and action to mitigate climate impacts, so attracting customers concerned about climate change.	Greater consumer loyalty	<ul style="list-style-type: none"> <li> <i>See mitigation measures for associated risk</i></li> <li>Working with specific companies to help them reduce the impacts of their corporate travel</li> <li>Investment to realise opportunity: communications campaigns and percentage of profit into sustainability</li> </ul>
TCFD category: Regulatory			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Higher carbon price and strong policy incentives 	Support stronger business case for investment in low-carbon technologies which accelerate decarbonisation progress.	Financial benefits from delivery of projects	<ul style="list-style-type: none"> <li> <i>See mitigation measures for associated risk</i></li> <li>Investment to realise opportunity: internal people resource</li> </ul>


## Climate-related opportunities

### TCFD category: Market


Opportunity title	Opportunity description	Potential financial impacts	Mitigating actions
Destinations becoming more attractive for visitors 	Climate change could make certain destinations more attractive or accessible to visitors, for example a longer summer season.	More flights to more attractive destinations	<ul style="list-style-type: none"> <li>See <i>mitigation measures for associated risk</i></li> <li>Investment to realise opportunity: n/a as incorporated into business planning</li> </ul>

## Other sustainability risks


### Current regulation, Emerging regulation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Operational noise restrictions and charges 	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	<ul style="list-style-type: none"> <li>Investing in new quieter aircraft as part of fleet modernisation</li> <li>Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures</li> <li>Internal governance and training and external advocacy in UK, Ireland and Spain to manage challenges</li> </ul>

### Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Supply chain sustainability compliance 	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	<ul style="list-style-type: none"> <li>See <i>'Supply chain' case study</i></li> <li>IAG GBS procedures including Integrity, sanctions and CSR audits, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct</li> <li>Internal governance on supplier management to identify challenges and mitigation actions</li> <li>Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability</li> </ul>

### Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Environment regulation compliance 	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	<ul style="list-style-type: none"> <li>Strengthening sustainability governance</li> <li>See <i>'Sustainability Governance' section</i></li> <li>Embedding sustainability considerations into business plans, financial plans, and business cases</li> <li>See <i>'Strategy' section</i></li> <li>Internal governance, training and assigning ownership for environmental compliance obligations</li> <li>Engaging with carbon market advisers to understand and mitigate compliance challenges and identify future opportunities</li> <li>IEnvA certification to improve internal compliance process</li> </ul>

## 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
<b>UN</b>	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.
<b>ICAO</b>	Global	Keynote panel speakers at ICAO Global CO <sub>2</sub> Stocktaking Event Member of Fuels Task Group	Supporting SAF sustainability standards Finalising rules for CORSIA scheme
<b>SBTi</b>	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
<b>Jet Zero Council (JZC)</b>	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
<b>IATA</b>	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
<b>Air Transport Action Group (ATAG)</b>	Global	Keynote panel speaker at Global Sustainability Aviation Summit	Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap
<b>oneworld</b>	Global	IAG representative co-chairs the environmental and sustainability best practice steering group British Airways representative leads waste workstream	Instrumental in delivery of oneworld net zero commitment in September 2020
<b>Airlines 4 Europe (A4E)</b>	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
<b>Sustainable Aviation (SA)</b>	UK	Member of SA Council Member of multiple working groups	Instrumental in delivery of net zero commitment and production of CO <sub>2</sub> and fuels roadmaps in February 2020 Hosted three workshops in 2019 to support the above
<b>Royal Aeronautical Society (RAeS)</b>	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
<b>Coalition for Negative Emissions</b>	UK	One of 11 member organisations to launch this coalition in 2020	Lobbying UK Government to support negative emissions technologies
<b>Grupo Español de Crecimiento Verde</b>	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
<b>Industry associations</b>	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
<b>Government and other regulators</b>	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
<b>Customers</b>	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 <a href="#">Flightpath Net Zero</a> 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
<b>Workforce</b>	<ul style="list-style-type: none"> <li>To align individual airline sustainability programmes with Group</li> <li>To share ideas and best practice</li> <li>To respond to demands from internal stakeholders</li> <li>To drive positive employee engagement</li> <li>To improve recruitment and retention opportunities</li> </ul>	<ul style="list-style-type: none"> <li>European Works Council (EWC) meetings for EEA staff</li> <li>Monthly IAG Sustainability Network meetings for sustainability staff</li> <li>Voluntary environmental and waste champions</li> <li>Staff awareness campaigns</li> <li>Connecting sustainability leads in the IAG operating companies to suppliers</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Workforce overview' section</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>To minimise exposure to ESG risks</li> <li>To support manufacturers in improving aircraft efficiency</li> <li>To gain support for SAF</li> <li>To identify opportunities to reduce supplier emissions</li> </ul>	<ul style="list-style-type: none"> <li>Procurement processes</li> <li>Screening and on-site audits</li> <li>Joint projects</li> <li>Hangar 51 accelerator programme</li> <li>Industry conferences and supplier sustainability workshops</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Supply chain management' case study</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Sustainable Aviation Fuel' case study</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Innovation, research and development' case study</li> </ul>
<b>Shareholders and other financial stakeholders</b>	<ul style="list-style-type: none"> <li>To understand their approach to ESG, to enable us to better align our programmes with their priorities</li> <li>To demonstrate action and leadership to external stakeholders on IAG initiatives</li> <li>To maintain and increase transparency</li> <li>To respond to legal obligations</li> </ul>	<ul style="list-style-type: none"> <li>Investor relations contact with groups including institutional investors and shareholders, debtholders, debt providers and credit rating agencies</li> <li>Conference calls with institutional investors</li> <li>Via corporate website</li> <li>Disclosures to external rating agencies CDP, TPI, Sustainalytics, MSCI, Vigeo Eiris</li> <li>Surveyed investors on ESG preferences</li> <li>Emphasised sustainability strategy in half year and full year results presentations</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near where airlines operate</li> <li>To increase IAG's positive wider impacts</li> </ul>	<ul style="list-style-type: none"> <li>Participating in airport community forums</li> <li>Community giving campaigns</li> <li>Engaging local schools in sports, charity and learning events</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Noise and air quality' case study</li> </ul>
		<ul style="list-style-type: none"> <li> See 'Community engagement and charitable giving' case study</li> </ul>
<b>NGOs and academic institutions</b>	<ul style="list-style-type: none"> <li>For independent reviews of materiality</li> <li>To maintain an informed position on sustainability leadership</li> <li>To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment</li> </ul>	<ul style="list-style-type: none"> <li>Meetings and visits</li> <li>Industry conferences and workshops</li> <li>Contributing to NGO initiatives</li> <li>IAG staff on academic boards at Cranfield, Heriot Watt and Aston Supergen consortium</li> <li>IAG staff on steering board of Biotechnology and Biological Sciences Research Council (BBSRC)</li> </ul>

## 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<sub>2</sub>/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

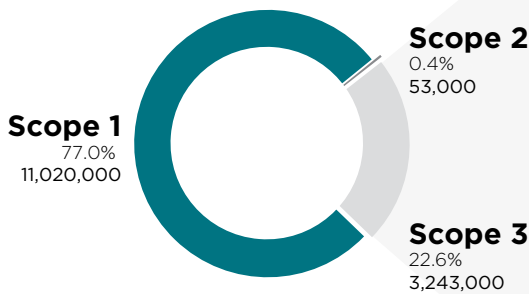
Airways Scope 1 emissions and Group electricity use in UK-based offices.

IAG discloses its impact in terms of CO<sub>2</sub>-equivalent emissions, which includes CO<sub>2</sub>, CH<sub>4</sub>, and N<sub>2</sub>O. Scope 1 emissions in 2020 were:

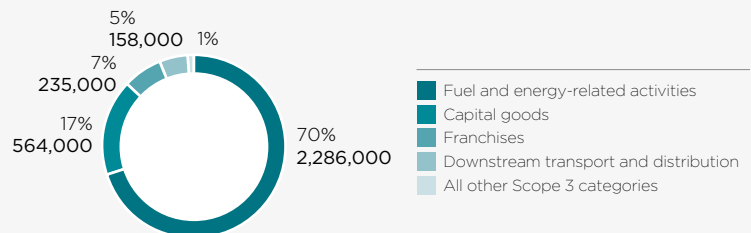
- 10.91 million tonnes (MT) carbon oxide (CO<sub>2</sub>)
- 0.10 MT nitrous oxide (N<sub>2</sub>O)
- 0.01 MT methane (CH<sub>4</sub>)

This shows that CO<sub>2</sub> is 99 per cent of the Scope 1 impact. IAG only discloses CH<sub>4</sub> and N<sub>2</sub>O as non-CO<sub>2</sub> GHGs, in line with the latest available UK Government GHG conversion factors.

Total GHG emissions in tonnes CO<sub>2</sub>e<sup>1</sup>



Scope 3 GHG emissions in tonnes CO<sub>2</sub>e<sup>1,2</sup>



Key Metric	Unit	vly	2020	2019	2018	2017	2016
Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-64%	11.02	30.78	29.99	28.76	28.26
Net Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-61%	10.85	27.60	27.22	26.17	nr
Scope 2 location-based	kt CO <sub>2</sub> e	-23%	52.6	68.6	70.4	92.6	103.1
Scope 2 market-based	kt CO <sub>2</sub> e	-54%	10.0	21.7 <sup>3</sup>	40.7	61.9	92.9
Scope 3	MT CO <sub>2</sub> e	-64%	3.24	9.04	8.79	7.88	7.64
Emissions intensity (jet fuel)	gCO <sub>2</sub> /pkm <sup>4</sup>	+18%	106.2	89.8	91.5	92.3	94.8
Renewable electricity	%	+11pts	86%	75% <sup>3</sup>	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 <sub>2</sub> /pkm	<p>Grammes of CO<sub>2</sub> 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.</p> <p>For accuracy, IAG excludes the jet fuel use of franchises and cargo freight on other airlines, and excludes no-show passengers.</p> <p>The passenger-km used in the 2020 calculation is 70,469 million and the cargo-tonne-km is 3,187 million.</p>	<p>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.</p> <p>Between 2011 and 2019, IAG's average annual improvement in grammes of CO<sub>2</sub>/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%.</p> <p>Group fuel efficiency is expected to be back on track by 2023.</p>
Scope 1 emissions and net Scope 1 emissions	Tonnes CO <sub>2</sub> e	<p>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.</p> <p>These emissions are primarily CO<sub>2</sub> but other GHGs such as methane and nitrogen oxide are also reported as part of the CO<sub>2</sub>-equivalent metric.</p> <p>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.</p>	<p>99.6% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.</p> <p>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.</p> <p>2020 net emissions are reduced by 168kt due to British Airways domestic offsetting.</p> <p>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.</p>
Scope 2 emissions (market-based/location-based)	Tonnes CO <sub>2</sub> e	<p>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.</p>	<p>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.</p> <p>Where the electricity use of overseas offices was not available, this was based on leased space in m<sup>2</sup>, multiplied by relevant kWh/m<sup>2</sup> factors and IEA national electricity emissions factors.</p>
Scope 3 emissions	Tonnes CO <sub>2</sub> e	<p>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.</p>	<p>The drop in Scope 3 emissions is related to the drop in activity of the fleet.</p> <p>70% of Scope 3 emissions are from fuel and energy-related activities (see pie chart on previous page).</p>
Renewable electricity	%	<p>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.</p>	<p>The 2020 increase is driven by procurement of renewables in Vueling and Iberia and at UK and Spanish airports where we operate.</p> <p>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.</p>

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

Note: "nr" means "not reported previously"

<sup>1</sup> 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<sub>2</sub> that IAG operations emit in a year will be balanced out by an equivalent amount of CO<sub>2</sub> removed from the atmosphere. The net zero commitment covers Scope 1 and 2 CO<sub>2</sub> emissions. IAG is committed to minimising non-CO<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub>/pkm to 80g CO<sub>2</sub>/pkm in 2025;
- 20 per cent reduction in net CO<sub>2</sub> emissions between 2019 and 2030, from 27.6 MT to 22 MT in 2030; and
- Net zero Scope 1 and Scope 2 CO<sub>2</sub> 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<sub>2</sub>/pkm to 87.3g CO<sub>2</sub>/pkm. In 2019, IAG achieved 89.8gCO<sub>2</sub>/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<sub>2</sub>/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.



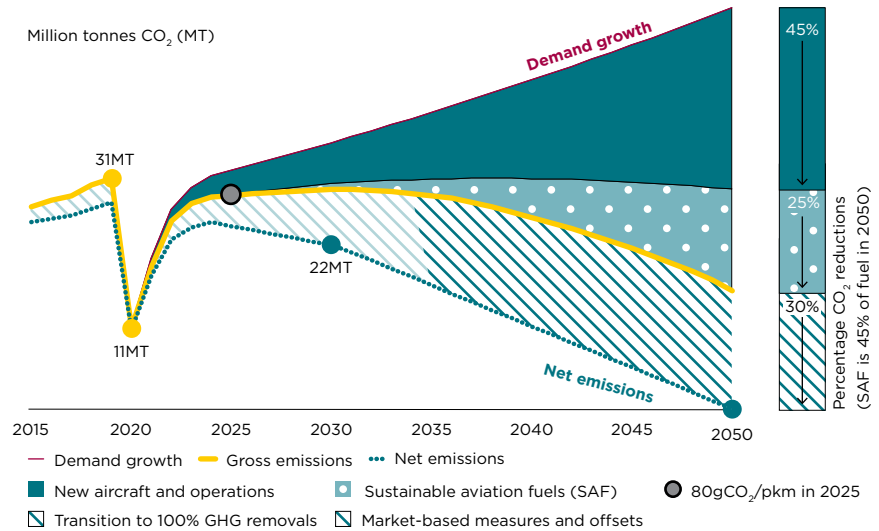
### B.3. Climate change roadmap

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<sub>2</sub>e 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<sub>2</sub> and according to recent research materially reduces particulate emissions and non-CO<sub>2</sub> 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 alcohol-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<sub>2</sub> research project to capture CO<sub>2</sub> 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	million tonnes	-56%	<b>8.2</b>	18.6
Shorthaul waste per passenger	kg/pax	+63%	<b>0.13</b>	0.08
Longhaul waste per passenger	kg/pax	+69%	<b>1.96</b>	1.16
Overall waste per passenger	kg/pax	+58%	<b>0.41</b>	0.26

Metric	Description	Commentary
<b>Waste/pax</b>	<p>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.</p> <p>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.</p> <p>Shorthaul and longhaul flights are defined by distance and by onboard product.</p>	<p>Onboard waste at hub airports dropped 56 per cent.</p> <p>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.</p>

## 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%	<b>0.96</b>	1.00	1.07	1.06	1.08
NO <sub>x</sub> per cycle	kg per LTO	+6.6%	<b>9.84</b>	9.23	9.71	<i>nr</i>	<i>nr</i>

Note: "nr" means "not reported previously"

Metric	Description	Commentary
<b>Noise per LTO cycle</b>	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.
<b>NO<sub>x</sub> per LTO cycle</b>	Average emissions of the air pollutant nitrogen oxide (NO <sub>x</sub> ) 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 <sup>1</sup>	vly	2020	2019	2018	2017	2016
ICAO Chapter 14 <sup>2</sup>	% at standard	+5pts	<b>58%</b>	53%	50%	46%	46%
CAEP Chapter 6 <sup>3</sup>	% at standard	+2pts	<b>80%</b>	78%	74%	69%	68%
CAEP Chapter 8	% at standard	+5pts	<b>40%</b>	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 NO<sub>x</sub> emissions from aircraft engines. Higher standards are more stringent. The CAEP 6 NO<sub>x</sub> 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<sup>1</sup>;
- 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<sup>1</sup>, 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.

<sup>1</sup> 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
<b>Employment</b>	Average manpower equivalent <sup>1</sup>		-8.2%	<b>60,612</b>	66,034	64,734	63,422	63,387
<b>Headcount</b>	Number of people <sup>2</sup>		-19.8%	<b>57,928</b>	72,268	71,134	<i>nr</i>	<i>nr</i>
<b>Composition</b>	% headcount by employment type	Full-time:	+5pts	<b>79%</b>	74%	75%		
		Part-time:	-5pts	<b>21%</b>	26%	25%	<i>nr</i>	<i>nr</i>
<b>Composition</b>	% headcount by employment contract	Permanent:	+3pts	<b>97%</b>	94%	94%		
		Temporary:	-3pts	<b>3%</b>	6%	6%	<i>nr</i>	<i>nr</i>
<b>Composition</b>	% headcount by employee categories	Cabin Crew:	-4pts	<b>31%</b>	35%	35%		
		Pilots:	+2pts	<b>13%</b>	11%	11%		
		Airport:	-1pts	<b>25%</b>	26%	26%	<i>nr</i>	<i>nr</i>
		Corporate:	+3pts	<b>20%</b>	17%	18%		
		Maintenance:	0pts	<b>11%</b>	11%	10%		
<b>Employees by country</b>	Number of people	UK:	-4pts	<b>50%</b>	54%			
		Spain:	+3pts	<b>34%</b>	31%			
		Ireland:	+1pts	<b>8%</b>	7%			
		India:	0pts	<b>2%</b>	2%	<i>nr</i>	<i>nr</i>	<i>nr</i>
		USA:	0pts	<b>1%</b>	1%			
		Other:	0pts	<b>5%</b>	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
<b>Gender diversity</b>	% women at Board level		+12pts	<b>45%</b>	33%	33%	25%	25%
<b>Gender diversity</b>	% women at senior executive level		0pts	<b>30%</b>	30%	27%	24%	23%
<b>Gender diversity</b>	% women at Group level		-1pts	<b>43%</b>	44%	45%	44%	44%
<b>Age diversity</b>	% of managerial staff in each age band	<30	-1pts	<b>3%</b>	4%	7%	6%	
		30-50	+2pts	<b>57%</b>	55%	57%	65%	<i>nr</i>
		50+	-1pts	<b>40%</b>	41%	36%	29%	
<b>Age diversity</b>	% of non-managerial staff in each age band	<30	-3pts	<b>18%</b>	21%	22%	17%	
		30-50	+4pts	<b>54%</b>	50%	50%	51%	<i>nr</i>
		50+	-1pts	<b>28%</b>	29%	28%	32%	
<b>Workforce turnover</b>	% voluntary and non-voluntary	Voluntary	+9pts	<b>16%</b>	7%	8%	8%	
		Non-voluntary	+3pts	<b>5%</b>	2%	3%	2%	<i>nr</i>
<b>Workforce turnover</b>	Overall % by age group	<30	-21pts	<b>16%</b>	37%	35%		
		30-50	-3pts	<b>33%</b>	36%	34%	<i>nr</i>	<i>nr</i>
		50+	+24pts	<b>51%</b>	27%	31%		
<b>Workforce turnover</b>	Overall % by gender	Women	+5pts	<b>52%</b>	47%	51%	<i>nr</i>	<i>nr</i>
		Men	-5pts	<b>48%</b>	53%	49%		

### Additional workforce metrics

GRI 102-41, 403-9, 404-1								
Metric	Unit		vly	2020	2019	2018	2017	2016
<b>Social dialogue and trade unions</b>	% covered by collective bargaining agreements		+2pts	<b>89%</b>	87%	86%	88%	88%
<b>Average hours of training</b>	Average hours per employee per year		-45.4%	<b>26.4</b>	48.4	41.1	45.8	34.9
<b>Lost Time Injury (LTI) frequency rate</b>	LTI per 200,000 hours worked		-44.5%	<b>2.41</b>	4.34 <sup>1</sup>	4.20 <sup>1</sup>	<i>nr</i>	<i>nr</i>
<b>LTI severity rate</b>	Average days lost per LTI		+67.0%	<b>37.80</b>	22.64	21.12	<i>nr</i>	<i>nr</i>
<b>Fatalities</b>			0pts	<b>0</b>	0	1	<i>nr</i>	<i>nr</i>

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

<sup>1</sup> 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
<b>Employment</b>	Average manpower equivalent	<p>Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors.</p> <p>The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.</p>	<p>The 8.2% decrease reflects the employee restructuring at British Airways and Aer Lingus.</p> <p>This measure accounts for employees' contractual schedule of work and therefore does not account for the impact of COVID-19 job retention scheme.</p>
<b>Headcount</b>	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.
<b>Composition</b>	% headcount by employment type, contract and employee categories	<p>Composition is a breakdown of headcount as at December 31, 2020.</p> <p>Definitions of full-time and part-time vary across the Group. A temporary employment contract has a defined end date.</p> <p>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.</p>	<p>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.</p>
<b>Employees by country</b>	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.
<b>Gender diversity</b>	% women at Board, senior executive, and Group level	<p>The share of women as a proportion of all staff at specific levels of seniority across the Group.</p> <p>IAG has published objectives for 33% women on the Board by 2020 and 33% women across the Group's senior executive levels by 2025.</p>	<p>There were 193 senior executives as at December 31, 2020.</p> <p>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%.</p> <p>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.</p>
<b>Age diversity</b>	% of staff in each age band	<p>The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group.</p> <p>The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to Captains and Cabin Service Managers.</p>	<p>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.</p> <p>The decrease in the proportion of employees under 30 years of age is explained by the end of temporary contracts.</p>
<b>Workforce turnover</b>	% 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.	<p>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.</p> <p>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.</p> <p>Over 88% of total Group turnover was at British Airways, the largest employer within the Group, mostly through voluntary measures.</p>

## Summary of alignment with external frameworks

Key: **Green** is GRI CORE











Sustainability section	Sustainability subsection	GRI Standard	Other frameworks
Governance	Sustainability strategy, governance	<b>102-43, -44, -46, -47, -48</b>	
Governance	Supply chain governance and management	308-2, 414-2	
Governance	Ethics and integrity	<b>102-16</b> , 102-17, 205-1, -2, -3	
Governance	Sustainability risks & opportunities	<b>102-11</b> , 102-15	
Governance	Stakeholder engagement	<b>102-13, 102-43, -44</b>	
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	<b>102-13</b> , 201-1	

Relevant Planet metrics	Partial/full alignment with GRI standard	SASB
Scope 1	305-1	TR-AL-110a
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	<b>102-7</b>	
Headcount	<b>102-7</b>	
Employment composition	<b>102-8</b>	
Employees by country	<b>102-8</b>	
Gender diversity	405-1	
Age diversity	405-1	
Workforce turnover	401-1	
Social dialogue and trade unions	<b>102-41</b>	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	
<b>Governance</b>		
Disclose the organisation's governance around climate-related risks and opportunities.	<ul style="list-style-type: none"> <li>a. Describe the Board's oversight of climate-related risks and opportunities.</li> <li>b. Describe management's role in assessing and managing climate-related risks and opportunities.</li> </ul>	
<b>Strategy</b>		
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.	<ul style="list-style-type: none"> <li>a. Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term.</li> <li>b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.</li> <li>c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</li> </ul>	
<b>Risk management</b>		
Disclose how the organisation identifies, assesses and manages climate-related risks.	<ul style="list-style-type: none"> <li>a. Describe the organisation's processes for identifying and assessing climate-related risks.</li> <li>b. Describe the organisation's processes for managing climate-related risks.</li> <li>c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</li> </ul>	
<b>Metrics and targets</b>		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	<ul style="list-style-type: none"> <li>a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</li> <li>b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.</li> <li>c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</li> </ul>	
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

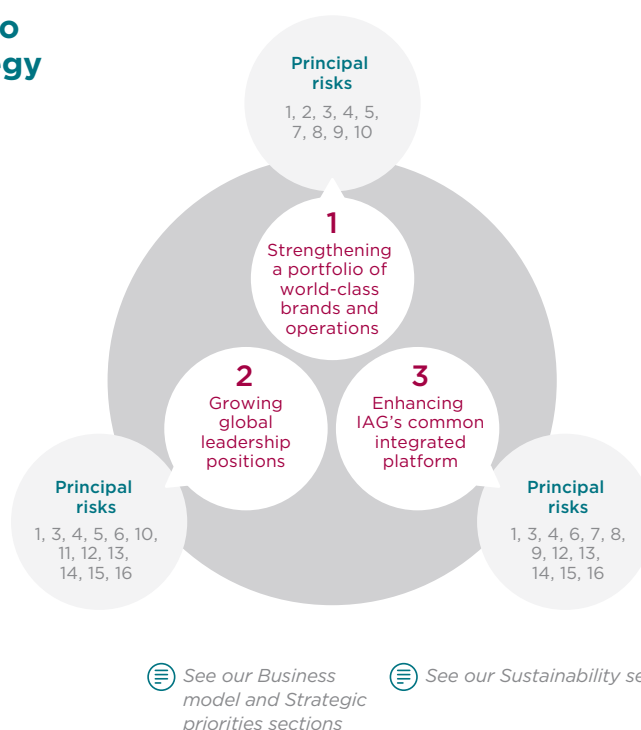
remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government restrictions over travel and movement of their citizens, governance requirements and regulations, external events causing 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



### Key: Risk trend

- Increase
- Stable
- Decrease
- 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



**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.	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.	<ul style="list-style-type: none"> <li>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.</li> </ul>
IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.	Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.	<ul style="list-style-type: none"> <li>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.</li> </ul>
IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity. An uncontrolled increase in the planned cost of expansion could result in increased landing charges.	<ul style="list-style-type: none"> <li>The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.</li> </ul>
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.	Airport charges represent a significant operating cost to the airlines and have an impact on operations.	<ul style="list-style-type: none"> <li>The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.</li> <li>The Group procurement function has led an ongoing review of all critical contracts across the Group's businesses.</li> </ul>

## Strategic continued

### 2. Brand reputation



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	Strategic relevance	Mitigations
<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.</p>	<ul style="list-style-type: none"> <li>All IAG airlines are considered within the brand portfolio review.</li> <li>Brand initiatives for each operating company have been identified and are aligned to the Strategic Business Plan.</li> <li>Product investment to enhance the customer experience supports the brand propositions and is provided for in the Strategic Business Plan.</li> <li>All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.</li> <li>IAG Customer Steering Group meets monthly and shares initiatives.</li> <li>New hygiene protocols are being adopted across the Group's airlines to address regulatory requirements resulting from the pandemic.</li> <li>Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.</li> <li>The Group's global loyalty strategy builds customer loyalty within IAG airlines.</li> <li>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.</li> <li>Robust portfolio process to determine the right investments across the Group.</li> </ul>

### 3. Competition, consolidation and government regulation



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	Strategic relevance	Mitigations
<p>Competitor capacity growth in excess of demand growth could materially impact margins.</p> <p>Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.</p> <p>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.</p> <p>Governments' support schemes for the aviation sector create distortionary effects across the markets in which IAG's airlines operate.</p>	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.</li> <li>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.</li> <li>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.</li> <li>The Group has restructured its businesses and operations to meet the challenge of the current environment.</li> <li>The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.</li> <li>The IAG Management Committee regularly reviews the commercial performance of joint business agreements.</li> <li>The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.</li> <li>The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</li> </ul>



## 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.	<ul style="list-style-type: none"> <li>IAG Tech is responsible for digital and IT.</li> <li>Operating companies' CDIOs are members of the IAG Tech management committee.</li> <li>The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.</li> <li>IAG Customer Steering Group.</li> <li>The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</li> <li>IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.</li> </ul>


## 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, oneworld 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 to 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
<p>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.</p> <p>New taxes and increasing price of carbon impact on demand for air travel. Customers may choose to reduce the amount they fly.</p>	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.	<ul style="list-style-type: none"> <li>IAG climate change strategy to meet target of net zero carbon emissions by 2050.</li> <li>British Airways offsets all UK domestic flight carbon emissions.</li> <li>Fleet replacement plan will introduce aircraft into the fleet that are up to 40 per cent more carbon efficient.</li> <li>IAG investment in sustainable aviation fuels of US\$400 million, including British Airways' partnership with Velocys.</li> <li>Management incentives aligned to IAG's targets.</li> <li>Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.</li> <li>Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.</li> </ul>

## Business and operational

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

### 6. Cyber attack and data security



**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	Strategic relevance	Mitigations
<p>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.</p> <p>If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p> <p>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.</p>	<p>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.</p> <p>The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>A cyber risk management framework ensures the risk is reviewed across all operating companies.</li> <li>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.</li> <li>The IAG Chief Information Security Office supports the Group businesses providing assurance and expertise around strategy, policy, training and security operations for the Group.</li> <li>Threat Intelligence is used to analyse cyber risks to the Group.</li> <li>Data Protection Officers are in place in all operating companies, coordinated through a Group wide Privacy Steering Group.</li> <li>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.</li> <li>All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.</li> </ul>

### 7. Event causing significant network disruption



**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	Strategic relevance	Mitigations
<p>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.</p> <p>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.</p>	<p>The Group's airlines may be disrupted by a number of different events.</p> <p>A single prolonged event, or a series of events in close succession, impact on the Group's airlines' operational capability and brand strength.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.</li> </ul>

## 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
<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.</li> <li>Operating companies' IT Boards are in place to review delivery timelines.</li> <li>IAG Tech leadership and professional development framework.</li> <li>Reversion plans are developed for migrations on critical IT infrastructure.</li> <li>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</li> <li>Robust portfolio process to determine the right investments across the Group.</li> </ul>

## 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
<p>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.</p> <p>Our people are not engaged, or they do not display the required leadership behaviours.</p> <p>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.</p>	<p>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.</p> <p>The right skillsets and culture are needed to transform our businesses at the pace required.</p>	<ul style="list-style-type: none"> <li>Collective bargaining takes place on a regular basis with the operating companies' human resources specialists, who have a strong skillset in industrial relations.</li> <li>Operating companies' people strategies.</li> <li>Succession planning within and across operating companies.</li> <li>IAG Tech refresh of professional development framework.</li> <li>Operating companies' engagement surveys and subsequent action plans.</li> <li>IAG Code of Conduct.</li> </ul>

## Business and operational continued

### 10. Political and economic environment



**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.	IAG remains sensitive to political and economic conditions in the markets globally.	<ul style="list-style-type: none"> <li>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).</li> <li>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.</li> <li>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.</li> </ul>
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.		

### 11. Safety or security incident



**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.	<ul style="list-style-type: none"> <li>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.</li> <li>Incident centres respond in a structured way in the event of a safety or security incident or intelligence.</li> <li>The Board's Safety Committee shares best practices between Group airlines.</li> </ul>

## 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
<p>Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>The Group has maintained clear focus on protecting liquidity.</li> <li>Additional funding arrangements entered into, including raising additional equity.</li> </ul>

### 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
<p>Failure to manage the volatility in the price of oil and petroleum products.</p> <p>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.</p> <p>Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.</p> <p>Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.</p>	<p>The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.</p> <p>The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.</p> <p>The volatility in floating interest rates can have a material impact on the Group's operating results.</p> <p>The Group is exposed to non-performance of financial contracts that may result in financial losses.</p>	<ul style="list-style-type: none"> <li>Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.</li> <li>All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.</li> <li>The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.</li> <li>Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts.</li> </ul>

## Financial continued

### 14. Tax



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
<p>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.</p> <p>Businesses and consumers may be subject to higher levels of taxation as governments seek to recover the national debts arising from pandemic support measures.</p> <p>The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Tax risk is managed by the operating companies in conjunction with the IAG Tax Department.</li> <li>Tax risk is overseen by the Board through the Audit and Compliance Committee.</li> <li>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.</li> </ul>

## 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
<p>The governance structure the Group has in place includes nationality structures to protect Aer Lingus', British Airways' and Iberia's route and operating licences.</p> <p>IAG could face a challenge to its ownership and control structure.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.</li> </ul>

### 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
<p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance.</li> <li>There are mandatory training programmes in place to educate Board members and employees as required for their roles in these matters.</li> <li>Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.</li> <li>IAG Code of Conduct framework and training.</li> <li>Data Protection Officers are in place in all operating companies.</li> <li>IAG Compliance Steering Group.</li> </ul>

## 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 adaptations 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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p>	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	<p>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.</p> <p>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.</p>	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 (CORSA).

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 CORSA) 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.

## **ANNUAL CORPORATE GOVERNANCE REPORT**

The 2020 Spanish Annual Corporate Governance Report of International Consolidated Airlines Group, S.A., prepared according to Circular 1/2020, of October 6, of the Spanish National Stock Exchange Commission is part of this Management Report and, from the date of the publication of the 2020 Financial Statements, is available in the Spanish National Stock Exchange Commission website and in the International Consolidated Airlines Group, S.A. website, being incorporated by reference to this report as appropriate.

**Independent limited assurance report on the Consolidated Statement of  
Non-Financial Information for the year ended December 31, 2020**

**INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. AND  
SUBSIDIARIES**

## **INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL INFORMATION**

To the shareholders of International Consolidated Airlines Group, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Statement of Non-Financial Information (hereinafter NFIS) for the year ended December 31, 2020, of International Consolidated Airlines Group, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Management Report of the Group.

The content of the NFIS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section "Table of contents", included in the accompanying NFIS.

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### **Directors' Responsibility**

The Directors of the Group are responsible for the approval and content of the NFIS included in the Consolidated Management Report of International Consolidated Airlines Group, S.A. The NFIS has been prepared in accordance with the contents established in prevailing mercantile regulations and following *Sustainability Reporting Standards* criteria of the selected *Global Reporting Initiative* (GRI standards), as well as other criteria described in accordance with that indicated for each subject in section "Table of contents", included in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of an NFIS that is free from material misstatement, whether due to fraud or error.

The directors of International Consolidated Airlines Group, S.A. are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

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### **Our independence and quality control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

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## **Our responsibility**

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. Our work has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Guidelines on assurance engagements on the Non-Financial Statement issued by the Spanish Institute of Chartered Accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are less extent in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFIS, reviewing the process for gathering and validating the information included in the NFIS, and applying certain analytical procedures and sampling review tests as described below:

- ▶ Meeting with Group personnel to gain understanding of the business model, policies and management approaches applied, and of the main risks related to these matters, and obtaining the necessary information for our external review.
- ▶ Analysing the scope, relevance and integrity of the content included in the 2020 NFIS based on the materiality assessment made by the Group and described in section “Materiality assessment” of the NFIS, considering the content required by prevailing mercantile regulations.
- ▶ Analysing the processes for gathering and validating the data included in the 2020 NFIS.
- ▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2020 NFIS.
- ▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2020 NFIS and its correct compilation from the data sources.
- ▶ Obtaining a representation letter from the Directors and Management.

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## **Conclusion**

Based on the procedures performed in our verification and the evidence obtained, no matter has come to our attention that would lead us to believe that the 2020 NFIS of the Group for the year ended December 31, 2020 has not been prepared, in all material respects, in accordance with the contents established in prevailing mercantile regulations and following the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section “Table of contents”, included in the NFIS.

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**Use and distribution**

This report has been prepared to comply with prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.



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Antonio Capella Elizalde

March 2, 2021

# Consolidated Statement of Non-Financial Information

The present statement was prepared to comply with the requirements of Law 11/2018, of December 28, 2018 on non-financial information and diversity (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), and is part of the Group's Management Report.

We provide information about environmental, social, employee-related, and human rights-related issues, which is relevant to the Company and important for the execution of business activities.

The consolidated statement of non-financial information contains the following sections:

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2	<b>Business model</b>
	<b>Sustainability</b>
	<b>A. Governance</b>
4	A.1.-A.2. Management approach
8	A.3. Supply chain governance and management
9	A.4. Ethics and integrity
10	A.5. Sustainability risks and opportunities
17	A.6. Stakeholder engagement
	<b>B. Planet</b>
20	B.1. Climate change impacts
22	B.2.-B.3. Climate change commitment and roadmap
25	B.4. Waste
26	B.5. Noise and air quality
27	B.6. Innovation, Research & Development
	<b>C. People and Prosperity</b>
28	C.1. Workforce overview
29	C.2. Health, safety and wellbeing
29	C.3. Inclusion and diversity
30	C.4. Human rights and modern slavery
30	C.5. Community giving and charitable support
31	C.6. Workforce measures
34	<b>Risk Management and principal risk factors</b>
45	<b>Regulatory environment</b>
46	<b>Additional disclosures</b>
46	B.7. Additional environmental metrics and commentary
47	C.7. Additional workforce metrics and commentary
57	C.8. Public subsidies and tax information

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# Our resilient business model

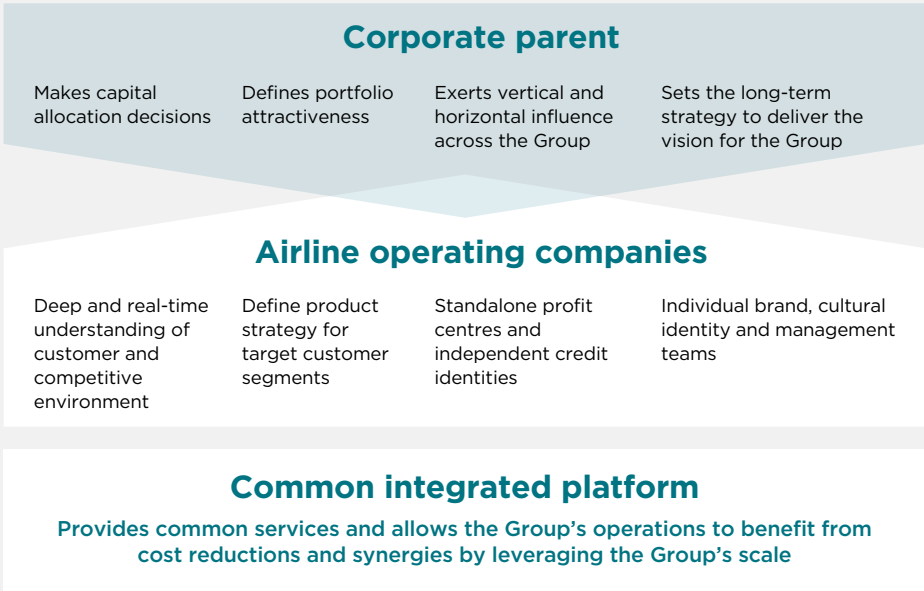
## Our vision

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.



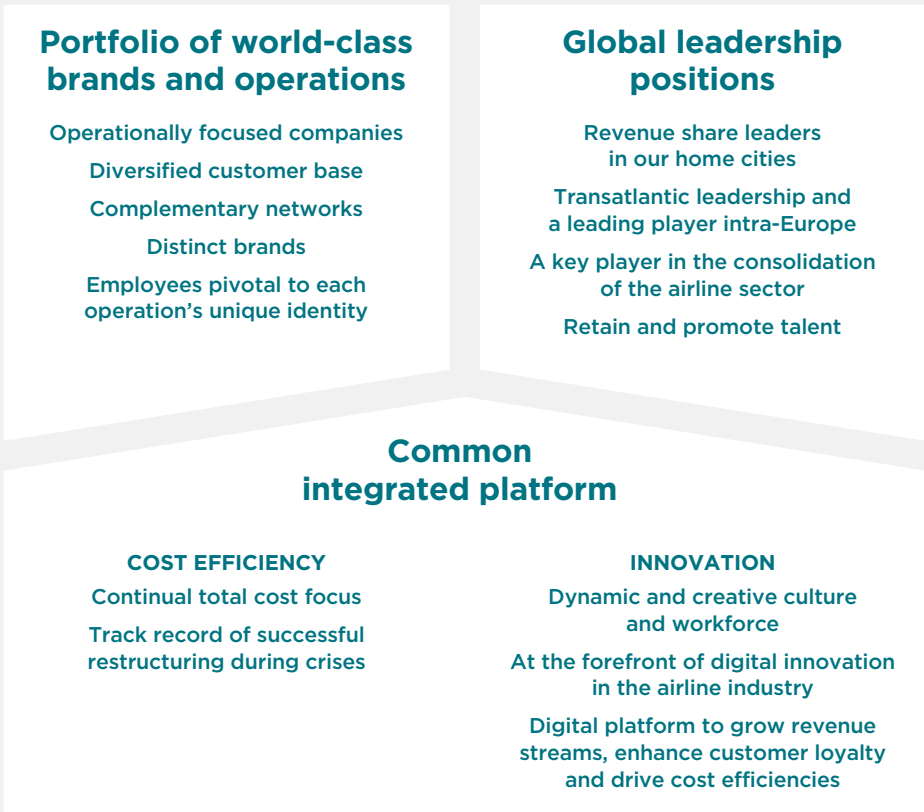
### Our resources

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.

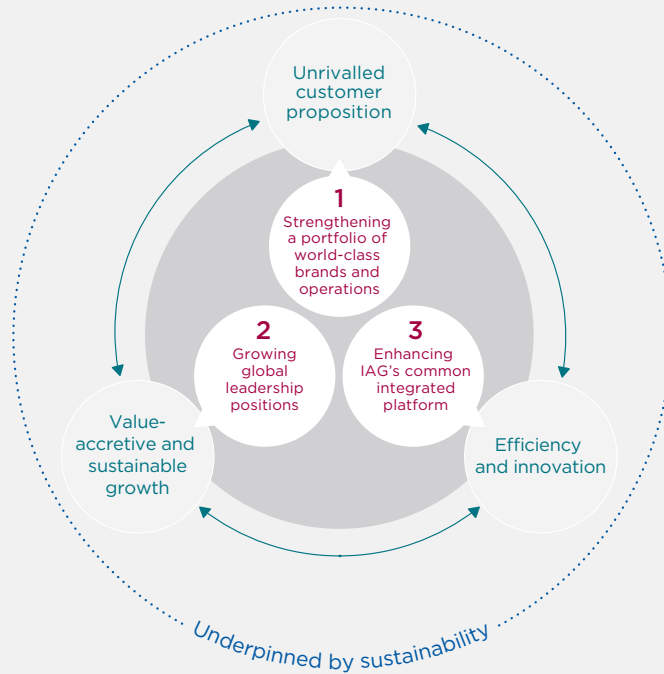




## Our strategic priorities

### 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<sub>2</sub> 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

### Investor measures

- RoIC
- EPS

### Customers

- NPS

### Employees

- Average manpower equivalent
- Gender diversity

### Environment

- Grams of CO<sub>2</sub>/pkm

# Sustainability

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.

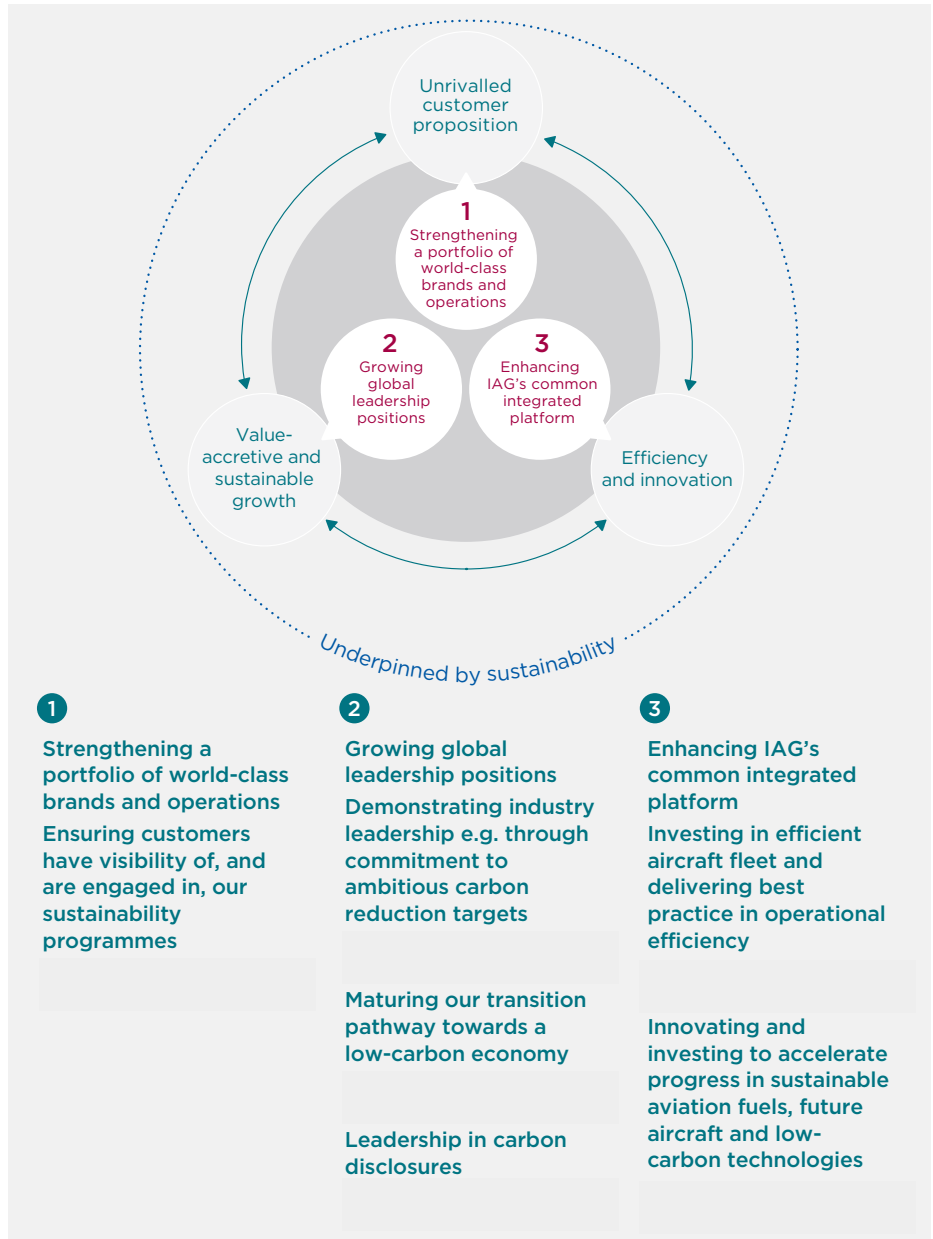
IAG's sustainability strategy is aligned to IAG's three strategic priorities, as demonstrated in the diagram to the right.

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.



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)<sup>1</sup> – **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<sup>2</sup> 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<sup>5</sup>



### Planet

- Climate change<sup>3</sup>
- Energy use
- Waste<sup>4</sup>
- 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.

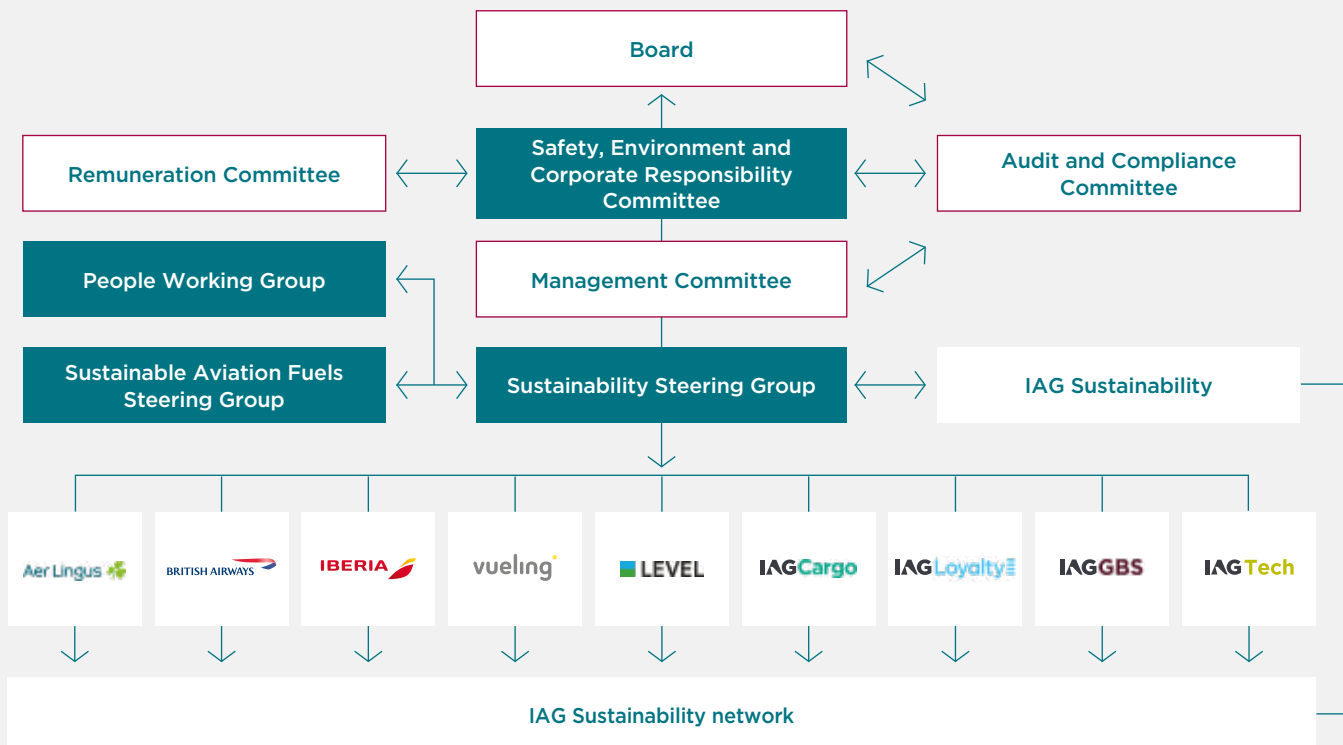
5 Short-term investor returns and long-term financial sustainability. Covered outside the sustainability section.

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)<sup>1</sup> 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<sup>2</sup> (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.

<sup>1</sup> 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).

<sup>2</sup> 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<sup>1</sup> 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.

<sup>1</sup> 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 through 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<sup>1</sup>:



Increase



Stable



Decrease



short-term  
(1-2 years)



medium-term  
(2-5 years)



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	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 <sup>2</sup>	<ul style="list-style-type: none"> <li>• Via the <a href="#">Flightpath Net Zero</a> programme, setting and working towards ambitious climate targets to minimise the IAG footprint and exposure to climate regulation</li> <li>• Lobbying for effective global regulation and robust and fair policies to meet global climate goals</li> <li>• Factoring carbon price forecasts into business decisions on fleet planning and investment</li> <li>• Continuing investment in modern fleet and innovations to ensure continual improvement in operational fuel efficiency</li> <li>• An effective procurement strategy for carbon credits to protect against price volatility</li> <li>• Driving and supporting low-carbon innovation via the Hangar 51 accelerator programme</li> </ul>



<sup>1</sup> Risk and opportunity trends as assessed by IAG Sustainability in relation to external changes, rather than mitigating actions.


<sup>2</sup> Pre-pandemic.

## Key climate-related risks


TCFD risk category: Regulatory (emerging)			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>A global patchwork of uncoordinated national and regional climate policies</p> 	<p>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.</p>	<p>Revenue impact due to reduced demand as a result of higher pricing</p>	<ul style="list-style-type: none"> <li>• Lobbying for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022</li> <li>• 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</li> <li>• Supporting implementation and adoption of CORSIA, robust rules for monitoring and criteria for emissions reductions, and lobbying for universal adoption</li> </ul>
TCFD risk category: Market			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>Changing customer behaviour</p> 	<p>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.</p>	<p>Potential revenue impact from reduced or changed travel behaviours and corporate travel budgets</p>	<ul style="list-style-type: none"> <li>• Using all available tools, as well as influencing global policy and driving industry-wide action, to minimise IAG's carbon footprint</li> <li>• Acting in advance of potential changes in behaviour by effectively communicating the <a href="#">Flightpath Net Zero</a> programme to customers and suppliers and offering climate mitigation options such as voluntary offsetting</li> </ul>
TCFD risk category: Acute physical			
Risk title	Risk description	Potential financial impacts	Mitigating actions
<p>Increased severity and frequency of extreme weather events and local climate-related circumstances</p> 	<p>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.</p>	<p>Costs of delays and operational disruption including turbulence</p>	<ul style="list-style-type: none"> <li>• 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<sub>2</sub> emissions</li> </ul>

## Other climate-related risks


### TCFD risk category: Technology

Risk title	Risk description	Potential financial impacts	Mitigating actions
Sustainable aviation fuels mandates 	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	<ul style="list-style-type: none"> <li>Contributing to the 2020 World Economic Forum “Cleaner Skies for Tomorrow” initiative to develop scenarios on SAF uptake</li> <li>Contributing to the 2020 EC ReFuelEU consultation, to ensure that any mandates do not create competitive distortion or carbon leakage</li> <li>Working at UK and international levels to strengthen global climate regulations on SAF</li> <li>Supporting policy incentives that help deliver SAF at prices competitive with conventional fuels through new technology development</li> <li>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</li> </ul>





### TCFD risk category: Market

Risk title	Risk description	Potential financial impacts	Mitigating actions
Destinations becoming unattractive for visitors 	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	<ul style="list-style-type: none"> <li>Ongoing lobbying and engagement in projects and initiatives designed to reduce the industry’s impact on climate change</li> <li>Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes</li> <li>Strategy to ensure aircraft and crew flexibility means we are prepared and able to respond to shifting demand patterns</li> </ul>





### TCFD risk category: Reputation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Potential target for direct action protests 	Direct action e.g. protests could disrupt flight operations and/or restrict staff and passenger access.	Operational disruption	<ul style="list-style-type: none"> <li>Close liaison with government agencies, airport operators and commercial organisations to assess challenges</li> <li>Contingency and business interruption planning</li> </ul>

## 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) 	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	<ul style="list-style-type: none"> <li>Minimising IAG's carbon footprint via the <a href="#">Flightpath Net Zero</a> programme</li> <li>Embedding sustainability considerations into business planning and operational decision-making</li> <li>Engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns</li> <li>Effectively communicating actions to customers and suppliers and offering climate mitigation options such as voluntary offsetting</li> </ul>
TCFD risk category: Regulatory (emerging)			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Regulation on non-CO <sub>2</sub> impacts (NEW) 	New external research indicates the non-CO <sub>2</sub> impacts of aviation are at least as significant as CO <sub>2</sub> . 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	<ul style="list-style-type: none"> <li>Via the <a href="#">Flightpath Net Zero</a> programme</li> <li>Working through trade associations and research partnerships to improve understanding of aviation's climate impacts</li> <li>Engaging in research to better understand non-CO<sub>2</sub> benefits of SAF</li> </ul>
TCFD risk category: Market			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Cost of capital tied to decarbonisation strategy (NEW) 	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	<ul style="list-style-type: none"> <li>Quantifying the financial impacts of climate risks and opportunities</li> <li>Robust and transparent external disclosures on climate impact and strategy</li> <li>Engaging with financial stakeholders via IAG Investor Relations</li> </ul>
TCFD risk category: Chronic physical			
Risk title	Risk description	Potential financial impacts	Mitigating actions
Persistent drought-induced water scarcity in some destinations 	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	<ul style="list-style-type: none"> <li>Teams dedicated to assessing and understanding changes in customer demand and managing network developments to respond to such changes</li> </ul>

## Climate-related opportunities

TCFD category: Technology			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Use of new aircraft technologies 	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	<ul style="list-style-type: none"> <li>Continually investing in fleet modernisation that supports business needs and aligns with the <a href="#">Flightpath Net Zero</a> programme</li> <li>Retirement of older, less-efficient aircraft</li> <li>Investment to realise opportunity: aircraft purchases and engine changes</li> </ul>
Use of lower-emission sources of energy (SAF) 	Commercial and environmental opportunity to source cost-effective sustainable fuel and reduce CO <sub>2</sub> emissions, thereby reducing compliance costs for CORSIA and the EU ETS.	Carbon cost savings from use of SAF/hydrogen	<ul style="list-style-type: none"> <li>Ongoing lobbying for support for the development of new SAF technologies at the global, EU and UK levels</li> <li>Investment to realise opportunity: direct investments in SAF production, offtake agreements</li> </ul>
TCFD category: Market			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Differentiate our brands 	To differentiate IAG brands by showing leadership, innovation and action to mitigate climate impacts, so attracting customers concerned about climate change.	Greater consumer loyalty	<ul style="list-style-type: none"> <li>Working with specific companies to help them reduce the impacts of their corporate travel</li> <li>Investment to realise opportunity: communications campaigns and percentage of profit into sustainability</li> </ul>
TCFD category: Regulatory			
Opportunity title	Opportunity description	Potential financial impacts	Actions to realise opportunity
Higher carbon price and strong policy incentives 	Support stronger business case for investment in low-carbon technologies which accelerate decarbonisation progress.	Financial benefits from delivery of projects	<ul style="list-style-type: none"> <li>Investment to realise opportunity: internal people resource</li> </ul>


## Climate-related opportunities

### TCFD category: Market


Opportunity title	Opportunity description	Potential financial impacts	Mitigating actions
Destinations becoming more attractive for visitors 	Climate change could make certain destinations more attractive or accessible to visitors, for example a longer summer season.	More flights to more attractive destinations	<ul style="list-style-type: none"> <li>Investment to realise opportunity: n/a as incorporated into business planning</li> </ul>

## Other sustainability risks


### Current regulation, Emerging regulation

Risk title	Risk description	Potential financial impacts	Mitigating actions
Operational noise restrictions and charges 	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	<ul style="list-style-type: none"> <li>Investing in new quieter aircraft as part of fleet modernisation</li> <li>Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures</li> <li>Internal governance and training and external advocacy in UK, Ireland and Spain to manage challenges</li> </ul>

### Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Supply chain sustainability compliance 	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	<ul style="list-style-type: none"> <li>IAG GBS procedures including Integrity, sanctions and CSR audits, IAG Know Your Counterparty due diligence for higher-risk third parties, Supplier Code of Conduct</li> <li>Internal governance on supplier management to identify challenges and mitigation actions</li> <li>Supplier screening using external business intelligence databases which actively monitor supplier status and flag risks including sustainability</li> </ul>

### Legal, Reputational

Risk title	Risk description	Potential financial impacts	Mitigating actions
Environment regulation compliance 	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	<ul style="list-style-type: none"> <li>Strengthening sustainability governance</li> <li>Embedding sustainability considerations into business plans, financial plans, and business cases</li> <li>Internal governance, training and assigning ownership for environmental compliance obligations</li> <li>Engaging with carbon market advisers to understand and mitigate compliance challenges and identify future opportunities</li> <li>IEnvA certification to improve internal compliance process</li> </ul>

## 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
<b>UN</b>	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.
<b>ICAO</b>	Global	Keynote panel speakers at ICAO Global CO <sub>2</sub> Stocktaking Event Member of Fuels Task Group	Supporting SAF sustainability standards Finalising rules for CORSIA scheme
<b>SBTi</b>	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
<b>Jet Zero Council (JZC)</b>	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
<b>IATA</b>	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
<b>Air Transport Action Group (ATAG)</b>	Global	Keynote panel speaker at Global Sustainability Aviation Summit	Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap
<b>oneworld</b>	Global	IAG representative co-chairs the environmental and sustainability best practice steering group British Airways representative leads waste workstream	Instrumental in delivery of oneworld net zero commitment in September 2020
<b>Airlines 4 Europe (A4E)</b>	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
<b>Sustainable Aviation (SA)</b>	UK	Member of SA Council Member of multiple working groups	Instrumental in delivery of net zero commitment and production of CO <sub>2</sub> and fuels roadmaps in February 2020  Hosted three workshops in 2019 to support the above
<b>Royal Aeronautical Society (RAeS)</b>	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
<b>Coalition for Negative Emissions</b>	UK	One of 11 member organisations to launch this coalition in 2020	Lobbying UK Government to support negative emissions technologies
<b>Grupo Español de Crecimiento Verde</b>	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
<b>Industry associations</b>	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
<b>Government and other regulators</b>	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
<b>Customers</b>	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 <a href="#">Flightpath Net Zero</a> 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.

<b>Stakeholders</b>	<b>Why we engage/key topics</b>	<b>How we engage</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>To align individual airline sustainability programmes with Group</li> <li>To share ideas and best practice</li> <li>To respond to demands from internal stakeholders</li> <li>To drive positive employee engagement</li> <li>To improve recruitment and retention opportunities</li> </ul>	<ul style="list-style-type: none"> <li>European Works Council (EWC) meetings for EEA staff</li> <li>Monthly IAG Sustainability Network meetings for sustainability staff</li> <li>Voluntary environmental and waste champions</li> <li>Staff awareness campaigns</li> <li>Connecting sustainability leads in the IAG operating companies to suppliers</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>To minimise exposure to ESG risks</li> <li>To support manufacturers in improving aircraft efficiency</li> <li>To gain support for SAF</li> <li>To identify opportunities to reduce supplier emissions</li> </ul>	<ul style="list-style-type: none"> <li>Procurement processes</li> <li>Screening and on-site audits</li> <li>Joint projects</li> <li>Hangar 51 accelerator programme</li> <li>Industry conferences and supplier sustainability workshops</li> </ul>
<b>Shareholders and other financial stakeholders</b>	<ul style="list-style-type: none"> <li>To understand their approach to ESG, to enable us to better align our programmes with their priorities</li> <li>To demonstrate action and leadership to external stakeholders on IAG initiatives</li> <li>To maintain and increase transparency</li> <li>To respond to legal obligations</li> </ul>	<ul style="list-style-type: none"> <li>Investor relations contact with groups including institutional investors and shareholders, debtholders, debt providers and credit rating agencies</li> <li>Conference calls with institutional investors</li> <li>Via corporate website</li> <li>Disclosures to external rating agencies CDP, TPI, Sustainalytics, MSCI, Vigeo Eiris</li> <li>Surveyed investors on ESG preferences</li> <li>Emphasised sustainability strategy in half year and full year results presentations</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near where airlines operate</li> <li>To increase IAG's positive wider impacts</li> </ul>	<ul style="list-style-type: none"> <li>Participating in airport community forums</li> <li>Community giving campaigns</li> <li>Engaging local schools in sports, charity and learning events</li> </ul>
<b>NGOs and academic institutions</b>	<ul style="list-style-type: none"> <li>For independent reviews of materiality</li> <li>To maintain an informed position on sustainability leadership</li> <li>To share our expertise on SAF and carbon pricing for the benefit of industry progress on the environment</li> </ul>	<ul style="list-style-type: none"> <li>Meetings and visits</li> <li>Industry conferences and workshops</li> <li>Contributing to NGO initiatives</li> <li>IAG staff on academic boards at Cranfield, Heriot Watt and Aston Supergen consortium</li> <li>IAG staff on steering board of Biotechnology and Biological Sciences Research Council (BBSRC)</li> </ul>

## 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<sub>2</sub>/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<sub>2</sub>-equivalent emissions, which includes CO<sub>2</sub>, CH<sub>4</sub>, and N<sub>2</sub>O. Scope 1 emissions in 2020 were:

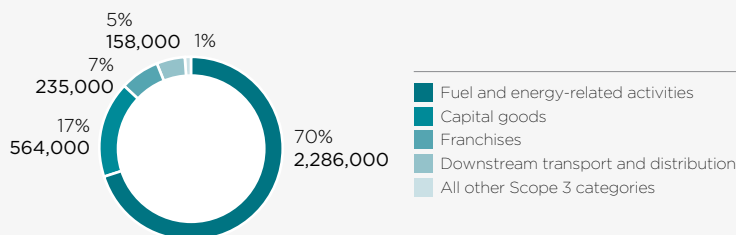
- 10.91 million tonnes (MT) carbon oxide (CO<sub>2</sub>)
- 0.10 MT nitrous oxide (N<sub>2</sub>O)
- 0.01 MT methane (CH<sub>4</sub>)

This shows that CO<sub>2</sub> is 99 per cent of the Scope 1 impact. IAG only discloses CH<sub>4</sub> and N<sub>2</sub>O as non-CO<sub>2</sub> GHGs, in line with the latest available UK Government GHG conversion factors.

Total GHG emissions in tonnes CO<sub>2</sub>e<sup>1</sup>



Scope 3 GHG emissions in tonnes CO<sub>2</sub>e<sup>12</sup>



Key Metric	Unit	vly	2020	2019	2018	2017	2016
Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-64%	11.02	30.78	29.99	28.76	28.26
Net Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-61%	10.85	27.60	27.22	26.17	nr
Scope 2 location-based	kt CO <sub>2</sub> e	-23%	52.6	68.6	70.4	92.6	103.1
Scope 2 market-based	kt CO <sub>2</sub> e	-54%	10.0	21.7 <sup>3</sup>	40.7	61.9	92.9
Scope 3	MT CO <sub>2</sub> e	-64%	3.24	9.04	8.79	7.88	7.64
Emissions intensity (jet fuel)	gCO <sub>2</sub> /pkm <sup>4</sup>	+18%	106.2	89.8	91.5	92.3	94.8
Renewable electricity	%	+11pts	86%	75% <sup>3</sup>	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 <sub>2</sub> /pkm	<p>Grammes of CO<sub>2</sub> 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.</p> <p>For accuracy, IAG excludes the jet fuel use of franchises and cargo freight on other airlines, and excludes no-show passengers.</p> <p>The passenger-km used in the 2020 calculation is 70,469 million and the cargo-tonne-km is 3,187 million.</p>	<p>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.</p> <p>Between 2011 and 2019, IAG's average annual improvement in grammes of CO<sub>2</sub>/pkm was 1.6% per annum, ahead of the IATA industry target of 1.5%.</p> <p>Group fuel efficiency is expected to be back on track by 2023.</p>
Scope 1 emissions and net Scope 1 emissions	Tonnes CO <sub>2</sub> e	<p>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.</p> <p>These emissions are primarily CO<sub>2</sub> but other GHGs such as methane and nitrogen oxide are also reported as part of the CO<sub>2</sub>-equivalent metric.</p> <p>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.</p>	<p>99.6% of Scope 1 emissions are from jet fuel. Commercial aircraft remain reliant on liquid kerosene for the foreseeable future.</p> <p>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.</p> <p>2020 net emissions are reduced by 168kt due to British Airways domestic offsetting.</p> <p>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.</p>
Scope 2 emissions (market-based/location-based)	Tonnes CO <sub>2</sub> e	<p>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.</p>	<p>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.</p> <p>Where the electricity use of overseas offices was not available, this was based on leased space in m<sup>2</sup>, multiplied by relevant kWh/m<sup>2</sup> factors and IEA national electricity emissions factors.</p>
Scope 3 emissions	Tonnes CO <sub>2</sub> e	<p>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.</p>	<p>The drop in Scope 3 emissions is related to the drop in activity of the fleet.</p> <p>70% of Scope 3 emissions are from fuel and energy-related activities (see pie chart on previous page).</p>
Renewable electricity	%	<p>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.</p>	<p>The 2020 increase is driven by procurement of renewables in Vueling and Iberia and at UK and Spanish airports where we operate.</p> <p>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.</p>

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

Note: "nr" means "not reported previously"

<sup>1</sup> 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<sub>2</sub> that IAG operations emit in a year will be balanced out by an equivalent amount of CO<sub>2</sub> removed from the atmosphere. The net zero commitment covers Scope 1 and 2 CO<sub>2</sub> emissions. IAG is committed to minimising non-CO<sub>2</sub> 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<sub>2</sub> 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<sub>2</sub>/pkm to 80g CO<sub>2</sub>/pkm in 2025;
- 20 per cent reduction in net CO<sub>2</sub> emissions between 2019 and 2030, from 27.6 MT to 22 MT in 2030; and
- Net zero Scope 1 and Scope 2 CO<sub>2</sub> 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<sub>2</sub>/pkm to 87.3g CO<sub>2</sub>/pkm. In 2019, IAG achieved 89.8gCO<sub>2</sub>/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<sub>2</sub>/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.

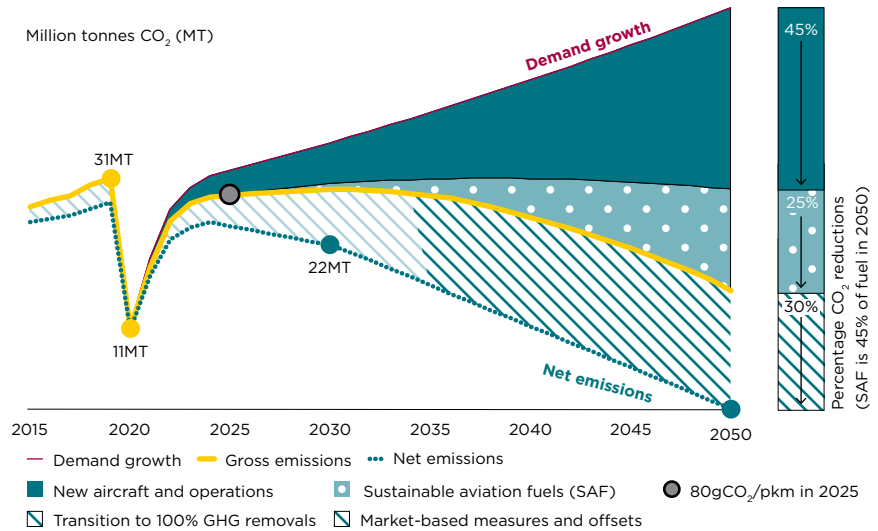
### B.3. Climate change roadmap

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<sub>2</sub>e 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<sub>2</sub> and according to recent research materially reduces particulate emissions and non-CO<sub>2</sub> 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.

### 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 alcohol-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<sub>2</sub> research project to capture CO<sub>2</sub> 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	million tonnes	-56%	<b>8.2</b>	18.6
Shorthaul waste per passenger	kg/pax	+63%	<b>0.13</b>	0.08
Longhaul waste per passenger	kg/pax	+69%	<b>1.96</b>	1.16
Overall waste per passenger	kg/pax	+58%	<b>0.41</b>	0.26

Metric	Description	Commentary
<b>Waste/pax</b>	<p>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.</p> <p>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.</p> <p>Shorthaul and longhaul flights are defined by distance and by onboard product.</p>	<p>Onboard waste at hub airports dropped 56 per cent.</p> <p>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.</p>

## 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%	<b>0.96</b>	1.00	1.07	1.06	1.08
NO <sub>x</sub> per cycle	kg per LTO	+6.6%	<b>9.84</b>	9.23	9.71	<i>nr</i>	<i>nr</i>

Note: "nr" means "not reported previously"

Metric	Description	Commentary
<b>Noise per LTO cycle</b>	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.
<b>NO<sub>x</sub> per LTO cycle</b>	Average emissions of the air pollutant nitrogen oxide (NO <sub>x</sub> ) 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 <sup>1</sup>	vly	2020	2019	2018	2017	2016
ICAO Chapter 14 <sup>2</sup>	% at standard	+5pts	<b>58%</b>	53%	50%	46%	46%
CAEP Chapter 6 <sup>3</sup>	% at standard	+2pts	<b>80%</b>	78%	74%	69%	68%
CAEP Chapter 8	% at standard	+5pts	<b>40%</b>	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 NOx 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 Politécnic 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<sup>1</sup>;
- 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.

<sup>1</sup> 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<sup>1</sup>, 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.

<sup>1</sup> 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
<b>Employment</b>	Average manpower equivalent <sup>1</sup>		-8.2%	<b>60,612</b>	66,034	64,734	63,422	63,387
<b>Headcount</b>	Number of people <sup>2</sup>		-19.8%	<b>57,928</b>	72,268	71,134	<i>nr</i>	<i>nr</i>
<b>Composition</b>	% headcount by employment type	Full-time:	+5pts	<b>79%</b>	74%	75%	<i>nr</i>	<i>nr</i>
		Part-time:	-5pts	<b>21%</b>	26%	25%		
<b>Composition</b>	% headcount by employment contract	Permanent:	+3pts	<b>97%</b>	94%	94%	<i>nr</i>	<i>nr</i>
		Temporary:	-3pts	<b>3%</b>	6%	6%		
<b>Composition</b>	% headcount by employee categories	Cabin Crew:	-4pts	<b>31%</b>	35%	35%	<i>nr</i>	<i>nr</i>
		Pilots:	+2pts	<b>13%</b>	11%	11%		
		Airport:	-1pts	<b>25%</b>	26%	26%		
		Corporate:	+3pts	<b>20%</b>	17%	18%		
		Maintenance:	0pts	<b>11%</b>	11%	10%		
<b>Employees by country</b>	Number of people	UK:	-4pts	<b>50%</b>	54%	<i>nr</i>	<i>nr</i>	<i>nr</i>
		Spain:	+3pts	<b>34%</b>	31%			
		Ireland:	+1pts	<b>8%</b>	7%			
		India:	0pts	<b>2%</b>	2%			
		USA:	0pts	<b>1%</b>	1%			
		Other:	0pts	<b>5%</b>	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
<b>Gender diversity</b>	% women at Board level		+12pts	<b>45%</b>	33%	33%	25%	25%
<b>Gender diversity</b>	% women at senior executive level		Opts	<b>30%</b>	30%	27%	24%	23%
<b>Gender diversity</b>	% women at Group level		-1pts	<b>43%</b>	44%	45%	44%	44%
<b>Age diversity</b>	% of managerial staff in each age band	<30	-1pts	<b>3%</b>	4%	7%	6%	
		30-50	+2pts	<b>57%</b>	55%	57%	65%	<i>nr</i>
		50+	-1pts	<b>40%</b>	41%	36%	29%	
<b>Age diversity</b>	% of non-managerial staff in each age band	<30	-3pts	<b>18%</b>	21%	22%	17%	
		30-50	+4pts	<b>54%</b>	50%	50%	51%	<i>nr</i>
		50+	-1pts	<b>28%</b>	29%	28%	32%	
<b>Workforce turnover</b>	% voluntary and non-voluntary	Voluntary	+9pts	<b>16%</b>	7%	8%	8%	
		Non-voluntary	+3pts	<b>5%</b>	2%	3%	2%	<i>nr</i>
<b>Workforce turnover</b>	Overall % by age group	<30	-21pts	<b>16%</b>	37%	35%		
		30-50	-3pts	<b>33%</b>	36%	34%	<i>nr</i>	<i>nr</i>
		50+	+24pts	<b>51%</b>	27%	31%		
<b>Workforce turnover</b>	Overall % by gender	Women	+5pts	<b>52%</b>	47%	51%	<i>nr</i>	<i>nr</i>
		Men	-5pts	<b>48%</b>	53%	49%		

### Additional workforce metrics

GRI 102-41, 403-9, 404-1								
Metric	Unit		vly	2020	2019	2018	2017	2016
<b>Social dialogue and trade unions</b>	% covered by collective bargaining agreements		+2pts	<b>89%</b>	87%	86%	88%	88%
<b>Average hours of training</b>	Average hours per employee per year		-45.4%	<b>26.4</b>	48.4	41.1	45.8	34.9
<b>Lost Time Injury (LTI) frequency rate</b>	LTI per 200,000 hours worked		-44.5%	<b>2.41</b>	4.34 <sup>1</sup>	4.20 <sup>1</sup>	<i>nr</i>	<i>nr</i>
<b>LTI severity rate</b>	Average days lost per LTI		+67.0%	<b>37.80</b>	22.64	21.12	<i>nr</i>	<i>nr</i>
<b>Fatalities</b>			Opts	<b>0</b>	0	1	<i>nr</i>	<i>nr</i>

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

<sup>1</sup> 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
<b>Employment</b>	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.
<b>Headcount</b>	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.
<b>Composition</b>	% 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.
<b>Employees by country</b>	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.
<b>Gender diversity</b>	% 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.
<b>Age diversity</b>	% 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.
<b>Workforce turnover</b>	% 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.

# 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



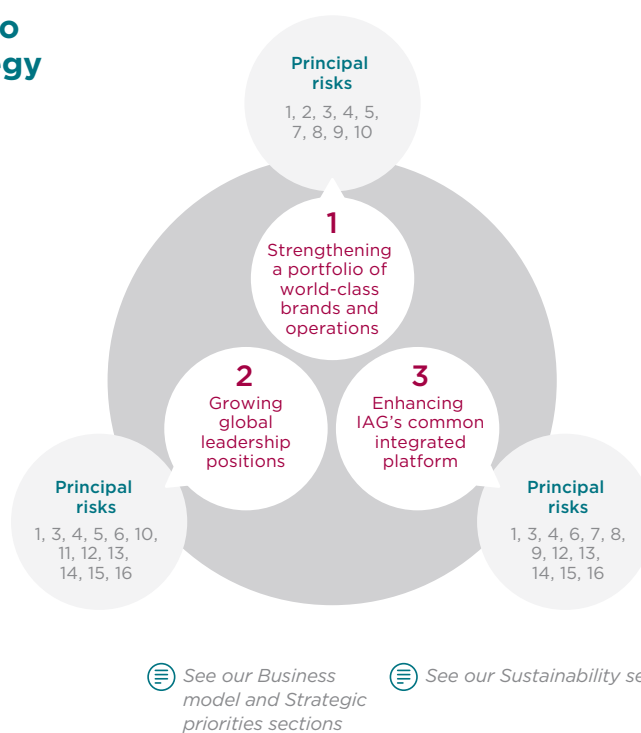
remains focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in political and economic environment, government restrictions over travel and movement of their citizens, governance requirements and regulations, external events causing 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



### Key: Risk trend



Increase



Stable



Decrease



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



**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.	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.	<ul style="list-style-type: none"> <li>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.</li> </ul>
IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.	Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.	<ul style="list-style-type: none"> <li>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.</li> </ul>
IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity.	<ul style="list-style-type: none"> <li>The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Changes Directive.</li> </ul>
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.	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.	<ul style="list-style-type: none"> <li>The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.</li> <li>The Group procurement function has led an ongoing review of all critical contracts across the Group's businesses.</li> </ul>

## Strategic continued

### 2. Brand reputation



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	Strategic relevance	Mitigations
<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.</p>	<ul style="list-style-type: none"> <li>All IAG airlines are considered within the brand portfolio review.</li> <li>Brand initiatives for each operating company have been identified and are aligned to the Strategic Business Plan.</li> <li>Product investment to enhance the customer experience supports the brand propositions and is provided for in the Strategic Business Plan.</li> <li>All airlines track and report internally on their Net Promoter Score (NPS) to measure customer satisfaction.</li> <li>IAG Customer Steering Group meets monthly and shares initiatives.</li> <li>New hygiene protocols are being adopted across the Group's airlines to address regulatory requirements resulting from the pandemic.</li> <li>Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.</li> <li>The Group's global loyalty strategy builds customer loyalty within IAG airlines.</li> <li>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.</li> <li>Robust portfolio process to determine the right investments across the Group.</li> </ul>

### 3. Competition, consolidation and government regulation



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	Strategic relevance	Mitigations
<p>Competitor capacity growth in excess of demand growth could materially impact margins.</p> <p>Any failure of a joint business or a joint business partner could adversely impact the Group's airline business operations and financial performance.</p> <p>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.</p> <p>Governments' support schemes for the aviation sector create distortionary effects across the markets in which IAG's airlines operate.</p>	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The Group strategy function supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities.</li> <li>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.</li> <li>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.</li> <li>The Group has restructured its businesses and operations to meet the challenge of the current environment.</li> <li>The portfolio of brands provides flexibility as capacity can be deployed at short notice as needed.</li> <li>The IAG Management Committee regularly reviews the commercial performance of joint business agreements.</li> <li>The Group's airlines review their relationships with business partners supported where appropriate by the Group strategy function.</li> <li>The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</li> </ul>

## 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.	<ul style="list-style-type: none"> <li>• IAG Tech is responsible for digital and IT.</li> <li>• Operating companies' CDIOs are members of the IAG Tech management committee.</li> <li>• The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.</li> <li>• IAG Customer Steering Group.</li> <li>• The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</li> <li>• IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.</li> </ul>

## 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, oneworld 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.

Risk description	Strategic relevance	Mitigations
<p>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.</p> <p>New taxes and increasing price of carbon impact on demand for air travel. Customers may choose to reduce the amount they fly.</p>	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.	<ul style="list-style-type: none"> <li>• IAG climate change strategy to meet target of net zero carbon emissions by 2050.</li> <li>• British Airways offsets all UK domestic flight carbon emissions.</li> <li>• Fleet replacement plan will introduce aircraft into the fleet that are up to 40 per cent more carbon efficient.</li> <li>• IAG investment in sustainable aviation fuels of US\$400 million, including British Airways' partnership with Velocys.</li> <li>• Management incentives aligned to IAG's targets.</li> <li>• Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.</li> <li>• Participating in CORSIA, the ICAO global aviation carbon offsetting scheme.</li> </ul>

## Business and operational

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

### 6. Cyber attack and data security



**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	Strategic relevance	Mitigations
<p>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.</p> <p>If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p> <p>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.</p>	<p>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.</p> <p>The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• A cyber risk management framework ensures the risk is reviewed across all operating companies.</li> <li>• 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.</li> <li>• The IAG Chief Information Security Office supports the Group businesses providing assurance and expertise around strategy, policy, training and security operations for the Group.</li> <li>• Threat Intelligence is used to analyse cyber risks to the Group.</li> <li>• Data Protection Officers are in place in all operating companies, coordinated through a Group wide Privacy Steering Group.</li> <li>• 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.</li> <li>• All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.</li> </ul>

### 7. Event causing significant network disruption



**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	Strategic relevance	Mitigations
<p>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.</p> <p>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.</p>	<p>The Group’s airlines may be disrupted by a number of different events.</p> <p>A single prolonged event, or a series of events in close succession, impact on the Group’s airlines’ operational capability and brand strength.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group’s customers and operations are in place.</li> </ul>

## 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
<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.</li> <li>Operating companies' IT Boards are in place to review delivery timelines.</li> <li>IAG Tech leadership and professional development framework.</li> <li>Reversion plans are developed for migrations on critical IT infrastructure.</li> <li>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</li> <li>Robust portfolio process to determine the right investments across the Group.</li> </ul>

## 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
<p>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.</p> <p>Our people are not engaged, or they do not display the required leadership behaviours.</p> <p>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.</p>	<p>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.</p> <p>The right skillsets and culture are needed to transform our businesses at the pace required.</p>	<ul style="list-style-type: none"> <li>Collective bargaining takes place on a regular basis with the operating companies' human resources specialists, who have a strong skillset in industrial relations.</li> <li>Operating companies' people strategies.</li> <li>Succession planning within and across operating companies.</li> <li>IAG Tech refresh of professional development framework.</li> <li>Operating companies' engagement surveys and subsequent action plans.</li> <li>IAG Code of Conduct.</li> </ul>

## Business and operational continued

### 10. Political and economic environment



**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.

Risk description	Strategic relevance	Mitigations
<p>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.</p> <p>Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.</p> <p>Political decisions to respond to the pandemic impact economies across all markets, causing longer-term economic stress.</p>	<p>IAG remains sensitive to political and economic conditions in the markets globally.</p>	<ul style="list-style-type: none"> <li>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).</li> <li>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.</li> <li>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.</li> </ul>

### 11. Safety or security incident



**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
<p>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.</p>	<p>The safety and security of our customers and employees are fundamental values for the Group.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Incident centres respond in a structured way in the event of a safety or security incident or intelligence.</li> <li>The Board's Safety Committee shares best practices between Group airlines.</li> </ul>

## 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
<p>Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>The Group has maintained clear focus on protecting liquidity.</li> <li>Additional funding arrangements entered into, including raising additional equity.</li> </ul>

### 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
<p>Failure to manage the volatility in the price of oil and petroleum products.</p>	<p>The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.</p>	<ul style="list-style-type: none"> <li>Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.</li> <li>All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.</li> <li>The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.</li> <li>Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts.</li> </ul>
<p>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.</p>	<p>The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.</p>	
<p>Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.</p>	<p>The volatility in floating interest rates can have a material impact on the Group's operating results.</p>	
<p>Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.</p>	<p>The Group is exposed to non-performance of financial contracts that may result in financial losses.</p>	

## Financial continued

### 14. Tax



**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
<p>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.</p> <p>Businesses and consumers may be subject to higher levels of taxation as governments seek to recover the national debts arising from pandemic support measures.</p> <p>The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Tax risk is managed by the operating companies in conjunction with the IAG Tax Department.</li> <li>Tax risk is overseen by the Board through the Audit and Compliance Committee.</li> <li>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.</li> </ul>

## Compliance and regulatory

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

### 15. Group governance structure



**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.

Risk description	Strategic relevance	Mitigations
<p>The governance structure the Group has in place includes nationality structures to protect Aer Lingus', British Airways' and Iberia's route and operating licences.</p> <p>IAG could face a challenge to its ownership and control structure.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.</li> </ul>

### 16. Non-compliance with key regulation and laws



**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
<p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> <li>The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance.</li> <li>There are mandatory training programmes in place to educate Board members and employees as required for their roles in these matters.</li> <li>Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.</li> <li>IAG Code of Conduct framework and training.</li> <li>Data Protection Officers are in place in all operating companies.</li> <li>IAG Compliance Steering Group.</li> </ul>



## 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 adaptations 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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The following assumptions were applied to the Downside Case. 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.</p> <p>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.</p> <p>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).</p>	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	<p>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.</p> <p>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.</p>	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 (CORSA).

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 CORSA) 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.

# Additional disclosures

## B. Planet

### B.7. Additional environmental metrics and commentary

GRI 301-1, 302-1, 303-3, 305-5

#### Amount of provisions and warranties for environmental risks

IAG does not take out any specific insurance to cover environment risks but does purchase forward carbon credits to cover future liabilities.

#### Water consumption

Water consumption is not a material issue for IAG. However, water use is monitored across the Group and IAG consumed 423,196 m<sup>3</sup> of water in 2020 in offices and ground facilities. This represents a 35 per cent drop from the 655,285 m<sup>3</sup> consumed in 2019. The reduction is driven by reduced activity in offices as a result of the COVID-19 pandemic.

#### Description and commentary of additional climate change metrics in section B.1 on page 20

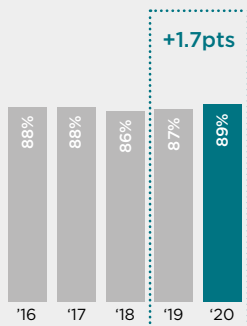
Metric	Description	Commentary
<b>Emissions intensity (Scope 2)</b>	Scope 2, location-based electricity divided by business activity, as measured in revenue passenger kilometres including cargo. Scope 2 emissions intensity is measured in units of CO <sub>2</sub> -equivalent, which includes CO <sub>2</sub> , CH <sub>4</sub> and N <sub>2</sub> O and complements the flight-only emissions intensity metric in section B.1.	The 154% increase in 2020 is temporary and due to passenger-km decreasing much more than the decrease in emissions from electricity. These drops were 75% and 23% respectively.
<b>GHG reduction initiatives</b>	Reductions in CO <sub>2</sub> -equivalent emissions as a result of specific initiatives which started in the reporting year. This excludes reductions from externally-driven changes applicable to all airlines e.g. airspace changes. See examples in the Operational efficiency subsection in section B.3.	The 78% decrease in 2020 is in line with the reduction in flying activity and is also a result of reduced staff available to deliver initiatives.
<b>Electricity</b>	Consumption of electricity across IAG ground facilities, in millions of kilowatt hours. This includes usage in main offices, overseas offices, hub airports and maintenance facilities. A detailed description of how this value is calculated is provided next to the Scope 2 emissions metric in section B.1.	The 19% decrease in 2020 was less than the drop in flying activity, because a number of ground facilities and offices remained open during the COVID-19 pandemic even with lower occupancy.  The 2019 kWh has been restated based on the latest verified data, latest electricity emissions factors, and a more accurate methodology for calculating electricity from fixed-electrical ground power.
<b>Energy</b>	Measured in million MWh and based on fuel and electricity use.  Energy use from fuel is based on the volumes of jet fuel, diesel, petrol, natural gas and gas oil, multiplied by appropriate UK Government conversion factors.  Energy use from electricity is based on kWh, calculated as described above.	The 65% decrease in 2020 is due to reduced flying activity. Jet fuel consumption accounts for 99% of IAG's energy use.  0.6% of energy use is from renewable sources, based on renewable electricity purchases. IAG is investing in sustainable aviation fuels and expects these to contribute to Group energy use from late 2022.
<b>Revenue per tonne CO<sub>2</sub>e</b>	Calculated by dividing total Group revenue by tonnes of Scope 1 and 2 CO <sub>2</sub> -equivalent.	Pre-pandemic, this metric was increasing due to the use of more efficient aircraft and retirement of older aircraft.  The 15% decrease in 2020 is temporary and is due to a decrease in passengers and load factors, so lower average revenues per flight.
<b>Jet fuel use</b>	Commercial aircraft remain reliant on liquid kerosene for the foreseeable future. Jet fuel use is correlated with flying activity.	The 64% decrease in 2020 is due to a large drop in flying activity, as a result of lower demand and COVID-19 flight restrictions.
<b>Fleet age</b>	The average age of aircraft in the IAG fleet as of December 31, 2020.	The 7% decrease in 2020 is driven by the accelerated retirement of aircraft such as British Airways B747s and Iberia Airbus A340s.

## C. People and Prosperity

### C.7. Additional metrics and commentary

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

Description and commentary for additional workforce metrics mentioned in section C.6.  
Social & employee related matters - Labour relations, Training



#### Social dialogue and trade unions

% covered by collective bargaining agreements

GRI 102-41

Country	2019	vly	2020
UK	89%	+3pts	92%
Spain	94%	+2pts	96%
Republic of Ireland	87%	0pts	87%
India	13%	+7pts	20%
USA	67%	-1pts	66%
Other Countries	41%	+2pts	43%

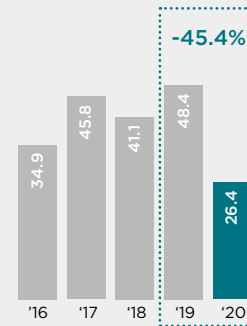
#### Description

Collective bargaining can cover a wide array of issues pertaining to working conditions, such as remuneration, working time, perks and benefits, and occupational safety and health. This coverage rate refers to the proportion of employees who are covered by one or more collective agreements. Calculated using headcounts at the end of the reporting period.

#### Commentary

Refer to Risk Management and principal risk factors section.

The higher coverage rate is due to reporting improvements and changes in workforce composition.



#### Average hours of training

Average hours per employee per year

GRI 404-1

Employee Category	2019	vly	2020
Cabin Crew	45%	-1pts	44%
Pilots	19%	0pts	19%
Airport	18%	-4pts	14%
Corporate	6%	+4pts	10%
Maintenance	12%	+1pts	13%

#### Description

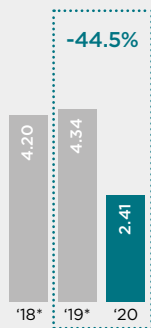
Calculated by translating training data for operating companies per full-time equivalent (FTE) into training hours per Group Average Manpower Equivalent (AME). All mandatory and non-mandatory training is in scope. Total training hours are broken down by employee category.

#### Commentary

The 2020 decrease in average hours of training per employee was due to the wide-ranging effects of the COVID-19 pandemic on airline operations and the consequential training requirements. All non-mandatory training was stopped or reduced, including all non-committed head office, corporate, leadership and management training. Safety, compliance and operationally essential training, including for new entrants, continued. For those training courses that did physically take place, the number of attendees was reduced in order to comply with social distancing rules.

In 2020, 1,601,959 training hours were recorded versus 3,193,961 in 2019, representing a drop of 50%.

**Description and commentary for additional workforce metrics mentioned in section C.6.**  
**Social and employee-related matters - Health and safety**



**Lost Time Injury (LTI) frequency rate**

**LTI per 200,000 hours worked**

**GRI 403-9**

**Description**

A lost time injury (LTI) is a non-fatal injury arising out of, or during, work, which will lead to a loss of productive work time.

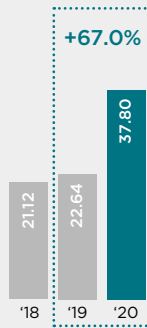
The unit is LTI per 200,000 hours worked, using actual hours worked.

**Commentary**

During 2020, 570 LTIs were recorded versus 1,864 in 2019. This change reflects the reduction in hours worked, especially in operational roles where the risk of injuries is higher.

The LTI frequency rate for men was 2.30, versus 4.19 in 2019, whilst the rate for women was 2.65, versus 4.57 in 2019.

\* These rates have been restated at year end due to changes in standardising factors to better align with GRI 403-9.



**LTI severity rate**

**Average days lost per LTI**

**GRI 403-9**

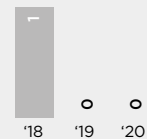
**Description**

This measures the impact of occupational accidents as reflected in time off work by the affected workers.

Days lost per LTI is expressed as an average by dividing the total lost days due to injuries by the total number of LTIs in the reporting period.

**Commentary**

The LTI severity rate for men was 34.51 (versus 23.03 in 2019) whilst the rate for women was 44.18 (versus 22.09 in 2019). Even though there was a decrease of 49% in the number of days lost due to injury, the increased severity rate is due to a higher proportion of days lost reported being respective to injuries taking place in previous year, whilst the number of LTIs also dropped 69%.



**Fatalities**

**Number of fatalities**

**GRI 403-9**

**Description**

Work-related fatalities. To align with GRI guidance, fatalities as a result of commuting accidents are only included in cases where the transport has been organised by the business, such as via a company or contracted bus or vehicle. The exception is employees in Spain, where inclusion of these types of fatalities is a legal requirement.

**Commentary**

There were no fatalities in 2020.

**Total number of employment contracts and distribution by type, annual average of permanent, temporary and part-time contracts distributed by gender, age and job category**

**GRI 102-8**

Annual average number of contracts		2019	vly	2020	
Overall employment contract and employment type	Permanent	68,104	-7.9%	62,728	
	Temporary	5,195	-47.0%	2,753	
	Full-time	54,918	-7.9%	50,581	
	Part-time	18,381	-18.9%	14,900	
		2019	vly	2020	
Age bands by employment contract and employment type	Permanent	<30	16%	-1pts	15%
		30-50	52%	+1pts	53%
		>50	32%	0pts	32%
	Temporary	<30	59%	-3pts	56%
		30-50	38%	+3pts	41%
		>50	3%	0pts	3%
	Full-time	<30	22%	-2pts	20%
		30-50	50%	+2pts	52%
		>50	28%	0pts	28%
	Part-time	<30	11%	-2pts	9%
		30-50	52%	+2pts	54%
		>50	37%	0pts	37%
Gender by employment contract and employment type	Permanent	Men	56%*	+1pts	57%
		Women	44%*	-1pts	43%
	Temporary	Men	54%*	-2pts	52%
		Women	46%*	+2pts	48%
	Full-time	Men	61%*	+1pts	62%
		Women	39%*	-1pts	38%
	Part-time	Men	38%*	-1pts	37%
		Women	62%*	+1pts	63%
Employee categories by employment contract and employment type	Permanent	Cabin Crew	35%*	-2pts	33%
		Pilots	12%	+1pts	13%
		Airport	25%*	0pts	25%
		Corporate	17%*	+1pts	18%
		Maintenance	11%*	0pts	11%
	Temporary	Cabin Crew	32%*	+2pts	34%
		Pilots	1%	-1pts	0%
		Airport	52%*	-8pts	44%
		Corporate	9%*	+3pts	12%
		Maintenance	6%*	+4pts	10%
	Full-time	Cabin Crew	31%*	-1pts	30%
		Pilots	12%*	+1pts	13%
		Airport	23%*	-1pts	22%
		Corporate	20%*	+1pts	21%
		Maintenance	14%*	0pts	14%
	Part-time	Cabin Crew	47%*	-1pts	46%
		Pilots	8%	+1pts	9%
		Airport	39%*	-2pts	37%
		Corporate	5%	+2pts	7%
		Maintenance	1%	0pts	1%

**Description**

The numbers for each employment contract and type are based on an average of four values, each captured at the end of each quarter during the year.

**Commentary**

Refer to 'Composition' commentary in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.

\* These values have been restated due to the reallocation of a number of employees into different categories.

**Total number of dismissals and distribution by gender, age and job category**

**GRI 401-1**

**Workforce turnover**

**Non-voluntary turnover by employee category**

	2019	vly	2020
Employee category			
Cabin Crew	21%	+26pts	47%
Pilots	6%	+12pts	18%
Airport	39%	-4pts	35%
Corporate	27%	+1pts	28%
Maintenance	7%	+5pts	12%

**Non-voluntary turnover by gender and age band**

	2019	vly	2020
Age groups			
<30	29%	-6pts	23%
30-50	29%	+12pts	41%
50+	42%	-6pts	36%
Gender			
Men	61%	-9pts	52%
Women	39%	+9pts	48%

**Description**

Refer to 'Workforce turnover' description in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.

**Commentary**

Refer to 'Workforce turnover' commentary in 'Description and commentary for key workforce metrics' in section C.6. Workforce Measures.



## Remuneration and salary gap

### Average remuneration broken down by gender, age and job category – salary gap

#### GRI 405-2

#### Remuneration 2020 by seniority level (€)

Seniority level	Overall			Men			Women			Salary Gap		
	vly	2019	2020	vly	2019*	2020	vly	2019*	2020	vly	2019*	2020
Senior executives	-24%	273,825	<b>208,209</b>	-23%	284,330	<b>220,325</b>	-25%	233,935	<b>175,670</b>	+2.5pts	17.70%	<b>20.30%</b>
Other management	-13%	93,158	<b>80,808</b>	-14%	98,721	<b>85,279</b>	-12%	83,381	<b>73,324</b>	-1.5pts	15.50%	<b>14.00%</b>
All other employees	7%	42,382	<b>45,402</b>	5%	46,469	<b>48,793</b>	8%	37,581	<b>40,652</b>	-2.4pts	19.10%	<b>16.70%</b>
Total workforce	6%	43,488	<b>46,224</b>	5%	47,636	<b>49,832</b>	8%	38,369	<b>41,467</b>	-2.7pts	19.50%	<b>16.80%</b>

#### Remuneration 2020 by age band (€)

Age band	Overall			Men			Women			Salary Gap		
	vly	2019	2020	vly	2019*	2020	vly	2019*	2020	vly	2019*	2020
<30	1%	29,708	<b>30,149</b>	7%	31,194	<b>33,377</b>	-2%	28,884	<b>28,445</b>	+7.4pts	7.40%	<b>14.80%</b>
30-50	3%	44,518	<b>45,828</b>	2%	48,346	<b>49,319</b>	3%	40,704	<b>41,984</b>	-0.9pts	15.80%	<b>14.90%</b>
>50	2%	56,096	<b>57,276</b>	3%	56,690	<b>58,152</b>	1%	55,433	<b>56,102</b>	+1.3pts	2.20%	<b>3.50%</b>
Total workforce	6%	43,488	<b>46,224</b>	5%	47,636	<b>49,832</b>	8%	38,369	<b>41,467</b>	-2.7pts	19.50%	<b>16.80%</b>

#### Description

The median remuneration broken down by gender, age and seniority level; and salary gap were reported for the first time in 2019. The elements in scope for the reported figures include basic salary, shift pay, allowances and employer pension contributions, taxable benefits and annual incentives. The reporting methodology was developed in 2019 to arrive at comparable pay for each employee – from which median pay is calculated – based on amounts of pay respective to time worked, taking into account basic and variable remuneration.

All remuneration is extrapolated to a full-time annual equivalent for comparability. This is very important in an industry with a high proportion of part-time and temporary employees with highly variable working schedules. Employees who joined or left the Group during the year are included where they were employed for at least 15% of the year. Some limited exclusions apply in special cases, such as employees impacted by special leave for at least 10% of the year.

'Senior executives' includes operating companies' management committee members, directors and other senior/executive positions. 'Other management' includes all other management roles, excluding pilots and cabin crew managerial roles which are included within 'All other employees'.

Salary gap refers to the difference between men's and women's median earnings (based on total pay) across the organisation, expressed as a percentage of men's earnings.

2019 data has been restated due to the reallocation of a number of employees, as well as some pay elements, into different categories for alignment with 2020. Remuneration for the IAG Management Committee has been excluded from both 2019 and 2020 data because it is reported in the Board and Management Committee section of this report.

For calculation purposes, all remuneration amounts respective to government subsidies or company top-up pay, which are associated with time not worked, are excluded, in order to align with the methodology described above.

#### Commentary

The COVID-19 pandemic has had an impact on the remuneration of everyone in the Group. The 2020 dataset includes 64,565 employees. This represents over 100% of the workforce at year-end, due to the number of employees who left the Group towards the end of the year.

Government subsidy schemes and company top-up pay varied across the three key geographical areas of Ireland, Spain and the United Kingdom, impacting almost 50,000 employees during the year. All remuneration relating to government subsidies or company top-up pay has been excluded. Only remuneration paid during time worked has been included to be consistent with the methodology.

Voluntary salary reduction schemes were introduced for 'Senior Executives' from April to December, with salary reductions ranging from 15% to 50%. These temporary salary reductions did not represent a reduction in working hours. Voluntary salary reduction schemes were introduced for 'Other Management' employees, for those employees not part of any Government subsidy schemes, from April to December, with salary reductions ranging from 5% to 50%. In many cases, these included a reduction in working hours. The effect of these temporary reductions can be seen in the 24% fall in median pay for 'Senior Executives' and the 13% fall in median pay for 'Other Management'.

\* These values have been restated to align employee categories and pay elements with 2020 reporting.

## Remuneration and salary gap

### Commentary (continued)

The increase in median pay for 'All Other Employees' is due to a number of factors, including annual pay uplifts implemented before the impact of COVID-19, new collective bargaining agreements implemented in Vueling and Iberia and bonus payments made in 2020 in relation to 2019 performance. With many employees having worked significantly reduced hours during the year, the extrapolation to a full-time annual equivalent can lead to an increase in overall average pay when all of the fixed and variable pay elements are taken into account. This impact was particularly pronounced in Iberia. Making extrapolations when there are low levels of activity gives rise to data that is more difficult to compare in respect to the prior year.

Total employee costs before exceptional items for the Group fell by 34.6% from €4,962m in 2019 to €3,247m in 2020, while Average Manpower Equivalents (AME) fell by 8.2% from 66,034 in 2019 to 60,612 in 2020, including time under job retention schemes.

The overall median salary gap for the total workforce reduced from 19.5% in 2019 to 16.8% in 2020. The median salary gap for 'Senior Executives' increased from 17.7% to 20.3% in 2020, due to joiners and leavers at the senior executive level. However, when considering this relatively small population (137 men and 59 women), the mean can be more meaningful, and when looking at the mean data for 'Senior Executives' the salary gap actually reduced from 16.0% to 13.9% in 2020 compared to 2019.

Government subsidy schemes and company top-up pay varied across the three key geographical areas of Ireland, Spain and the United Kingdom. Outlined below are the key components of schemes that cover 92% of the Group's employees.

#### United Kingdom – Job Retention Scheme (JRS)

Following the UK Government announcement regarding the JRS, furloughing of employees began from April. Through agreements with trade unions, the JRS was used each month since April 2020. All employee groups have been impacted by the JRS.

Under the terms of the current JRS rules, employers can claim 80% of an employee's usual salary for hours not worked, up to a maximum of £2,500 per month. As part of the agreements reached with the Trade Unions, since April 2020, UK operating companies continued to top up employees' pay to 80%, for all employee groups. Since April 2020, UK operating companies have sought to furlough as many employees as possible given the reduced operations and flying schedules.

#### Ireland – Temporary Wage Subsidy Scheme (TWSS), replaced later with Employment Wage Subsidy Scheme (EWSS)

In late March, Aer Lingus placed all employees on reduced working hours of 50% with the exception of senior executives and some other managers who continued to work 100% hours on 50% pay. This decision pre-dated the Irish Government's introduction of the TWSS aimed at supporting businesses in maintaining employment levels. Aer Lingus made use of this government subsidy and the values for employees were calculated based on the following conditions:

An initial cap was set at 70% of Average Net Weekly Pay (ANWP) subject to:

- A maximum of €410 per week where the average net weekly pay is less than or equal to €586; or
- A maximum of €350 per week where the average net weekly pay is greater than €586 and less than or equal to €960.

TWSS was amended for payroll after May 4, as follows:

- The subsidy was calculated based on an individual's Jan/Feb ANWP but also by reference to the individual's current gross pay, effectively increasing the number of eligible employees; and
- The 70% limit was increased to 85% where an employee's previous average net weekly pay does not exceed €412.

On September 1, 2020, the Irish Government replaced TWSS with EWSS. Under EWSS, qualifying employers could claim a flat rate rebate, to the employer, for eligible employees on their payroll. Unlike the TWSS which was a net subsidy paid through payroll directly to an employee, the EWSS is a payment paid to the employer. Aer Lingus received an amount per employee between €151.50 and €350 depending on the employee's gross weekly pay.

#### Spain – Expediente de Regulación Temporal de Empleo (ERTE)

In Iberia, ERTE was implemented from April 1, 2020, initially affecting 12,150 employees from all areas of the company. From June, a significant percentage of Iberia's workforce were put onto short time working to cover operational needs on a voluntary basis. ERTE figures increased again after the activity peak of summer.

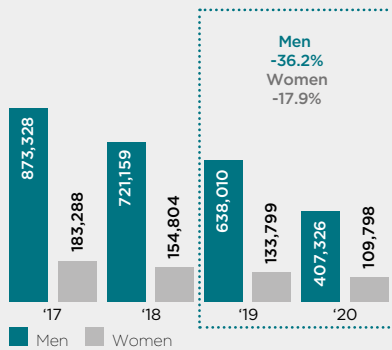
The employees affected by ERTE are subsidised directly from the government from the time they are not actively employed, through an unemployment subsidy corresponding to 70% of the regulatory base with a maximum payment of €1,098.09 for employees with no children and €1,411.83 with two or more children. The minimum unemployment subsidy is €501.98. The unemployment subsidy is paid according to the days affected within a month. Where employees are partially affected, the employee earns their regular salary from the company for the days they are actively employed.

Both Iberia and Vueling supplemented this with a top-up payment according to their monthly pay levels, from April to November 2020.

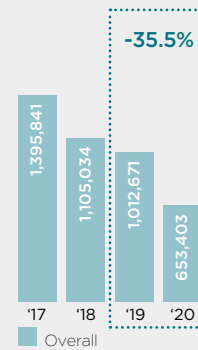
In Vueling, the ERTE was also implemented from April 1, 2020, initially affecting 4,081 employees from all areas of the company. ERTE figures increased again after the activity peak of summer.

**Average remuneration of Board members and Directors, including variable remuneration, allowances, professional indemnity, contributions to pension and welfare systems and any other parts of the remuneration broken down by gender**

Board (€)



Management Committee (€)



## Board and Management Committee Remuneration

### Description for both

For 2020, there was only one male Executive Director who was on the Board for the whole year, and this was the CFO of IAG. This should be borne in mind when making comparisons with previous years. His remuneration is made up of basic salary, taxable benefits (company car and private health), employer pension contributions, annual incentive, and long-term incentive, personal accident and travel insurance, and life insurance. Including only those members who were on the Board for the whole of 2020, the Board also had eight non-executive directors, comprising four men and four women. Non-executive directors' remuneration is made up of basic fees, travel benefits, and personal accident and travel insurance.

The Management Committee data excludes the Executive Director who is a Board member. Including only Management Committee members who were in employment for the whole of 2020, the Management Committee consisted of five men and two women. Their remuneration is made up of the same elements as for the Executive Director. For 2019, only people who were in service for the whole year are included; the differences being that there were eight non-executive directors (consisting of five men and three women) and eight Management Committee members (consisting of six men and two women). For 2019, the figures have been restated to include personal accident and travel insurance, and life insurance.

These figures are derived from the methodology as per the Remuneration Report filed with the Spanish National Securities Market Commission (CNMV).

### Commentary for both

The average (mean) remuneration for men on the Board is considerably higher than the average for women because the remuneration of executive directors is much greater than that of non-executive directors and the fee for the Chairman is much higher than that of other non-executive directors. The posts of executive directors and Chairman are held by men.

Comparing 2020 to 2019, the average remuneration for men and women has fallen because of the fall in the annual incentive pay-out, which affects the Executive Director on the Board, and all members of the Management Committee, and also because of the salary and fee reductions in 2020 as a result of the COVID-19 pandemic, which affected all members of the Board and Management Committee.

As there are only two women on the Management Committee the average remuneration by gender has not been shown for reasons of confidentiality.

**Policies which allow employees to disconnect from work, promote work-life balance and co-parenting responsibilities**

**GRI 103-2, 401-2**

During the COVID-19 pandemic, employees who normally work in office environments were advised, where possible, to work from home. This brought additional challenges in encouraging employees to disconnect from work.

Employees have been offered lots of information and guidance on creating and managing a healthy work-life balance through digital employee portals.

Across the Group, there are a number of policies and initiatives in place designed to promote a healthy work-life balance. These include flexible working policies such as working from home, and flexible start and finish times dependent on job role, all designed to support employees in managing their home and work life.

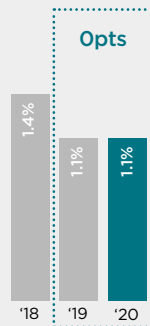
Regarding co-parenting responsibilities, there are policies on job-sharing, maternity, adoption, paternity and shared parental leave. There are active online platforms for working parents and carers to share ideas and to offer support to one another.

**Working hours organisation**

**GRI 103-2**

Time worked and holidays are different in each operating company as per the respective collective bargaining agreements.

**Number of employees with disabilities**



**Employees with Disabilities**

**GRI 405-1**

**Description**

Employees with disabilities as a percentage of headcount at the end of the year. In Spain, the disabilities in scope are medically certified, while in other countries the disabilities in scope are self-declared.

**Commentary**

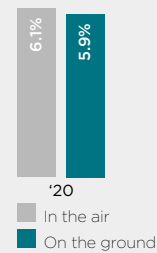
The 2020 percentage remains the same as in 2019, even though the total number of employees with disabilities changed, due to turnover.

The total number of employees with disabilities in 2020 is 593, compared with 717 in 2019.

Collecting disability information on employees is not a legal requirement in the UK or Ireland, unlike in Spain.

Aer Lingus data is not in scope.

**Number of hours of absenteeism**



**Number of hours of absenteeism**

**Description**

The absenteeism rate is based on total employee absences divided by total scheduled hours or days in the reporting period, expressed as a percentage.

The 2020 methodology split absenteeism and time scheduled into two categories. Absences for “on the ground” employees are measured in hours. Absences for “in the air” employees are measured in days. The reason for this change is to increase the accuracy of flight staff absence reporting, as these absences are typically recorded in days. Days for cabin crew and pilots vary widely in terms of hours. In 2019, flight staff absences were based on an estimated number of hours, and therefore not comparable to 2020.

“On the ground” employee categories include all corporate, airport and maintenance categories and “in the air” includes all pilots and cabin crew.

For the purpose of this metric, only unplanned or unauthorised absences – which mean employees missing partial or whole days of work – are included. Examples in scope are short-term and long-term sickness, time off due to injuries, and no-shows, which are absences without leave or permission.

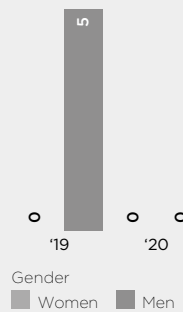
**Commentary**

In 2020, 2,319,959 hours of absence for “on the ground” employees and 154,328 days for “in the air” employees were recorded. Less than 5% of Group employees are not in scope, mainly overseas employees.

Under the 2019 methodology, IAG reported a total of 4,347,592 hours of absenteeism for the overall workforce.

## Occupational Illnesses

### GRI 403-10



### Description

An occupational illness is a medical condition or disease that develops gradually over time as a result of work performed and/or exposure to risk factors in the workplace. The illness must be confirmed by a medical diagnosis.

Occupational illnesses in scope for the UK follow Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) standards and can be found at the Health and Safety Executive's (HSE) website.

Occupational illnesses in scope for Spain are published in the Royal Decree 1299/2006.

### Commentary

No occupational illnesses were reported in 2020.

### Social dialogue organisation, including procedures to inform and consult with employees and to negotiate with them;

### Results of collective agreements, especially in the field of health and safety

#### GRI 403-4

IAG operating companies comply with all relevant legislation and work hard to improve and maintain workforce engagement and representation. Operating companies use a combination of human resources and employee engagement programmes and technology, to share information about the business with employees, their representatives and Trade Unions. The vast majority of employees are represented through collective bargaining agreements and Group companies have well-established mechanisms for negotiation and dialogue with relevant trade unions and employee groups. This includes regular reviews of matters relating to the health and safety in the workplace.

British Airways has regular health and safety engagement with trade unions at a local, departmental and directorate level across all areas of the business with escalation to the Corporate Safety team. Iberia has a health and safety committee in each relevant work centre which meets every two months. Aer Lingus holds regular meetings with both health and safety and employee representatives, with Corporate Safety in attendance, and Vueling holds quarterly meetings with a health and safety committee, composed of Vueling management and trade union appointed safety representatives.

During the COVID-19 pandemic, additional and regular meetings have been held right across the operating companies and employees, employee representatives and trade union representatives have been updated regularly on risks, actions and changes to ways of working on board aircraft to mitigate risks. This has been done in conjunction with health and safety assessments for airport and office environments.

**Universal accessibility of people with disabilities**

**GRI 103-2**

The Group complies with all relevant legislation regarding accessibility for disabled employees and customers in our buildings and operations. Operating airlines also work with a variety of external organisations, such as the Business Disability Forum in the UK, to help inform and support efforts and strategy. They continue to listen and respond to customers’ needs.

British Airways is particularly active on this issue and has built on its accessibility strategy during 2020. The impact of the COVID-19 pandemic means that it may be more challenging for customers with additional needs to travel, so there was a greater need to ensure messaging on social distancing and sanitation reflected the needs of people with a range of disabilities i.e. hard of hearing or autistic customers.

**2020 progress at British Airways:**

- Won first prize in the first global IATA Accessibility hackathon in March 2020, with a customer-focussed Access key design which is in a prototype stage;
- Affirmed its commitment to the Disability Confident scheme and were successful in retaining Level 2 status;
- The Global Call Centre Accessibility team became invaluable in reassuring customers answering queries and ensuring all booking details are sorted prior to travel. At the same time there were improvements on ba.com to simplify information and ensure it was accessible in all formats. Sign Live is being introduced into call centres to support deaf customers in the booking process;
- A new digital guide was produced for cabin crew to help them to understand the challenges that customers face when they travel, and to ensure that they can respond to individual needs;
- Became part of the IATA Accessibility working group to share learning with other airlines and establish best practice; and
- Work was undertaken to map a new reasonable adjustment process for employees. This work is expected to continue in 2021.

The employee and customer accessibility strategies work in conjunction by ensuring front-line employees, such as cabin crew, are trained in disability awareness. This training a particular focus on hidden disabilities.

Iberia is constantly reviewing its processes to care for people with special needs. All processes go through inspections by AESA. In 2020, the Iberia website was updated with improvements to help to facilitate the booking experience of customers with special needs. Iberia was awarded a certificate of compliance with web content accessibility guidelines established by the W3C (World Wide Web Consortium), achieving AA level.

Aer Lingus continually monitors all web content and services to ensure alignment with level AA of the Web Content Accessibility Guidelines.

Vueling began improving its booking website to make it easier for visually disabled people to use. Changes included a new accessibility section, new page design, more time to book, and an improved email confirmation process.

**Impact of the Company’s activity on employment and local development**

IAG sees work experience as a valuable way of supporting local employment, by engaging young people with IAG’s business and preparing them for potential careers in aviation.

During the COVID-19 pandemic a number of existing programmes have been paused but British Airways had the following initiatives:

- Between January to March, attending school events and engaging 13,000 students. A total of 107,717 students have been engaged in the Inspire work experience programme since it started;
- Between January to March, hosting 125 work experience placements, with over 3,700 mentoring hours provided. 50 per cent of students were BAME or other non-white ethnicity; and
- During the pandemic, continuing to promote the Speedbird-Z online learning platform in partnership with My Kinda Future, attracting over 3,300 users both from the UK and internationally. 50 per cent of users were BAME or other non-white ethnicity, and 48 per cent were female. This online platform allowed students to complete learning modules about aviation and employability, and chat to digital mentors from the airline.

Aer Lingus also launched its first cybersecurity apprenticeship programme.

The Iberia “Quiero ser” program, to attract and promote female careers in the aviation industry, has been postponed to 2021 due to the pandemic.

**Consumer relationship management**

**GRI 102-43, 103-2**

**Claims systems and complaints**

IAG airline customers are able to provide feedback and details of complaints in multiple ways, including via IAG airline websites, by mail, or by phoning customer contact centres. The types of customer complaint received vary significantly but typically relate to delays and cancellations, baggage, journey experience, bookings and reservations. To handle customer complaints, IAG airlines have dedicated customer relations teams who are specially trained to deliver excellent customer service and resolve issues quickly and in a satisfactory manner. Through their complaint systems, IAG airlines actively track and monitor resolution of customer complaints using metrics including the time between a complaint being received and the first communication provided back to the customer, or the number of cases raised that have been successfully closed.

In 2020, across the IAG airlines, an average of 6.5 complaints were received per 1,000 flown passengers, compared to an average of 3.2 complaints received per 1,000 flown passengers in 2019. The ratio of complaints received in 2020 was negatively impacted by the disruption caused due to the COVID-19 pandemic, and further exacerbated by the significant consequential reduction in passenger volumes.

All IAG airlines also provide facilities for customers to exercise their rights to claim compensation under Regulation (EC) No 261/2004 of the European Parliament and of the Council of February 11, 2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights. Customers are additionally able to use the IAG airline contact channels to submit claims for financial compensation relating to baggage incidents and other out of pocket expenses, which are assessed and resolved by IAG’s customer relations teams.

## C.8. Public subsidies and tax information

### Public subsidies received

#### GRI 201-4

During the year to December 31, 2020, in addition to EU Emissions Trading Scheme (EU ETS) allowances granted at zero cost, Group public subsidies amounted to €474 million (2019: €94 million). The majority of the public subsidies received related to furlough and job retention schemes in the UK and Ireland, for British Airways and Aer Lingus respectively.

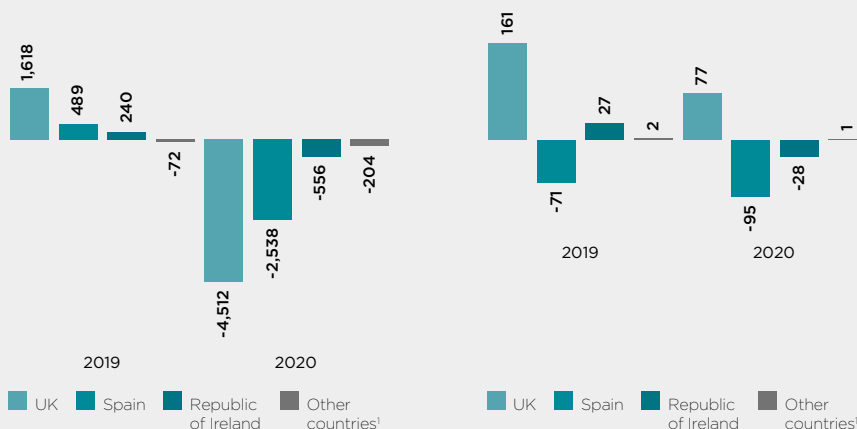
Operating companies in the Group receive some EU ETS emission allowances at zero cost and purchase the remainder in the EU ETS market. In addition to COVID-19 related public subsidies, the €474 million includes €122 million relating to the value of allowances at zero cost in 2020. EU ETS allowances were valued at the December 31, 2020 carbon market prices.

For the year to December 31, 2019, the substantial majority of public subsidies were related to EU ETS allowances issued at zero cost to the operating companies in the Group. These were valued at December 31, 2019 carbon market prices.

The Group has also received government assistance, which is not considered as public subsidies in accordance with International Financial Reporting Standards and is therefore not included in the amount above, for the following:

- Iberia and Vueling both benefited from the Temporary Redundancy Plan (ERTE) that the government of Spain implemented in March 2020. Under this scheme, employment is temporarily suspended and designated employees are paid directly by the government. Therefore, there is no remittance made to the Group.
- The Group benefitted from a number of financial facilities supported by national governments of the jurisdictions in which the operating companies principally operate. These include the UK's Coronavirus Corporate Finance Facility (CCFF), Spain's Instituto de Crédito Oficial (ICO) and Ireland's Strategic Investment Fund (ISIF).

### Profits obtained per country, taxes paid on profits



### Accounting profit/loss before tax

€ million

#### GRI 207-4

##### Description

Profits by country – the Group's consolidated accounting profit for the year split by country in which it is taxable.

##### Commentary

The decrease in profits taxable in our main countries of operation in 2020 reflects losses arising due to the global outbreak of COVID-19, which has had a material impact on the global airline and travel sectors.

### Income tax paid

€ million

#### GRI 207-4

##### Description

Taxes paid by country – the Group's consolidated cash tax payments for the year split by country in which they were made.

##### Commentary

The total net tax receipt of €45 million reflects refunds of corporate income taxes in respect of prior year tax paid in Ireland and Spain. A refund of UK corporation tax was net off against other tax payables during the year and is therefore not reflected in this amount. The UK offset against other taxes partly explains why the tax receipts of €45 million are lower than the expected tax credit for the Group of €887 million, however this difference is primarily because tax repayments for losses are not based on accounting profits and losses, instead repayment of much of the accounting credit will be delayed until future taxable profits arise.

The decrease in taxes paid by country in our main countries of operation in 2020 reflects the tax losses arising due to the global outbreak of COVID-19.

<sup>1</sup> "Other" comprises Austria, Belgium, Bermuda, Colombia, Costa Rica, Dominican Republic, France, Germany, Guatemala, Honduras, Hong Kong, India, Isle Of Man, Italy, Japan, Jersey, Maldives, Mexico, Netherlands, Nicaragua, Peru, Philippines, Poland, Puerto Rico, Senegal, Singapore, South Africa, Sweden, Switzerland and United States.

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Note: (F) means fully compliant, (P) means partially compliant. (1) means internal framework: see the specific methodology used in corresponding pages. (2) difference between men's and women's median pay, divided by men's median pay.



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Note: (F) means fully compliant, (P) means partially compliant. (1) means internal framework: see the methodology used in the corresponding pages.

**FORMULATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2020**

The Board of Directors of International Consolidated Airlines Group, S.A., in compliance with the provisions of Article 253 of the Capital Companies Law and of Article 37 of the Commercial Code, proceeded to formulate on February 25, 2021 the consolidated financial statements and the consolidated management report of the company for the year to December 31, 2020, which appear in the attached documents preceding this sheet.

In witness whereof, the members of the Board of Directors of International Consolidated Airlines Group, S.A. signed below on February 25, 2021:

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Javier Ferrán Larraz  
Chairman

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Luis Gallego Martín  
Chief Executive Officer

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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