

A close-up photograph of a man and a woman embracing. The man, on the left, has dark hair and is wearing a light-colored, textured jacket over a dark shirt. He is wearing a gold-toned metal bracelet on his left wrist. The woman, on the right, has dark hair pulled back and is wearing a white face mask. She is wearing a dark green blazer over a light-colored top. They are both looking towards the camera with expressions of warmth and connection.

**Connecting  
people,  
businesses  
and countries**

# Contents

## Strategic Report

1	Our purpose
2	Connecting people
4	Connecting businesses
6	Connecting countries
8	Chairman's letter
10	Chief Executive Officer's review
14	Management Committee
16	Business model
18	Our strategic priorities
22	Key performance indicators
24	Stakeholders engagement
34	Financial overview
35	Financial review
48	British Airways
50	Iberia
52	Vueling
54	Aer Lingus
56	IAG Cargo
58	IAG Loyalty
60	LEVEL
61	IAG GBS
62	IAG Tech
63	Sustainability
100	Risk management and principal risk factors
122	Regulatory environment

## Corporate governance

124	Chairman's introduction to corporate governance
126	Board of Directors
128	Corporate governance
144	Report of the Nominations Committee
148	Report of the Safety, Environment and Corporate Responsibility Committee
152	Report of the Audit and Compliance Committee
162	Report of the Remuneration Committee

## Management Report

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

The Management Report is composed of the following sections:

10	Business model
18	Our strategic priorities
22	Key performance indicators
34	Financial overview
35	Financial review
63	Sustainability
100	Risk management and principal risk factors
122	Regulatory environment

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

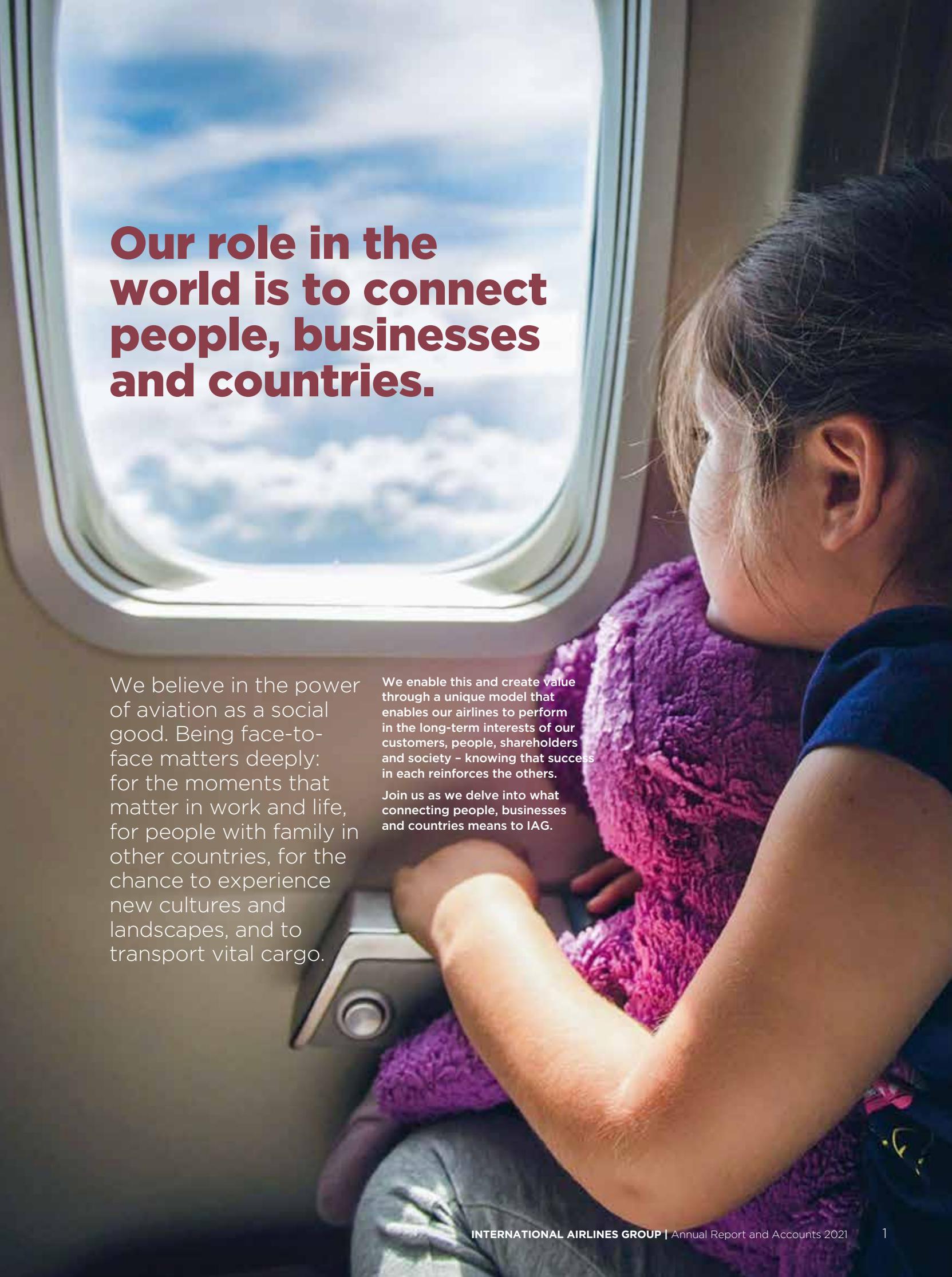
The Non-Financial Information Statement in response to the requirements of Law 11/2018, of December 28 (amending the Commercial Code, the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010 and Audit Law 22/2015, of July 20, 2015), is part of this Management Report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

## Statement of Directors' Responsibilities

### Independent Auditors' Report

## Additional Information

284	Glossary
286	Fleet table
287	Operating and financial statistics
IBC	Shareholder information

A close-up photograph of a young girl with dark hair tied back, wearing a purple textured top. She is looking out of an airplane window, which frames a view of white clouds against a blue sky. Her right arm is resting on the window frame, and her left hand is visible on the seatback in front of her.

# Our role in the world is to connect people, businesses and countries.

We believe in the power of aviation as a social good. Being face-to-face matters deeply: for the moments that matter in work and life, for people with family in other countries, for the chance to experience new cultures and landscapes, and to transport vital cargo.

We enable this and create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

Join us as we delve into what connecting people, businesses and countries means to IAG.

# Connecting

Connecting people goes beyond building strong, trusted relationships between our employees, customers and suppliers.

It means bringing our customers together through travel – reuniting families and friends, or bringing work colleagues and students together. But often, there doesn't have to be a reason beyond giving our customers the chance to experience new cultures and landscapes.



## Flying to places that needed us most

Throughout the pandemic we operated around 167 repatriation flights from 33 cities across 21 countries to bring our customers home. Each time travel restrictions were eased, we laid on additional flights to more destinations so we could fly passengers where they needed to be.



## Reconnecting families and friends across the Atlantic

We were so proud to reunite families and friends following the lifting of the US travel restrictions on November 8, 2021. British Airways operated the first transatlantic flight powered by 35 per cent Sustainable Aviation Fuel. There were emotional scenes in New York as families reunited, with some meeting new family members for the first time after being separated for more than 18 months.



**Transporting aid to those in need:  
millions of doses of vaccines carried  
during the pandemic**

We have continued to support countries' efforts to combat the pandemic, helping out wherever we could. Having carried 20,000 tonnes of PPE and humanitarian aid in 2020, in 2021 we flew millions of doses of COVID-19 vaccines — delivering to almost every corner of the world on a regular basis. In May 2021, when India continued to battle rising COVID-19 cases with dwindling oxygen supplies, IAG Cargo and British Airways joined forces to fund two special charters delivering 45 tonnes of aid from different charities.



**Supporting humanitarian missions**

Working with the UK Government and UNICEF Spain, IAG Cargo flew 25 tonnes of aid to help the recovery efforts in Haiti following the earthquake that struck the country in August 2021.



**Helping to rescue four-legged  
family members**

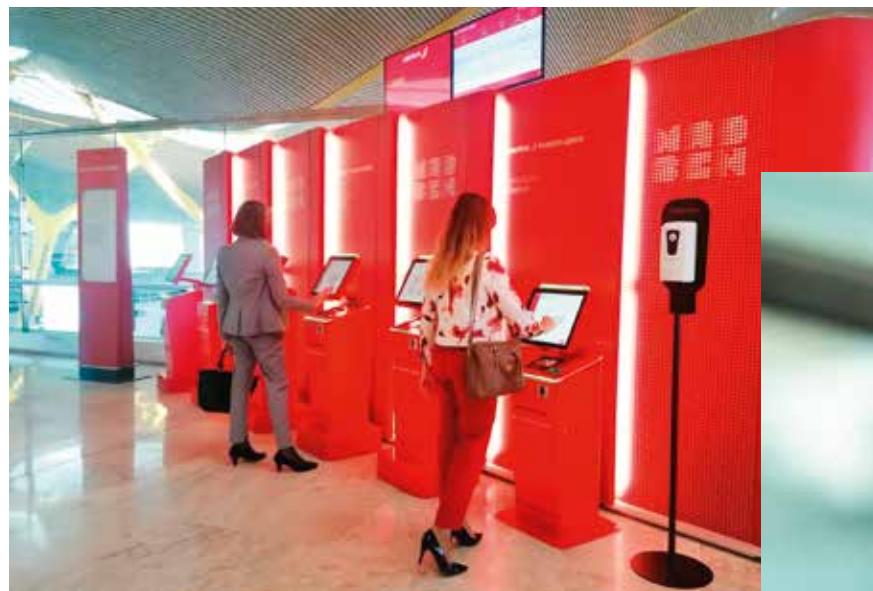
On routes such as Larnaca and Athens to London and Dublin to Toronto, alongside several global organisations, we transported hundreds of rescue dogs to their forever homes, giving them the chance of a new life with a new family.

# people

# Connecting

**Connecting businesses allows companies to thrive no matter where they are based.**

**It means giving people the chance to do business when only a face-to-face meeting will do, transporting goods from one place to another so we can all benefit from international trade. We are working with our suppliers to develop the new technologies that will enable us to reach net zero by 2050, together.**

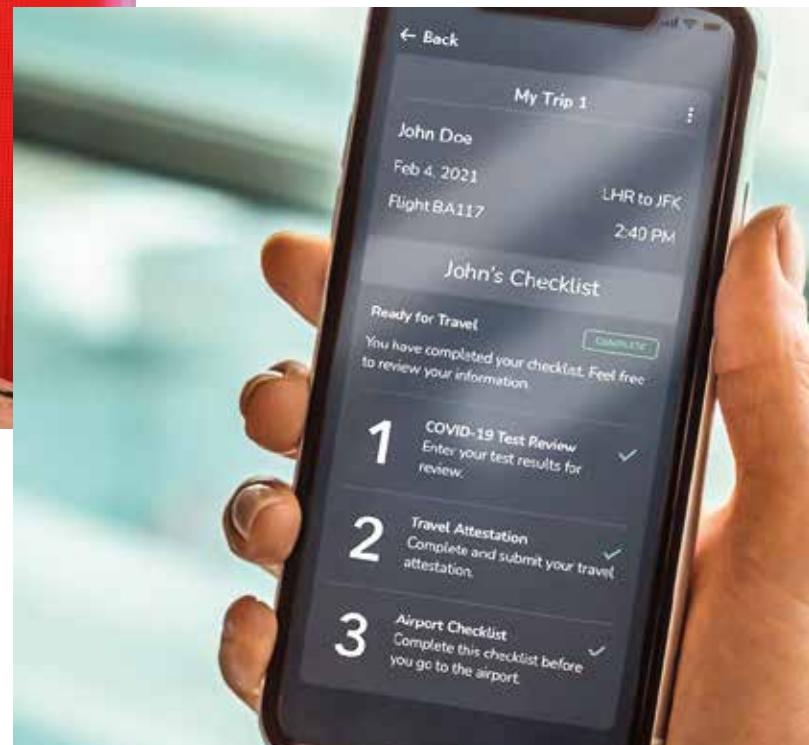


## Supporting Spanish economic recovery

Supporting the economic recovery in the countries in which we operate remains a key priority for us. Iberia gave a new boost to its air shuttle service between Madrid and Barcelona, the most important route for corporate traffic in Spain. Iberia is operating around 68 weekly frequencies on this route, which means up to 11 flights each way from Monday to Thursday, the busiest days. Vueling has also been supporting the recovery of Spanish tourism by increasing its domestic capacity by up to 114 per cent of 2019 levels in the year. The airline operated more than 310 routes, 42 of which were added to its network to support Spanish connections with countries such as Denmark or Sweden.

## Global network that enables businesses to thrive

The pandemic has shown the importance of meeting people in person. We've played an important role in reconnecting businesses through facilitating face-to-face meetings, flying goods around the world and continuing to keep vital air links open across our extensive global network. We've also made it as simple as possible for our customers to fly with us, through driving changes in technology including digital apps to verify the necessary health and travel documents.





#### Reconnecting businesses on both sides of the Atlantic

With more than 800 US companies in Ireland, employing 180,000 people, and over 650 Irish companies with a base in the US, we're reconnecting businesses on both sides of the Atlantic. Aer Lingus' new Manchester base, which opened in October, offers a daily service to New York operated by its new Airbus A321neo LR aircraft, in addition to connections to Orlando and Barbados.



#### e-Connecting businesses

Now, more brands are connected with our eStores and reward apps enabling more members to collect through everyday spending. In 2021, IAG Loyalty launched new partnerships with Nectar, CaixaBank, bp and Barclays and renewed its Amex and Endesa agreements.

# businesses

# Connecting

Connecting countries means having a wide range of routes and partnerships to connect all corners of the world.

As an international airline group with leading airlines in Spain, the UK and Ireland, our combined network and scale allows us to connect destinations through a wide range of airline models – from full service, to value, to low-cost.

## Supporting Paralympic athletes

Supporting Paralympic athletes on their flights from the UK, Spain and Ireland to and from Tokyo was a real honour. Our people worked tirelessly to ensure the teams and all their equipment travelled safely. Everyone at our airlines couldn't be prouder of the athletes' great achievements at the Tokyo 2020 Paralympic games.



75 years connecting Europe and Latin America

Iberia's commitment to Latin America has been key in supporting trade and connectivity across the South Atlantic. In 2021, the airline celebrated the 75th anniversary of its flights between Madrid and Buenos Aires. It became the first weekly air bridge connecting Europe and Latin America, making Madrid the gateway for travellers in both directions.





**Our commitment to endangered species**  
Our global network has allowed us to partner with animal welfare charities to save and relocate endangered species.

IAG Cargo worked with SEA LIFE and flew an injured Olive Ridley sea turtle to her new forever home in Scotland after she sustained life-changing injuries. She was entangled in ghost netting with a plastic bag around her neck which resulted in her losing a flipper. This initiative was aimed at raising awareness of the impact of plastic pollution.



#### **Boosting European connectivity**

We have taken opportunities to expand our services and increase connectivity throughout our European network. Vueling has introduced 32 new European destinations at Paris-Orly, becoming the second-largest operator at the airport. The airline was previously operating 22 routes, mainly to Spain and Italy. Now it offers 54 routes that connect France with more than 13 countries.

# countries

# Connecting people, creating sustainable value



**Javier Ferrán**  
Chairman

**“One thing that the pandemic has not changed is IAG’s purpose. Our business model is designed in a way that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society.”**

It is now more than two years since the beginning of the COVID-19 pandemic. These two years have seen our lives change immeasurably. Around the world, people have been forced to respond to the changing environment and find new ways to do things in all aspects of their lives. We have all had to adapt to different ways of working, different ways of maintaining family life and different ways of spending our leisure time. All of these have impacted IAG as an international airline group.

It has been the most challenging time in our history, particularly for our people. I am proud of the resilience and creativity that they have shown. Despite the difficulties we have faced, it is thanks to their work that we can look to the future with confidence. IAG’s strength comes from its people, and I would like to thank them all for the contribution they have made during this time.

My thanks also go to our shareholders. Their continued support has provided IAG with a strong foundation on which to rebuild the business and reshape it for the future.

One thing that the pandemic has not changed is IAG’s purpose – to connect people, businesses and countries around the world. IAG was created as a unique platform that enables us to fulfil that purpose. Our strategy is to use that platform to deploy our strengths so that we can recover better and stronger than before.

We know that despite the difficulties faced by everyone over the past two years, the desire to travel and connect in person is as strong as ever. Being unable to see friends, family or business contacts face-to-face has reminded us all how important those bonds are. We saw that as restrictions were lifted throughout the course of 2021 and the pent-up demand was released, particularly once the long-closed North Atlantic travel corridor was re-opened. One could not fail to be moved by the images and stories of families reunited after so long apart, some meeting new family members for the first time. It was a reminder that what we do matters.

Our business model therefore is designed in a way that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society. We know that successfully and sustainably delivering for one reinforces our success in delivering for the others.

The pandemic has proved the strength of our business model, which allows each of our airlines to benefit from our financial scale, while retaining their own agility to evolve and adapt to changing markets. That model is defined by shared capital strength, disciplined allocation of capital and diversification, each of which has served the business well over the past year.

The diversity of our airlines, ranging from full service to low cost, and their leadership positions in the markets in which they operate, has provided us with the resilience to meet the current challenges head on. Each airline is able to respond to changes in customer demand in its individual market, while being supported by the Group as a whole, which provides the shared best practice, talent and opportunities to collaborate where we can create advantage and value.

These attributes were front and centre of our operations in 2021. During the year each airline undertook a variety of actions needed to preserve its strengths, while also working closely together to innovate and promote efficiency.

So, while the impact of the pandemic led to a significant reduction in both revenue and profitability in the year, our platform ensured that we were able to take every opportunity to develop our business in the short term. That means that we remain well positioned to make the most of the recovery and are set up to return to profitability in 2022.

Despite the pandemic, sustainability remains a key priority for IAG. We continue to fiercely pursue our net zero targets and we have made long-term investments to support the development of the emerging technologies that will be required to support our green transition.

Aviation may be one of the most difficult sectors to decarbonise, but we have a clear plan and roadmap for one of the most pressing challenges facing our planet. We have led the industry in setting ambitious goals for carbon reduction and the adoption of sustainable fuels. In 2019, we became the first airline group worldwide to commit to net zero carbon emissions by 2050. We have since become the first European airline group to commit to powering 10 per cent of its flights by sustainable aviation fuel by 2030. And we are investing in new aircraft that are up to 40 per cent more fuel efficient than those they replace.

We cannot do this alone. While our airlines are innovating to respond to environmental challenges, we are also working in partnerships with governments, suppliers and other industry stakeholders to accelerate the development of the solutions that we need.

To be truly sustainable, we must also address societal challenges. We know that diverse teams are more successful and drive effective leadership and decision-making. I am pleased that 42 per cent of our Board members are female, but we know there is more to be done to further embed diversity throughout the organisation. Last year, we set a new target of having at least 40 per cent of senior roles held by women.

We can never be sure exactly what the future holds. The emergence of the Omicron variant affected our path to recovery and there are potential headwinds but I'm confident that we have the right business model and an experienced leadership team to face the challenges ahead. We know COVID-19 will remain part of our lives for years to come, while the changing climate will also affect our industry structurally. Airlines will need capital strength, combined with flexibility and agility to adapt to this new environment. These are all building blocks that IAG possesses.

As people return to the skies, our ambition is to ensure that they do so with one of our airlines. We know our customers have a choice as to who they fly with, and we compete hard to win their trust. But as we compete, we will always think and act for the long term and operate with safety, security and ethical behaviour as our key principles. We will do the right thing to deliver sustainably for our customers, our people and our shareholders, connecting people, businesses and countries and providing the jobs, prosperity and cultural benefits that travel has always created now, and well into the future.

**Javier Ferrán**  
Chairman



Use this QR code  
to watch our  
Chairman discuss  
how IAG is  
delivering on its  
purpose.

# Transforming our business to take it to its full potential



**Luis Gallego**  
Group Chief Executive Officer

**“Our people’s exceptional work and dedication has been key to weather this crisis.”**

The COVID-19 pandemic has led to one of the most difficult periods in aviation history. In 2021, we continued to work hard to ensure our business remained resilient in the face of global travel restrictions.

Our people's exceptional work and dedication has been key to weather this crisis.

## Financial performance

Clearly our financial performance continued to be severely impacted by travel restrictions worldwide. Throughout the year, individual markets were affected at different times and in different ways.

The uncertainty caused by the emergence of the Omicron variant in late November affected overall traffic with bookings declining mainly due to tightened entry requirements imposed by some countries. Although demand slowed down for very near-term trips, bookings remained strong for Easter and summer 2022.

Prior to this, longhaul had seen the highest booking activity in October and November at over 80 per cent of 2019 figures. This was better than previously expected driven by the re-opening of the US border to European travellers on 8 November and the strength of longhaul leisure markets.

The opening of the North Atlantic corridor proved a pivotal moment for our industry and demonstrated that a significant recovery was underway. It was fantastic to see families and friends reunited and business travellers being able to meet face to face after many months of separation. It led to transatlantic bookings reaching nearly 100 per cent of 2019 levels. We expect North Atlantic routes to reach full capacity by summer 2022.

We started the year flying 19.6 per cent of our 2019 capacity in the first quarter. As pent-up demand was released, both leisure and corporate, we continued to restore capacity across our network. In the fourth quarter we were operating at 58.3 per cent of our pre-pandemic level, in line with previous guidance, while seat load factor was 71.5 per cent compared to 84.3 per cent two years ago. In total, we flew 36.1 per cent of our 2019 capacity in 2021.

Our teams across the Group worked hard to take every opportunity to develop our business while capitalising on the surge in bookings when travel restrictions were lifted. Premium leisure performed strongly at both Iberia and British Airways, while we saw early signs of a recovery in business travel from the third quarter and continued into quarter four especially on North Atlantic routes.

At a Group level, we reported an operating loss of €2,970 million before exceptional items, an improvement on the €4,390 million loss recorded in 2020<sup>1</sup>. However, there were significant variances in the performance of our individual airlines, which benefited from the lifting of travel restrictions at different times in their home markets.

The best performers within the Group were Iberia and Vueling. The third quarter marked an inflection point with Iberia returning to profitability and Vueling reaching breakeven at the operating level. Both have seized opportunities to strengthen their positions in their respective markets<sup>1</sup>.

British Airways reduced its operating loss in 2021 and focused on restoring capacity throughout the year.

Aer Lingus was the most challenged due to the tougher travel restrictions in Ireland.

Our unique and diversified model has enabled us to make the most of the recovery. For example, IAG Loyalty continued to be profitable and cash generative as it has been throughout the pandemic. New partnerships with Caixabank in Spain and with bp in the UK were successfully launched in 2021. September was the best ever month for customer Avios collection through our non-airline partners while the re-launch of British Airways' co-branded American Express card contributed to there being over 15 per cent more customers with a card than before the pandemic.

During the year, as well as weathering this crisis, we have also tried to help wherever we could. We put all our experience, efforts and resources into flying to places that needed us most. We have carried over 20,000 tonnes of PPE and humanitarian aid and delivered millions of doses of

vaccines to almost every corner of the world on a regular basis.

The decisions that we took on costs and capital have enabled us to retain our financial strength. At the end of the year, our liquidity remained strong at €11,986 million, as a result of the reduced operating loss and improved forward bookings, together with actions we took to raise debt and facilities. In the third quarter, our operating cash flow significantly improved and was positive for the first time since the start of the pandemic with a further increase in quarter four.

As we continue rebuilding IAG's financial strength in the coming years, I would like to welcome our new CFO Nicholas Cadbury and look forward to his contribution to our Group. I would also like to thank Steve Gunning for all he has done over the years and during these very challenging times.

#### Transforming our business

We devoted significant efforts during the year to reshaping our business both for the short and long term. Our initial focus was to ensure operational readiness so that we are prepared to return to the skies at short notice once restrictions are eased.

We have also continued to innovate, developing user-friendly digital solutions to provide the tools and reassurance customers need to travel. These included digital travel passes which can verify testing or vaccines to speed up check-in and boarding, which proved very useful for our customers.

In parallel, we have been transforming our business to be fit for the long term. Aviation has faced the biggest crisis any of us have seen in our lifetime and we know that in the future our industry will look very different. Transformation is no longer an option, but an imperative.

At IAG we have been resetting our business to take it to its full potential. This has led to a number of transformation projects that will help us to be stronger after COVID.

And all the while we are taking every opportunity to develop the business. Notable among these was our decision to

**"We have been transforming our business to be fit for the long term."**

establish a new competitive shorthaul operation at Gatwick for British Airways, which will begin flights in March 2022. Aer Lingus launched its Manchester subsidiary with flights to New York, Orlando, and Barbados. Vueling expanded its operations at Paris-Orly, introducing dozens of new routes and becoming the second largest operator at the airport. And Iberia reinforced its leadership on routes to Latin America while expanding its US destinations with the addition of Dallas and Washington from April 2022. We have also developed a new approach to aircraft maintenance by bringing together the best of Iberia and Vueling to maximise synergies at El Prat Airport.

These are great examples of the strengths delivered by our unique model: collaboration between our airlines, shared capital strength and creation of synergies while retaining the agility to be innovative.

#### Sustainable value creation

Our ambition is to create sustainable value and to deliver for all our stakeholders. This starts with our employees. We want to foster a culture in which all our people feel valued. This means a focus not just on diversity but also inclusion. This allows us to be a place where everyone's talents are nurtured, where skills and capabilities are developed, and where the leaders of the future are created. The jobs we create are part of the economic contribution that we make to society and to local communities.

In all our operations, we seek to be an active partner for positive change, recognising, managing and reducing our impact on the planet. We are determined to meet our climate commitments.

<sup>1</sup> See Alternative performance measures section for statutory measures.

IAG was the first airline group worldwide to commit to achieving net zero emissions by 2050. We are setting ourselves demanding targets to drive the system-wide change that is needed to tackle climate change.

We have a clear roadmap to achieve these targets spanning a wide range of initiatives including investment in new fleet, operational efficiency, sustainable aviation fuels (SAF), new technologies and carbon removal. SAF is an important tool in decarbonising aviation and we have been leading its use by partnering with emerging sustainable fuel technology companies such as LanzaJet, Velocys and Phillips 66. British Airways operated the first commercial transatlantic flight powered by 35 per cent SAF while Iberia and Vueling were pioneers in Spain. We have pledged to invest \$400 million over the next 20 years to support the development of SAF.

However, to scale up the production of sustainable aviation fuels government support is critical in attracting the necessary investment to construct the plants needed to deliver enough supply for the whole industry. This requires all of us to work together. The whole ecosystem needs to work as one. Aircraft manufacturers, start-ups, suppliers and governments must come together to make a lasting difference to the world.

We're also investing in new technologies. So far, through our core innovation platform Hangar 51, we have supported 60 start-ups and invested in over 10 tech players. Many of these are helping to make aviation greener, including ZeroAvia which is working on the world's first hydrogen powered plane.

It is through these partnerships and collaborations with the wider aerospace industry including our peers, suppliers and policymakers, that we will transform our industry to meet the climate challenge.

## "We were the first airline group worldwide to commit to achieving net zero emissions by 2050."

We're pleased that our work tackling climate change continues to be recognised as industry-leading. For the second year running, IAG was the only European airline to receive a Leadership grade (A-) from the Carbon Disclosure Project (CDP). This puts us in the top 6 per cent among nearly 12,000 global companies assessed in 2021. We also received the joint-highest score of any airline from the Transition Pathway Initiative (TPI) which assesses companies' readiness to transition to a low carbon economy.

Despite the crisis, we remain resolute in our climate commitments and have taken steps to create a truly sustainable business. I would like to thank our people across the Group for their remarkable commitment during these difficult times. Through hard work, we have demonstrated our resilience and innovation, and we are on track to return to sustainable profitability in 2022 and beyond.

We are building a better and more competitive business for the long term and one that is well placed to seize the opportunities that the future holds.

**Luis Gallego**  
Group Chief Executive Officer



Use this QR code to watch our CEO discuss how IAG is transforming to achieve its full potential

# COP26: Momentum behind aviation's green transition



## COP26: Momentum behind aviation's green transition

2021 was a year of global climate action, including the landmark COP26 global climate conference hosted in November in the UK. It attracted over 35,000 delegates from nearly 200 countries with the aim of building momentum in the fight to limit global warming to 1.5°C above pre-industrial levels.

While aviation is regulated through the separate UN agency International Civil Aviation Organisation (ICAO), several developments at the conference have a direct impact on the airline industry. These include:

- further momentum around net zero emissions, with almost 90 per cent of

global emissions now covered by net zero commitments;

- clarification of the rules supporting global trading of offsets via carbon markets;
- the UK Government's launch of the International Aviation Climate Ambition Coalition to advocate for a net zero goal by ICAO in 2022; and
- continued work by the UK Government on its upcoming net zero aviation strategy in 2022.

IAG had an active and supportive presence at COP26 itself, participating in 12 events hosted by groups including industry associations, governments and manufacturers. The Group was also closely involved with the UK Government in its ongoing efforts to support net zero

aviation, with IAG staff chairing both the SAF Delivery group and COP26 subgroups of the Jet Zero Council in the year leading up to COP26.

British Airways partnered with Air bp to source the equivalent amount of SAF to replace 100 per cent of the fossil fuel used to operate all its flights between London and Glasgow and Edinburgh during COP26. In Spain, both Iberia and Vueling ran SAF demonstration flights during the two weeks of the conference.



Flying is magic – one of humankind's greatest achievements. It connects us with the rest of our world, brings loved ones closer together and opens our eyes to new experiences and cultures. It supports our economy, creates quality jobs and delivers aid when and where people need it most. But we recognise that flying comes at a cost to the environment and we are determined to take urgent action to tackle the impact it has on our planet. We're on a journey to create a better, more sustainable future.

# Working together to deliver our purpose

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

 For further information visit the IAG website



Management Committee member not pictured: Fernando Candela, Chief Transformation Officer and Chief Executive Officer of LEVEL



# A unique model that enables us to connect the world

We are an international airline group, with leading airlines in Spain, the UK and Ireland. We were formed to create a unique model in the industry based around consolidation, strategic flexibility and financial performance.

## Our purpose and values

Our role in the world is to connect people, businesses and countries. We do this and create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose.

## Our operating model

The Group has a unique and innovative business model within the airline industry, based on a light structure at the centre and agile, empowered and focused airline operating companies who benefit from the Group's scale and are accountable for their results.

IAG, as the parent company, actively engages and works collaboratively with its portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies adding incremental value to the Group. Its independence from the operating companies enables IAG to implement a long-term strategy for the Group that is aligned with our purpose and values, as well as set performance targets for the operating companies, track their progress and efficiently allocate capital within the Group. The neutrality of IAG's platform and independence from the brands supports the Group in taking part in industry consolidation processes.

The operating companies, with their unique identities and customised business models, are in turn able to execute their strategies and are fully accountable for their financial results. The Group's structure allows our brands to focus their efforts on their addressable markets, customer proposition, cultural identities, commercial strategy and their industrial relations, while its scale supports innovation and investment in new products and services to enhance our customer experience.

The airline portfolio sits on the Group's common integrated platform, which drives efficiency and simplicity across the operating companies whilst creating additional sources of revenues for IAG. The IAG platform allows the Group to be at the forefront of innovation and sustainability in the airline industry, supporting and scaling top emerging technologies in travel and aviation.

## Our operating model

### Principles

Operating companies' execution and accountability

Light structure at the centre for central functions and intra-Group coordination

Central execution only where it provides additional value

### Corporate parent

Sets long-term strategy to deliver the vision for the Group

Allocates capital and secures funding

Shares best practice

Defines portfolio, M&A and partnerships

Drives ESG agenda for the Group

Sets targets and oversees operating companies' performance

Manages investor relations

Defines, drives and monitors response to COVID-19

### Airline operating companies

Drive and execute commercial strategy

Ensure operational efficiency

Define product strategy for target customer segments

Deep understanding of customer and competitive environment

Standalone profit centres and independent credit identities

Individual brand, cultural identity and management teams

### Common integrated platform

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



For more information see the operating companies pages.

## The role of the Centre

The role of the Centre is to oversee intra-Group coordination, manage and execute central functions, and leverage its central platforms to create additional synergies for the Group. This is underpinned by a role to foster collaborative working between the operating companies and the sharing of best practices across the Group.



### The role of the Centre during the COVID-19 pandemic

The Group's corporate parent has had a crucial role during the COVID-19 pandemic, managing the crisis and coordinating the Group's response, taking action to secure the business in the short term, and driving the transformation of IAG and its operating companies to ensure we emerge competitive from the crisis.

Our common integrated platform also provided strong support to the Group during the crisis, helping control costs, driving synergies and bringing additional sources of non-flying revenue to the Group.

Some of the key actions taken at IAG and by its central platforms and central functions during the COVID-19 pandemic have been to:

- Secure funding for the Group to maintain a strong liquidity position, secure the business and exit the crisis in a competitive shape
- Lead and coordinate capital expenditure, working capital and

operating cost initiatives to minimise cash outflows

- Renegotiate deals and deferrals with key suppliers to support the business
- Increase our sources of revenue and raise additional cash through the launch of new and renewal of existing loyalty partnerships, including our agreement with American Express
- Engage in aircraft deferrals, lease payment renegotiations, and sale and leaseback transactions to preserve cash; and collaborate with the operating companies to temporarily park and retire older aircraft from their fleets
- Continuously track, monitor and forecast market re-openings and air travel demand to optimise capacity plans, including the deployment of additional cash-generative cargo capacity and cargo-only flying
- Provoke and oversee business transformations at the operating companies, coordinating plans and setting targets for the Group and its businesses to emerge more efficient from the crisis
- Engage with our existing oneworld, joint business and other airline partners to maintain, adapt and strengthen our relationships during the crisis and collaborate with the operating companies to further expand our partnership portfolio
- Engage closely with national governments, regulators and industry associations to support the development of safety and security guidance, as well as best practices that allowed travel to continue
- Drive IAG's sustainability strategy by collaborating with partners and regulators to take further steps in the industry's decarbonisation roadmap, playing a leading role in setting and progressing towards ambitious carbon targets and building industry momentum towards a net zero world.

# Purposefully delivering our strategy in a sustainable way

## Our strategic priorities

### Unrivalled customer proposition

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

### Value-accretive and sustainable growth

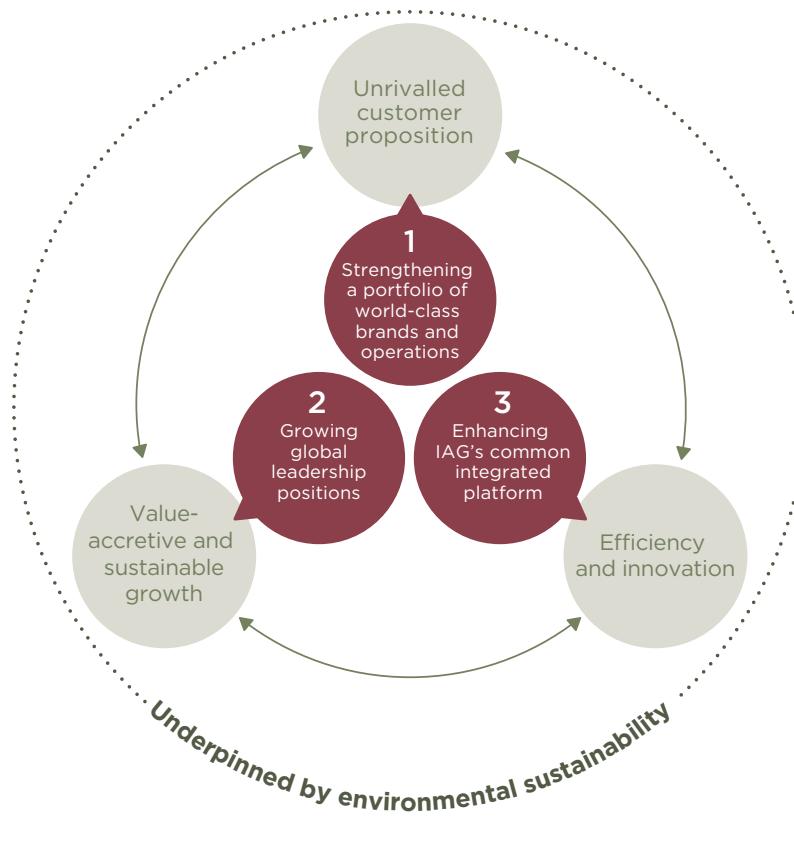
- Pursue value-accretive organic and inorganic growth to reinforce existing, or pursue new leadership positions in our priority markets
- Attract and develop the best people in the industry
- Set the industry standard for environmental and societal stewardship, whilst always prioritising the safety and security of our customers and employees

### 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
- Promote a culture of high operational efficiency throughout our portfolio of operating companies, and leverage platforms to drive synergies and reduce costs

### 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 for the Group and its supply chain by 2050, as well as to 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 KPIs: see the Key performance indicators section

Employees: see the Sustainability section

Customer NPS: see the Key performance indicators section

Environment: see the Sustainability section

# 1 Strengthening a portfolio of world-class brands and operations

## How we create value

### Unrivalled customer proposition

#### Our performance

##### Our activity in 2021

The COVID-19 pandemic has continued to impact our lives throughout 2021. During this time, the Group's portfolio of brands continued to support the wider community in tackling its impacts, with the operating companies supporting local communities with charitable work and flying critical equipment and essential medical supplies across the world. The different brands continued to implement measures aimed at enhancing safety on board and reducing the complexity of vaccination and testing documentation and check-in processes. British Airways, Iberia and Aer Lingus partnered with the VeriFLY app and, along with Vueling, have been trialling the IATA Travel Pass, allowing customers to easily upload and verify COVID-19 documentation before their flights and reducing journey times at the airport. Our operating companies have additionally made other digital solutions available to increase customer confidence and reduce journey times, such as 'Digital Heatmaps' showing the status of travel restrictions and requirements by destination.

The operating companies implemented agile approaches to aircraft deployment, optimising and adapting their networks to changes in travel restrictions, whilst ensuring we maintain our presence in our priority markets and keep offering an unrivalled proposition to our customers. British Airways continued to roll out its newest business cabin seat Club Suite in its Boeing 777 fleet, and committed in October to operate all future flights to JFK exclusively with aircraft featuring this new product, reflecting the strategic importance the North Atlantic market has for the airline. This year Iberia celebrated its 75<sup>th</sup> anniversary of flights to Latin America, where it operated a relatively high level of capacity in 2021, announcing an increased winter schedule to the region compared to last year and providing more choice to customers.

IAG Loyalty has significantly enhanced Avios redemptions to give our airlines' loyalty programme members more choice, for example doubling the number of Guaranteed Avios Reward Seats on British Airways and Iberia flights.

##### Our priorities for 2022

Whilst the Group will continue its leading work on safety, we will also ensure our businesses can deliver an unrivalled customer proposition that adapts to meet changing customer expectations in the context of air travel recovery after two years of border closures due to the COVID-19 pandemic. IAG will continue to ensure competitiveness in its chosen priority customer demand spaces, evolving the operating companies' products and services to best deliver against the needs of their customers. Strong emphasis will continue to be placed on digitalisation, including further customer-focused improvements to the digital experience.

**Strategic priority****2 Growing global leadership positions****How we create value****Value-accretive and sustainable growth****Our performance****Our activity in 2021**

In 2021, the Group's focus on securing its financial position continued, with the aim to exit the crisis well-placed to maintain the existing leadership positions it holds in its home cities of Barcelona, Dublin, London, and Madrid, as well as take advantage of value-accretive organic and inorganic growth opportunities that may arise.

Whilst the pandemic had a severe impact on capacity levels across the world, our airlines have been able to capture new strategic growth opportunities. In October, Aer Lingus launched a new base at Manchester Airport to offer transatlantic services from the UK, a strategic base for the Irish airline that will have a largely variable cost base. Vueling was granted 18 daily slot pairs at Paris-Orly airport that will be transferred from Air France, which will help strengthen Vueling's pan-European network in one of the continent's largest markets. British Airways announced in December the launch of its new subsidiary, BA Euroflyer, which will operate shorthaul services at Gatwick Airport under the British Airways brand. The company will restart shorthaul services at Gatwick in summer 2022 after a break of almost two years and will provide customers with access to a premium service at competitive prices.

IAG's airlines have continued to strengthen their relationships with partners. For example, Alaska Airlines joined the **oneworld** alliance in March 2021, and launched a codeshare agreement with Iberia and LEVEL later in the year. British Airways also extended the number of codeshare routes with the Seattle-based airline, whilst Aer Lingus continued its frequent flyer collaboration. IAG has also further developed its partnerships with Atlantic Joint Business members American Airlines and Finnair, particularly with the continued integration of Aer Lingus into the Joint Business. The Group continued to expand its relationship with Qatar Airways, which extended its codeshare agreement with Iberia early in the year, and jointly with British Airways announced plans to expand their Joint Business to offer customers access to a greater choice of destinations and route options. Vueling took important action in the partnership space by leveraging its digital versatility and launching a global interlining platform, 'Vueling Global', to increase connections between the airline and its partners and expand its customer offering. In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In December 2021, IAG and Globalia announced the termination of the agreement under which Iberia had agreed to acquire Air Europa, but noted that the parties intended to evaluate alternative structures. Any future deal would be subject to regulatory approval.

**Our priorities for 2022**

In 2022, the Group will aim to maintain and bolster its leadership positions in its home cities and priority markets. As and when the global aviation industry recovers from the impact of the COVID-19 pandemic, IAG will progress investment in value-accretive organic and inorganic growth opportunities. IAG will continue to progress the integration of Aer Lingus into the Atlantic Joint Business. In addition, the Group will continue to leverage its other joint businesses, alliances and partnerships and, where appropriate, form new joint businesses or participate in the industry's consolidation process by entering into value-accretive merger and acquisition (M&A) deals.

### 3 Enhancing IAG's common integrated platform

#### How we create value

#### Efficiency and innovation

##### Our performance

##### Our activity in 2021

The COVID-19 pandemic has tested the airline industry's resilience like no other crisis before in the history of commercial aviation. Despite the pandemic causing capacity levels to remain depressed throughout 2021, particularly during the first half of the year, IAG has proved the Group has a resilient business model, being able to reduce its cost base and adapt to the circumstances, leveraging its common integrated platform to generate additional revenue.

IAG's airlines embarked on transforming their businesses to emerge from the crisis in a more efficient shape as the recovery from COVID-19 continues, reducing their costs and capturing new opportunities where available. All the airlines took action to restructure their cost bases, structurally changing and renegotiating handling, maintenance and other supplier arrangements in coordination with the IAG GBS procurement team and maximising the use of furlough and wage support schemes where possible. As an example, Vueling has transitioned to a new handling and maintenance model, including launching a joint venture for line maintenance with provider Nayak.

IAG Cargo has experienced ongoing demand for its services in 2021, contributing additional revenue to the Group with an increased schedule compared to last year, co-sponsoring flights with the passenger airline businesses and operating a high level of cargo-only flights. The cargo segment has also arranged large charter programmes with strategic customers, considerably supporting the Group's cash generation.

IAG Loyalty has also been key in supporting IAG's revenues during the crisis and has been profitable in 2021 due to a high level of spend and Avios collection through our non-airline partners. The loyalty segment expanded its partnership portfolio by successfully launching new agreements with Barclays Premier, Sainsbury's/Nectar, Santander and bp, as well as a new co-branded credit card with Vueling and CaixaBank in Spain.

IAG Tech continued its focus on enhancing new technology capabilities across the Group, including improvement to the operating companies' loyalty platforms, changes to the platforms and systems to allow for frictionless travel (e.g. health passports), and enhancement to disruption and self-service management solutions for customers. Furthermore, IAG Tech delivered initiatives to reduce operating costs and improve efficiency through process automation.

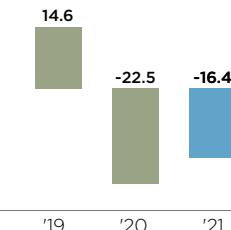
##### Our priorities for 2022

In 2022, IAG will continue to focus on delivering the transformation plans for its different business segments, which will ensure they remain competitive as the recovery from COVID-19 continues. IAG will also keep investing in enhancing its common integrated 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 transformations, which will be critical as the Group recovers from the COVID-19 pandemic.

# Tracking the Group's performance

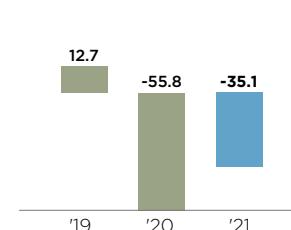
## RoIC (%)<sup>13</sup>

(A) (R)

Targeting sustainable  
15%

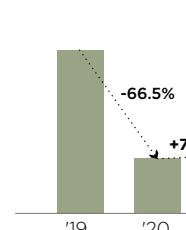
## Operating margin (%)<sup>13</sup>

(A)

Targeting  
12-15%

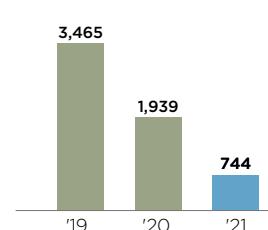
## Capacity change (% ASKs)

(A)



## Gross CAPEX (€m)<sup>2</sup>

(A)



### Definition and purpose

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

### Performance

The Group's RoIC improved 6.1 points versus last year to -16.4%. The increase reflects the improvement in EBITDA of €1.3 billion on similar levels of invested capital. The average age of fleet of 10.6 years increased from 9.8 years in 2020, as there were only small changes in the fleet.

### Definition and purpose

Operating margin is the 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 improved 20.7 points to -35.1 per cent. Total revenue before exceptional items was up 7.4 per cent as restrictions eased in the second half of the year and passenger volumes increased. Cargo revenue was at a record high of €1,673 million due to the operation of 3,788 cargo-only and charter flights and strong yields. Costs benefitted from the initiatives implemented in 2020 and 2021 to reduce spend and increase cost variability.

### 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.

### Performance

IAG's capacity was up 7.7 per cent versus 2020 and down 63.9 per cent versus 2019 as operations continued to be impacted by global travel restrictions. The easing of restrictions over the year meant last quarter capacity reached 58.3 per cent of 2019 operations compared with only 19.6 per cent in the first quarter.

The operating companies have the flexibility within fleet and operational plans to be able to adapt capacity and can react quickly to changes in demand and restrictions as necessary.

### 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.

### Performance

Gross capex for 2021 totalled €0.7 billion, which is significantly lower than the planned spend announced in 2019 of €4.3 billion, reflecting the agreements with Boeing and Airbus to defer fleet deliveries and pre-delivery payments. During the year 11 aircraft were delivered, of which six were direct leases and therefore not included in capital expenditure. In 2021, spend on property, IT and other reflected the investment needed to maintain core IT infrastructure and cyber projects.

**We use key performance indicators (KPIs) to assess and to monitor the Group's performance. We evaluate opportunities based on the strategic objectives of the Group and use the KPIs to identify and generate sustainable value for our shareholders. Our financial metrics are before exceptional items. These adjustments improve the understanding of the Group's performance and the comparability between periods.**

### Key

- (A) Alternative performance measure
- (R) Measure linked to remuneration of Management Committee



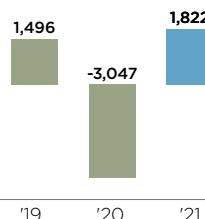
Link to our strategic objectives

- 1 For further detail refer to the Alternative performance measures section of the financial statements. RoIC has not been included for the main airline operating companies, as with negative EBITDA the measure is less meaningful than in prior years.
- 2 Gross CAPEX is defined as Acquisition of property, plant and equipment and intangible assets.
- 3 The 2019 and 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.
- 4 See Section e of the Alternative performance measures.

### Levered free cash flow (<sup>€m</sup><sup>1</sup>)

(A)

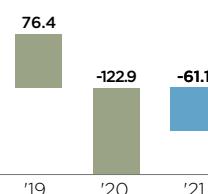
(2)



### Adjusted EPS (€ cents)<sup>1,3</sup>

(A) (R)

(3)

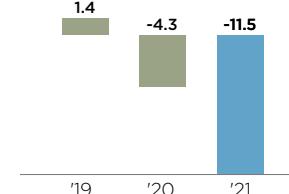


### Net debt to EBITDA<sup>1,3</sup>

(A)

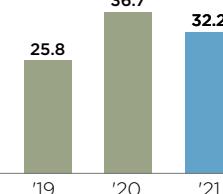
(3)

Targeting ceiling  
1.8X



### Net Promoter Score (NPS)

(1)



#### Definition and purpose

Levered free cash flow is the cash generated in the year including movements in borrowings and 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 2021 was €1,822 million, €4.9 billion higher than 2020, due mainly to an increase in net non-aircraft related borrowing of €4.1 billion and the operating loss before exceptional items being €1.4 billion lower than in 2020.

#### 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.

#### Performance

Adjusted loss per share improved significantly from €122.9 cents to €61.2 cents as the result after tax before exceptional items improved by €1.0 billion. The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes is antidilutive for the year due to the reported loss after tax for the period, and therefore has not been included in the diluted earnings per share calculation.

#### 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<sup>4</sup>.

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

#### Performance

The Group's leverage remained negative in 2021 at 11.5 times. Net debt rose by €1.9 billion, driven primarily by negative EBITDA of €1.0 billion and capital expenditure of €0.7 billion, together with the revaluation of US dollar debt. In the year, the Group drew debt facilities agreed in 2020, namely a €2.0 billion Export Development Guarantee (EDG) term loan for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028.

#### Definition and purpose

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

#### Performance

In 2021 IAG's NPS decreased 4.5 points versus 2020. However, the score remained significantly above 2019 levels. While this result represents high levels of customer satisfaction across all IAG airlines, this score must be viewed in the context of the pandemic.

The appearance of new COVID strains and the further restrictive measures imposed by some governments including lockdowns, quarantines or testing requirements, have impacted the flying experience negatively versus the positive experience for those few who did fly in 2020. Increased volatility in the flying schedule throughout 2021 heightened stress for customers, as did longer queues at the airports due to ever-changing documentation requirements, and the continued suspension of certain products such as the delivery of full premium services.

# Connecting with our stakeholders

## Our key stakeholders

These last two years have been exceptional for our Group and for our industry, as it has been for our society. The information about our key stakeholders reflects those circumstances. The identification of who our key stakeholders are, and to some extent, the ways of relating to them or the issues and shared interests discussed with them, are inevitably conditioned by the challenges of the pandemic.

We are not identifying our communities or the environment as a distinct stakeholder group; our long-term commitment to sustainability and corporate social responsibility is embedded in all we do at Group and operating company level, from our interactions with our customers through to employees and shareholders. Our aim is to be a force for good in the communities in which we operate and, in doing so, create value for all our stakeholders.

An overview of the relevance for IAG's business model and strategy of these key stakeholders, and the key topics of interest during the reporting period are summarised in the following table. In addition, on the following pages, we include a more detailed analysis of each stakeholder and its relationship with IAG.



Customers

### Fit in our business model and strategy

- Our customers are central to our success. They are at the core of our purpose, our business model and our strategy. Customers are the reason why we exist.
- They are fundamental to achieving our strategic priority of strengthening our portfolio of world class brands and offering unrivalled customer propositions.
- IAG recognises the importance of our most loyal passengers through our frequent flyer programmes. This ultimately creates long-term value for both IAG and our customers.

### Key topics/interests

- COVID-19 related safety measures
- COVID-19 travel restrictions and requirements
- Flexibility measures considering COVID-19 related situations
- Customer service
- Digitalisation
- Sustainability



Employees

### Fit in our business model and strategy

- Across the Group, employees play a vital role in delivering the service experience that customers expect, whether on the ground or in the air.
- Our employees bring a diverse range of talent and perspectives that contribute to the values and culture of our companies.
- Creating an environment where employees feel motivated, safe and able to thrive and deliver for customers is central to the continued success of the Group.
- We recognise the critical role that employees will play in the recovery and transformation of IAG and across the Group we are focusing on improving employee engagement.

### Key topics/interests

- Safety, wellbeing and mental health, including specific COVID-19 measures
- Diversity and inclusion
- Training and career development
- Fair reward
- Corporate purpose and impact on the world
- Sustainability



## Shareholders and other financial stakeholders

### Fit in our business model and strategy

- They enable IAG to both invest in and grow the Group's businesses.
- As a capital-intensive business, IAG requires a substantial amount of capital expenditure to replace existing assets and to enable growth. The Group is dependent on external funding to meet these capital expenditure commitments, to be able to replace or grow our fleet at the rate required to deliver our strategy and business plan.
- Provision of efficient external capital allows us to fund our operations and invest in our asset base in a cost-effective manner, supporting the delivery of our business plan and the Group's strategy.
- Their views are critical in supporting the Group to formulate its strategy, which drives operational and financial performance in order to generate and optimise returns in a sustainable way.
- The availability of external capital has shaped the Group's decisions through the pandemic as liquidity has been a key consideration. The ability to access external capital on competitive terms has influenced recovery plans and the financial strength and positioning of the Group and its operating companies.

### Key topics/interests

- Government restrictions on travel demand
- Prospects of demand recovery and plans to restore capacity
- Cost restructuring
- Cash flows, funding sources and liquidity
- Short-term outlook for capacity and operating profitability
- Environmental, social and governance performance, including climate change initiatives
- Known capital spending and debt repayment commitments



## Suppliers

### Fit in our business model and strategy

- Our suppliers are fundamental to ensuring our companies meet the high standards that customers and other key stakeholders expect. Any deviation from our expected standards could impact on the Group's operational and financial performance as well as disrupting our customers, leading to significant reputational damage for the operating company and the Group.
- It remains the case that the airlines' operations are dependent on a number of suppliers to ensure reliable performance and efficiency of the operation.
- Supply chain integrity remains critical to our business as we rely on our suppliers to help meet our customers' needs, ensure the reliability of our services and support IAG's sustainability agenda.
- The Group has several internal and external measures in place to ensure supply chain resilience. We actively monitor potential supplier risks and/or changes to relevant markets to ensure a continued robust supply chain.

### Key topics/interests

- COVID-19 impact
- Fair engagement with suppliers
- Compliance with regulations
- Responsible and robust supply chain
- Inflation challenges
- Global supply chain issues
- Sustainability, with a focus on delivering upon the Group's Scope 3 commitments



## Governments and regulators

### Fit in our business model and strategy

- Very many aspects of IAG's business are affected by government policy and decision making, since the aviation industry is a strategic industry in the eyes of policy makers. Public policies, regulations and political decisions condition IAG's strategy, performance and even our customers' experience.
- Essential requirements for safety and security of operations are the highest priority of IAG's operating companies but are also subject to regulatory oversight by national authorities, requiring on going compliance.
- International air services are still governed by treaties agreed between states. These include provisions to determine market access and often regulate frequency and capacity, which is essential to our business.
- These and other aviation policy issues mean that IAG must engage with policy makers, elected representatives, government bodies and specialist aviation, economic and competition regulators since the rules they establish and decisions they take directly affect our operations and commercial practices.

### Key topics/interests

- Safety and security, including COVID-19 related measures
- Travel and quarantine restrictions
- Consumer rights
- Sustainability, including climate change
- Diversity and inclusion
- International relations including air service agreements
- Infrastructure regulation including airspace modernisation and airport charges



## Customers

As stated before, customers are at the heart of our purpose, the reason why we exist. Our customers travel with or connect through our portfolio of IAG brands, which are based in the UK, Spain and Ireland, our home countries and where an important number of our passengers start their trips.

The different passenger segments include leisure, VFF (visiting friends and family) and business passengers (travelling on their own) and corporate accounts. Additionally, customers from our Loyalty programmes are fundamental to us and key to our success. Last but not least, some of the world's best-known brands trust us to transport their valued cargo, whatever form this might take.

Another key stakeholder that is connected to our customers is our employees, either if they directly interact with our customers or those indirectly involved, they are key to support and provide our customers the best service, as well as being responsible for resolving any customer complaints or claims through our customer relations teams. In addition to this, those employees with a day-to-day interaction with our customers represent our Group and their respective companies' culture and identity in front of them. Having an engaged workforce is key to the Group from a customer experience point of view. Suppliers are another stakeholder group that is relevant to customers, as a timely and safe procurement of aircraft and introduction of different products is key to our customer proposition.

### How we engage

- Every day, we send the "Voice of Customer" survey to our passengers, designed to collect our customers feedback on their experience. It helps us understand key pain points throughout their journeys and to inform our product and service strategy decisions.
- We conduct brand surveys to help us understand the needs and expectations of different customer types and meet those specific requirements through our diverse portfolio of brands.
- We provide different channels for our customers to raise claims and complaints, and closely monitor these to accommodate our customers and take action where necessary.

- We offer Contact Centre services and have developed other digital channels such as Chat bots in our websites or Whatsapp 24/7 to ensure that customers can reach out to us whenever they need to, and we constantly enhance them so that their experience is best in class. However, COVID-19 has hugely increased pressure in our call centres, especially regarding date changes and voucher requests. This has made it very challenging for us to deliver the "best in class" experience that we aimed for, and while the experience has improved throughout the year, it will continue to be a key focus for 2022.
- We keep our customers informed of the latest changes in our service, product enhancements or any other relevant information through various channels, including our websites, e-mail and our very dynamic social media accounts.
- Our customers receive guidance and a high standard of customer care throughout their journey from our distinguished on-board and airport colleagues.

### Impact of the COVID-19 pandemic

Due to the COVID-19 pandemic, the relationship between our operating companies and customers has become stronger than ever. Because of the increased uncertainty around the ability to fly to some destinations, as well as the ever-changing restrictions and requirements to fly, our customers rely more than ever on our guidance. As a result of this, one of our main priorities throughout the past year has been on reassuring customers throughout their whole journey. The airlines have launched different initiatives for doing that, such as increasing the level of communication to customers, from communications prior to flying (website instructions, emails to customers) or even announcements made by pilots in the cabin.

In addition to this, and as we experienced in 2020, the COVID-19 environment and travel restrictions have distorted our performance metrics, in particular NPS. As was the case in 2020, in 2021 IAG's NPS remained significantly above 2019 levels. While this result represents high levels of customer satisfaction across all IAG airlines, this score must be viewed in the context of the pandemic, as customer expectations and the flying experience have remained altered throughout 2021.



During 2021, the flying experience has continued to be impacted by restrictive measures imposed by some governments including lockdowns, quarantines or testing requirements. These circumstances entailed volatility in the flying schedule, changes in documentation requirements, with resulting increased stress for customers, and longer queues at the airports, and finally, the continued suspension of certain products such as the delivery of full premium services (full meal service, hot towel). We had to respond and adapt our services to this situation, introducing measures to reassure our customers and improve our services to the extent possible. Some examples are implementation of documentation verification apps, specific check-in and arrivals procedures, or initiatives aimed at further digitalising the journey. The customer response to these measures in our surveys, as reflected in the NPS performance, has been very positive.

### For further detail see Our strategic priorities section.

IAG Cargo continued to align its network to customer demand, supporting customers with cargo-led flying, increasing frequencies on important trade routes and implementing an active charter programme. IAG Cargo also moved large volumes of what are typically seen as non-airfreight commodities as shippers favoured shorter delivery times and volumes shifted from sea to air against a background of supply chain disruption, port congestion and low inventories.

## Results from the engagement with our customers

In response to the feedback received, and based on the tracking of key metrics performance, our operating companies have launched different initiatives to address our customer needs. Some examples of it are:

- Different initiatives aimed at further digitalising the way customers make and manage their trips. For example, in relation to document verification, which was especially challenging for customers throughout the year due to ever-changing documentation requirements. All our airlines either developed their own solutions to verify documentation or signed up to existing ones, including Verify and IATA travel pass.
- In addition to digitising the way customers can manage their trips, we are also digitising our business. Leveraging digital solutions is a key area of advancement and continued focus for all our airlines. Examples include transitioning our CRM to Salesforce, implementing a lounge food ordering system, launching the first European fully biometric airport journey, introducing new providers of our call centres, and developing inflight pre-order solutions.
- In 2021, we launched new training methods coupled with a long-term training plan for all customer-facing staff and their management teams.
- Some of our airline brands developed new culinary proposition across all cabins as well as introduced new pre-order solutions for some cabins.
- Some airlines also looked at improving their Lounges experience through the creation of new and exciting partnerships.
- We also finished the roll out of the new initiatives that were put on hold due to COVID-19.

## Employees

IAG employs around 55 thousand people across our portfolio of airlines and platform businesses. The majority of our staff directly support customers with cabin crews and pilots making up 46 per cent of our workforce, and airport and maintenance teams representing a further 35 per cent. IAG staff are based throughout the world, with the highest concentration in our major hubs in the UK, Ireland and Spain.

### How we engage

- Each company in the Group has its own communication channels adapted to its culture and profile. In general terms, communication with employees is made using formal and informal channels, which include performance reviews, specific consultations, employee forums, internal social networks, local cascade meetings, newsletters, workshops, engagement surveys and confidential and independent Speak Up channels. These channels have been critical to ensure we understand what matters to colleagues and to ensure they understand and can access the support available to them. We have continued to tailor our approach throughout the year to reflect the travel and working restrictions in place.
- Each operating company undertakes engagement surveys, at least annually, across its full workforce, and this year, in addition, IAG undertook an organisational health survey with managers across the Group to benchmark our working practices against world class companies. These surveys have helped management teams to refresh their people strategies and to adapt processes and policies to best support colleagues.

- IAG operates a number of employee-led network groups which provide peer support and help us understand the experiences and challenges faced by colleagues, enabling the Group to take action to make our business more inclusive.
- Collective bargaining arrangements are in place for 89 per cent of our workforce. In addition, IAG has a European Works Council (EWC) which brings together representatives from the different European Economic Area (EEA) countries in which the Group operates. EWC representatives are informed about and, where appropriate, consulted on transnational matters which may impact employees in two or more EEA countries. Reflecting the changing geopolitical landscape and the specific role of the EWC to manage transnational issues for EEA Member States, the UK will cease to have representatives within the EWC, and we will continue to engage with UK employee representative groups on matters relevant to them through existing national channels. The EWC election and appointment process for the new Select Committee and Chair will be completed in early 2022.

### **Impact of the COVID-19 pandemic**

The commitment, resilience, flexibility and support of our employees has been fundamental to our ability to navigate through the unprecedented challenges of the last two years. Throughout the pandemic, we have had to react to changing regulations and travel restrictions and implement changes to policies and ways of working at breakneck speed, and we have relied on our colleagues to keep our customers and each other safe and to continue to deliver the best customer experience possible.

Our colleagues have experienced the personal impact of the pandemic in terms of their roles, through both voluntary and agreed changes to terms and conditions and through participation in furlough and job protection schemes. Further, colleagues have seen significant change in the composition and structure of our workforce, as we have taken the necessary steps to protect cash and remain competitive. At all times we have strived to be open and transparent about these changes, consult with colleagues and employee representatives, and to support colleagues with a focus on physical and mental wellbeing.

At IAG, we hold ambition, teamwork, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose and colleagues have consistently demonstrated these values in responding to the various challenges that they have been faced with across the year.

We recognise the critical role that colleagues will play in the recovery and transformation of IAG and are constantly looking at how we support them and to create a diverse and inclusive culture. In 2021, we refreshed our diversity and inclusion strategy, introducing a new integrated framework to assess the sufficiency of our plans and to support operating companies with setting priorities. We are proud of the progress we have made to make IAG more diverse and inclusive but know we have further to go to achieve our ambition. We also recognise the impact of the pandemic in terms of workforce composition and gender pay, reflecting both the temporary and structural changes across the Group.

As we emerge from the pandemic, we are seeing resourcing demands increase and recruitment recommencing in a number of areas. IAG's unique operating model provides fantastic opportunities for career development and progression and we are building on our strengths in this regard with a more rigorous and structured approach to talent management and succession planning and to ensure we retain key talent.



### **Results from the engagement with our employees**

We use a range of channels to understand what matters to our colleagues and to help us improve our people policies. Each operating company runs regular engagement surveys and last year we introduced an organisational health survey to better understand colleagues' experiences and perceptions.

Based on feedback from colleagues we have taken action to review and update our parental leave policies, making them more progressive, inclusive and supportive. We are also working hard to ensure that career opportunities in each of our operating units are more visible across the Group.

We have invested in the right channels for communication and information to improve advocacy and engagement and ensure information is available on a range of employee related issues. Whilst the strength of our brands and career opportunities at IAG is compelling in the recruitment market, we have faced challenges in attracting and retaining talent for some critical roles given the uncertainty and perceived risks in aviation relative to other sectors less impacted by the pandemic.



## Shareholders and other financial stakeholders

As an IBEX 35 and FTSE 100 company, IAG prides itself on being a multicultural group that has inherited the legacy of long-standing listed companies in Ireland, Spain and the United Kingdom. As a company listed on two of the largest stock markets in the world, IAG has investors from all around the world as well as from its major markets.

The Group has a wide range of shareholders. The largest shareholder is Qatar Airways with a 25.1 per cent holding acquired between 2015 and 2020. Other shareholders comprise individual retail investors, institutional investors and the Spanish state holding company, Sociedad Estatal de Participaciones Industriales (SEPI), which has a 2.5 per cent shareholding. Apart from Qatar Airways, most shareholders are located in Europe, mainly in Spain and the United Kingdom, and in the United States.

To fund investment and capital expenditure commitments, in addition to equity, the Group requires access to debt capital markets. This has been particularly relevant during the pandemic and has resulted in the Group currently having significant financial leverage. We have raised debt liabilities in a range of markets using different structures including, but not limited to, senior unsecured bonds, convertible bonds, secured bonds, private placements, finance leases, mortgage loans and operating lease arrangements. The providers of debt capital span commercial and investment banks, institutional investors and aircraft lessors. The providers of capital are geographically diverse as the Group accesses markets globally.

### How we engage

- We actively and frequently communicate with shareholders and other financial stakeholders through an open and transparent dialogue so they can understand performance and also raise any possible concerns.
- IAG usually holds at least six formal meetings every year (Annual General Meeting, Capital Markets Day and four quarterly results briefings), where shareholders, investors and equity and credit analysts have the opportunity to interact with management.

- Management and Investor Relations attend numerous investor conferences throughout the year. Investor Relations organises roadshows around the world to meet investors with diverse perspectives and from different locations. Some of these include both management and Board members and have a business focus as well as a corporate governance and ESG focus.
- The Investor Relations team maintains an ongoing dialogue with equity, credit and ESG research analysts to understand investors' and shareholders' views of the Group. The Group Treasury team has regular interactions with credit analysts, global banks, debt investors and credit rating agencies. Finally, the Group Fleet Investments team and the Fleet teams of each operating company have regular interactions with aircraft operating lessors, who are either specialist aircraft leasing companies or the leasing arms of global banks. New commitments with these lessors are managed centrally through the Group Fleet Investments team.

### Impact of the COVID-19 pandemic

Throughout the pandemic, the Group has maintained as frequent contact with institutional shareholders and investors as before the pandemic, the main difference being the use of virtual meetings and events replacing in-person meetings and events. The AGM was held virtually for the second consecutive year. The Group's management hosted four quarterly results calls for analysts and investors during the year. For a second year, however, the Group did not host a Capital Markets Day, given lack of uncertainty of the recovery from the pandemic and the considerable management time required to deal with the operational and financial impacts of COVID-19. Unfortunately, IAG was unable to distribute a dividend to shareholders because of the negative impact of the pandemic and government travel restrictions on the Group's financial performance.

The pandemic has resulted in an unprecedented decline in operating performance and resulted in material cash outflows. To maintain a suitable level of liquidity the Group has been forced to

raise external capital and has as a consequence been reliant on providers of debt financing to support the liquidity position. The Group's relationship banks have provided capital in a number of formats to support liquidity.

The deterioration in our credit rating has seen the Company move out of investment grade into high yield and thus a different segment of the capital market. Expected terms and conditions in the high-yield market tend to be more punitive than investment grade owing to the weaker credit quality of the issuer, however we have been able to execute several capital markets transactions through the year on terms aligned with our investment grade issuances, for example the senior unsecured and convertible bonds issued in 2021.

During this difficult period, we have raised substantial funds from the debt capital markets. In March 2021, the Group raised €1.2 billion in a two-tranche senior unsecured bond issuance. In May 2021, IAG raised a further €825 million through a single tranche Convertible Bond issuance. Both transactions provided additional financial flexibility for the Group as the pandemic evolved. As far as our airlines are concerned, British Airways has been able to access the capital markets to support its financial position throughout the year. The company raised £2.0 billion through a term loan with commercial bank partners supported by an 80 per cent guarantee from the UK Export Finance Agency. A further £1.0 billion was raised in October in the form of an undrawn Credit Facility, again provided by a syndicate of relationship banks with a 80 per cent UK Export Finance Agency guarantee. In March 2021, British Airways, Iberia and Aer Lingus secured \$1,755 million of committed funding in the form of a Secured Revolving Credit Facility provided by the Group's relationship banks. The facility enhances the companies' liquidity positions and provides committed funding that can be drawn and repaid as and when required.

 For further detail see the Financial review section.



## Results from the engagement with shareholders and other financial stakeholders

In conjunction with the Investor Relations team, IAG's Chairman, Senior Independent Director, Chief Executive Officer and Chief Financial Officer have engaged on many occasions with shareholders and equity investors. The Chief Executive Officer and Chief Financial Officer hosted two virtual roadshows following the full year and half year results in March and September, respectively, and discussed with investors a range of strategic, financial, operational and ESG topics, in particular the prospects and plans for a recovery from COVID-19. In addition, the Chief Executive Officer and Chief Financial Officer held virtual meetings with a number of our key institutional investors and the Investor Relations team attended numerous investor meetings and broker conferences for investors throughout the year.

The Chairman hosted a virtual roadshow with key shareholders in April to discuss a range of ESG matters, in particular on climate change, diversity and Board governance issues. In addition, the Chairman and Senior Independent Director, who is also Chair of the Remuneration Committee, consulted with key shareholders on remuneration policy in April.

### Environmental, Social, and Governance

ESG continues to be an area of focus for engagement with investors. The Investor Relations team has an ongoing dialogue with ESG research analysts and has hosted several meetings for the Group Head of Sustainability with key shareholders and institutional investors.

Investor Relations concluded in February 2021 an investor survey sent to the 100 largest institutional shareholders. The survey, launched in December 2020, had the objective of better understanding investors' approaches towards ESG issues so that IAG can more closely align its ESG strategy, plans, reporting frameworks and disclosures with the interests and priorities of investors. The findings of this survey and its conclusions and recommendations were shared with IAG's sustainability team and the Group's Sustainability Steering Group and presented to the Safety, Environment and Corporate Responsibility Committee of the Board. The findings of the ESG survey have been incorporated in IAG's disclosure frameworks, approaches to ESG rating agencies and ESG communications, including a planned ESG focused media and investor event for 2022.

## Suppliers

IAG GBS provides a centralised procurement function for the Group and manages supplier engagement for 13,272 suppliers. In 2021, IAG GBS Group Procurement helped deliver over 1,500 initiatives to further optimise IAG's supply chain.

Aircraft and engine manufacturers are one of our key suppliers groups. Our aircraft suppliers include Airbus, Boeing and Embraer, and we have engines provided by CFM, GE, Pratt & Whitney and Rolls Royce, who also provide IAG with long term engine maintenance services, as well as support with spare parts and repairs used in our own maintenance facilities.

The Group is dependent on the performance of key suppliers that provide services to our customers and the business, including aircraft, engine, maintenance, airport operations and catering suppliers. Key suppliers are defined based on their importance to IAG, both in terms of economic impact and the complexity or risk of supply markets and include any service provider or third party that could significantly impact business operations if there is any disruption to the services or product provided.

### How we engage

- The Group engages with suppliers using customary procurement processes and through joint projects, including the Hangar 51 accelerator programme, independent review partners, industry conferences and supplier workshops.
- The relationship with aircraft manufacturers and lessors is managed centrally by Group Fleet Investments who work closely with the fleet teams in the Group companies and with the MRO (Maintenance, Repair and Overhaul) Procurement Team in IAG GBS.
- In relation to airframe manufacturers, IAG has well established relationships with both Airbus and Boeing, whose aircraft make up most of the Group fleet, as well as with Embraer whose regional aircraft are operated by British Airways CityFlyer.
- All other suppliers are managed centrally by IAG GBS Group Procurement in conjunction with relevant business stakeholders.

## **Impact of the COVID-19 pandemic**

Faced with the challenges of the COVID-19 pandemic, we have strengthened many supplier relationships working side by side with the businesses we operate with to ensure mutual success. Equally, we have worked hard to identify those suppliers who may have been heavily impacted by the crisis and assisted in developing quick and effective solutions to ensure support was given where it was needed. This has included the timely management of payments.

In 2021, we have leveraged synergies within the IAG supply chain, benchmarking requirements and simplifying the supplier base wherever appropriate. There has been extensive collaboration with our suppliers to switch from fixed to variable costs enabling flexibility in the difficult business environment.

The COVID-19 pandemic required IAG GBS Group Procurement to change focus. The level and frequency of engagement with key suppliers increased and plans were implemented to mitigate the impact of the crisis until we had further clarity about the extent of the impact on the Group. We updated our procurement supplier engagement plan and worked in close partnership with our suppliers to defer spend and reduce costs. Wider measures were also implemented to temporarily waive minimum volume commitments across our contracts and we stopped or postponed capital investment projects that were no longer needed during the pandemic. The Group's goal is to ensure its supply chain is secure; for any risks identified at key suppliers, timely analysis is performed to understand the situation and define a potential business continuity plan.

Our relationships with our aircraft manufacturers were also key to us during the pandemic. It has been necessary to reschedule many of our aircraft deliveries and the Group worked closely with our aircraft manufacturers to mutually agree terms for this. The Group Fleet and Group Procurement teams also worked with aircraft lessors and engine suppliers to align our spend more closely with the use of the fleet during the period where flying was heavily reduced. As we now plan for the recovery from the pandemic, it is equally important that we re-align our requirements working closely with our aircraft suppliers and lessors to be prepared for the recovery and to retain sufficient flexibility in an uncertain world.



## **Results from the engagement with our suppliers**

In 2021, IAG became the first airline group worldwide to extend its net zero commitment to its supply chain. The Group will continue to liaise with, support and monitor suppliers to ensure net zero emissions by 2050 for products and services provided to the business.

IAG GBS has partnered with EcoVadis, a market-leading provider of business sustainability ratings, to support the understanding and delivery of sustainability targets in our supply chain, including environment, labour and human rights, and ethics.

In 2021, IAG GBS continued to engage in initiatives that have led to a further reduction of onboard single-use plastics, including a switch from plastic cutlery sets to a sustainable wood cutlery pack. This switch delivered a plastic reduction of 185 tonnes per year across the Group. All plastic packaging was also removed from the BA Club World soft proposition, such as blanket and pillow wrapping.

### **IAG GBS Supplier Code of Conduct**

The IAG GBS Supplier Code of Conduct clarifies the standards of behaviour expected from any supplier working with any part of our business and emphasises the importance of sustainability and fair treatment of employees. IAG and its suppliers must ensure that workers are treated fairly

and not unlawfully discriminated against. We expect our suppliers to promote and provide work environments free from abuse, intimidation and harassment and that allow people to raise concerns freely and without fear of retaliation. IAG will only work with businesses which share our standards and ways of working.

### **Performance and metrics**

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. 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 and performed by independent inspectors with corporate social responsibility (CSR) expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. The findings from the audits are discussed with the suppliers and corrective actions are agreed, if necessary.

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 supplier. Business-critical suppliers are highlighted to the Group companies in regular risk alerts. The IAG Audit and Compliance Committee receives an annual update on the anti-bribery compliance programme.

In addition to the above, Group Procurement is working to deliver our Scope 3 commitment of net zero (supply chain) emissions by 2050, and 20 per cent emission reduction by 2030, in support of the Group's sustainability programme.



## Governments and regulators

Government and regulator stakeholders include a wide range of organisations and individuals. Our airline operating companies are subject to regulation by civil aviation regulators in the countries in which they are registered (Ireland, Spain and the UK) requiring very frequent engagement on practical matters, in particular safety and security but also consumer rights and other policy issues. Our airlines must also conform to regulatory requirements in all the countries in which they operate, necessitating involvement directly with many different aviation authorities around the world on a range of topics from administrative processes necessary to secure operating licences to slot applications and diplomatic discussions as well as, in this year, to comply with COVID-19 restrictions.

The nature of IAG's business, including its strategic goal of consolidation in the airline sector, means that regulatory stakeholders include competition authorities such as DG-COMP in the European Union and the Competition and Markets Authority in the UK. The wide range of policy subjects means that government stakeholders include national ministries responsible for (among others): transport, trade, finance, tourism, skills, the environment and international relations, as well as the European Commission's DG-MOVE and other directorates. IAG also seeks to build relationships with members of national parliaments and of the European Parliament across the political spectrum to enhance understanding of, and support for, our policy positions.

In building these relationships and undertaking engagement we work closely with our national and international trade associations in particular the International Air Transport Association (IATA) and Airlines For Europe (A4E).

Government engagement is not an isolated activity. There is a clear relationship with customer stakeholders since government and regulatory stakeholders are concerned with matters such as consumer rights, and with employee stakeholders since colleagues are responsible for delivering customer service and are also affected by policy decisions relating to the aviation

industry. IAG's government affairs team works closely with operating companies to ensure work in these areas is consistent and informed.

### How we engage

- With all these we seek to arrange one to one contact but also work through our various industry associations, including the Asociación de Líneas Aéreas (ALA) in Spain, Airlines UK, IATA and A4E. We aim to take a leading role in each organisation with representation on the relevant executive committees and boards. These associations reflect and amplify IAG's positions in our "home" countries – but also provide additional resource in key markets further afield.
- We also work to influence the relevant supra-national organisations such as the International Civil Aviation Organisation (ICAO), in particular on COVID-19 or in support of its sustainability initiative CORSIA, largely through our home countries' national government inputs and directly where possible.

### Impact of the COVID-19 pandemic

The involvement of regulators in aviation has never been so relevant as during the COVID-19 pandemic where governments have sought to control the spread of the virus through travel restrictions. A range of measures have been imposed on airlines, from simple requirements to wear masks on board to outright prohibition of flights. As a result, IAG's usual close engagement with the national governments, regulators and parliamentarians in the states in which its airlines are based has been exceptionally intense during the two-year duration of the pandemic.

Government precautions and regulatory decisions have had direct and immediate impacts on our operating companies. Close engagement has therefore been essential in order to monitor and understand the actions that governments have taken, to ensure compliance with new rules and to allow our operating companies to make operational changes and decisions about when and where to operate. It also allows operating companies to provide information to customers and colleagues in a timely and effective way.

The frequent and sudden changes in policy and regulations have made this activity

really challenging and essential to allow the smooth operation of IAG's airline companies in 2021. The nature of the pandemic with constantly changing regulatory requirements around the world has meant a greater degree of interaction than in previous years.

The unprecedented level of engagement with governments and regulators during 2021 included Corporate Affairs and operating company staff taking part in regular national fora such as, in the UK, the Department of Transport's Expert Steering Group established to manage its response to the pandemic. Iberia representatives in Spain have engaged with government stakeholders, in particular with AESA (Agencia Estatal de Seguridad Aérea) in a similar way as have Aer Lingus senior executives with the Departments for Foreign Affairs, Transport and the Economy in Ireland. There has been extensive interaction both direct and indirectly with authorities in important markets for IAG's operating companies such as India, China, Hong Kong and the US in support of relaxing COVID-19 restrictions and reopening markets.

To manage the impacts of the pandemic, especially given multiplicity of changes and, among other issues, the emerging need for technological solutions to verifying travel documentation, IAG established internal working groups, both cross department within the operating companies and across Group companies, which continued to operate during 2021 and which allowed IAG to manage the process of implementing rule changes. These groups drew on the wide range of experience and expertise across the Group's operating companies and allowed a common position to be adopted in response to several proposed travel restrictions, strengthening IAG's position. It has also ensured that updates on new requirements and restrictions, as well as expertise, can be more rapidly shared across the Group.

## **Results from the engagement government and regulators**

Our direct efforts, but also those undertaken collectively with trade associations and – unusually, but given the unprecedented impacts of the pandemic – on several occasions together with competitor airlines, have often been challenging given the speed of change and the multiplicity of regulations. Success has often come in the form of mitigating even more restrictive measures. Other positive outcomes have included helping the European Commission to shape its official guidance on COVID-19 measures and the development and integration of digital travel apps into the border process in the UK and successes in influencing the design of UK documentation, in a staged way, to benefit consumers. Waivers from the “use it or lose it” slot rules in Europe and the UK for the summer and winter 2021 seasons were also secured after intensive influencing work by the sector, in which IAG teams played a significant role.

Although policy and regulation on COVID-19 response has dominated the year, we have continued to engage on many other issues in our home countries and in Brussels. These include airspace modernisation, aviation taxes, consumer rights, slot policy and airport charges among others. Decisions by government and regulators in these areas have potential to affect our operations in various ways, so responding to them can present an opportunity for our Group.

We also engage on all policy topics affecting our business in the EU (Brussels), Spain, Ireland and in the UK, where our staff have met government ministers and officials to provide input on a range of issues including the UK government's potential aviation strategy, Heathrow's price review by the Civil Aviation Authority and with government departments in all the home countries on the topic of airport charges. Where appropriate the Group (or IAG) engages with and seeks to influence policy developments in key overseas markets, including the US in particular.

During 2021 positive outcomes ranged from policy changes to operational specifics: IAG took a prominent part in collective influencing activity that resulted in a reduced rate of Air Passenger Duty on domestic flights in the UK and working individually, directly secured access for British Airways to Linate after leaving the EU through positive engagement with the Italian authorities. IAG also successfully supported the European Commission in its signing of a Comprehensive Air Transport Agreement with Qatar.

### **Sustainability**

The Corporate Affairs team is delivering a programme of engagement in the EU for the IAG Sustainability Team in response to the EU's Fit for 55 policy. This includes identifying appropriate contacts in the institutions of the EU and managing engagement.

In 2021, this has included direct meetings with senior officials in three different Directorates of the European Commission; around half of the permanent representatives (ambassadors) of Member States to the EU and many members of the European Parliament as well as ministers in Spain and Ireland in a number of departments.

Sustainability, and the EU's Fit for 55 package in particular as well as the UK's Net Zero strategy, have potentially a very significant impact on the industry and IAG – it is the key public policy issue facing the Group. In this area, we engage with regulators and governments to ensure the Group's leadership in the sustainability field is clear and to influence changes to policy both to support our priorities as a Group and to support an effective approach to ensure aviation decarbonisation is adopted.

### **International relations**

IAG's Corporate Affairs team engages with international multilateral and bilateral discussions with the EU and third countries and the UK government in its talks with aviation partners and joins international fora such as the ICAO ICAN Conference on behalf of IAG operating companies. IAG aims to encourage open and liberal air service agreements that promote competition and consumer benefits and to secure access for our operating companies in new markets.

# Well-positioned for recovery



**Steve Gunning**  
Chief Financial Officer

## “The Group took, and continues to take, decisive actions to preserve liquidity.”

A year ago, I wrote that the timing and shape of recovery was uncertain and hence the Group remained focused on preserving liquidity and transforming its businesses for the future. The events of 2021 demonstrated that uncertainty very clearly and were a reminder of the need to continue to preserve liquidity, together with a focus on exploiting the opportunities the future will offer.

In 2021, the recovery was slow to take hold, as many markets were subject to severe travel restrictions well into the second quarter and the US did not re-open its borders to any meaningful degree until November. Where markets opened up there was evidence of strong pent-up demand for travel, both from leisure and corporate customers. The Group continued to focus on cash generation when planning capacity, including addressing the cargo opportunities that arose due to lower volumes of passenger aircraft capacity worldwide than pre-pandemic. IAG Loyalty saw an increase in volumes versus 2020,

as membership increased and consumer spending rose.

The operating loss for the year was €2,765 million, with an operating loss excluding exceptional items of €2,970 million, which, whilst still substantial, was reduced by €1,420 million versus 2020. The greatest progress was made in Spain, where travel restrictions were less severe than in Ireland and the UK.

In the face of uncertain travel restrictions and demand, the Group took further actions to preserve liquidity. These included a continued focus on operating and capital expenditure, together with successfully raising new general debt and new committed credit facilities, demonstrating its continued access to funding markets. The Group successfully financed all 45 aircraft delivered in 2020 and 2021 using long-term aircraft financing arrangements.

The Group raised €4.4 billion of additional non-aircraft related debt in 2021, including

£2.0 billion (€2.3 billion) for British Airways, partly guaranteed by UK Export Finance (UKEF) and an additional €75 million from Ireland’s Strategic Investment Fund. In March, IAG issued two unsecured bonds, totalling €1.2 billion and then followed this with a €825 million convertible bond in May. The Group also secured additional credit facilities, with a \$1.755 billion (€1.6 billion) revolving credit facility for British Airways, Iberia and Aer Lingus, which was agreed and executed in March, together with a further £1.0 billion (€1.2 billion) UKEF credit facility for British Airways in November. The Group did not need to draw on any of its general facilities and ended the year with a very strong cash balance of €7.94 billion. As a result, total liquidity, including €4.04 billion of committed and undrawn general and aircraft facilities, ended the year at €12.0 billion.

At the time of last year’s full-year results announcement in February 2021, capital expenditure for 2021 was expected to be €1.7 billion, including the delivery of seven wide-bodied aircraft, with four Airbus A350s and three Boeing 787s due for delivery in the year. None of these wide-bodied aircraft was delivered, due to delays at Airbus and Boeing. This was the principal driver of the record-low capital expenditure of €0.7 billion for the year. The Group does still expect to take delivery of the aircraft it has on order, which are needed to restore capacity as the recovery takes hold.

Quarter 3 of 2021 proved to be an inflection point for net cashflow from operating activities, which turned positive for the first time since Quarter 1, 2020. Operating cashflow increased further in Quarter 4, linked to positive EBITDA and increased forward bookings. Net cashflow from operating activities for the second half was €989 million positive, resulting in a net outflow for the year of only €141 million, versus an outflow of €3,432 million in 2020.

In November, the Omicron variant of COVID-19 was a further reminder of the uncertain shape of the recovery and has validated the actions taken in 2021 to preserve and further boost liquidity. These actions leave the Group well-positioned to benefit from the recovery, as it develops.

**Steve Gunning**  
Chief Financial Officer

### **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, which changed many times throughout 2020 and 2021, often with no or very short notice, thereby creating uncertainty for customers. Capacity started to recover from the third quarter of 2021, in line with easing of restrictions and there was a strong increase in bookings for future travel once the US government announced it was easing its travel restrictions, which had operated largely unchanged from March 2020 to November 2021.

As a result of the significantly reduced flying programme, in 2020 aircraft had to be temporarily grounded, with some retired early. Jet fuel consumption in 2020 and 2021 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, with an exceptional charge of €1.7 billion net of gains on related foreign exchange derivatives and a cash outflow in 2020 of €1.1 billion. In 2021 the remaining overhedged derivatives were settled, with a gain of €0.2 billion, reducing the total net loss to €1.5 billion.

From early 2020 and throughout 2021 the Group acted 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.

### **Structure of Financial Review**

Due to the continued impact of COVID-19 and governments' travel restrictions, 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, and in keeping with the Financial Review of 2020, in this review there is no detail on industry growth rates and GDP by market; in 2021 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.

In 2020, the Group successfully completed a capital increase of €2.7 billion and raised non-aircraft related debt of €1.4 billion, together with negotiating a new contract with Amex, which resulted in a one-off payment of €830 million, including a significant pre-payment.

The Group also protected liquidity through working capital initiatives to defer payments into 2021 and by offering customers the choice of vouchers for future travel, in place of cash refunds. The net impact of vouchers issued and redeemed in 2021 was broadly neutral.

Funding initiatives continued in 2021, with a further €4.4 billion of non-aircraft related debt raised, including a £2.0 billion (£2.3 billion) UK Export Finance (UKEF) backed loan for British Airways and at IAG unsecured bonds of €1.2 billion and a convertible bond of €825 million. The Group also repaid £300 million (£350 million) of one-year commercial paper issued under the UK's CCFF mechanism.

The Group entered into new credit facilities, including a \$1.755 billion (£1.6 billion) facility for British Airways, Iberia and Aer Lingus and a further £1.0 billion (£1.2 billion) via an additional UKEF facility for British Airways, agreed in the final quarter of 2021. Neither of these facilities was drawn in the year and, as at February 24, 2022 the Group had fully committed and undrawn general facilities of €2.9 billion and €1.1 billion of aircraft financing facilities, bringing total facilities to €4.0 billion.

## Capacity

### IAG capacity

In 2021, IAG capacity, measured in available seat kilometres (ASKs), was lower by 63.9 per cent versus 2019, with the impact of the COVID-19 pandemic felt across all regions. However, Group capacity was up 7.7 per cent versus 2020, as global travel restrictions began to ease as vaccine programmes progressed. Capacity was increasingly restored during the year, in line with the easing of travel restrictions, although with some impact of the Omicron variant of COVID-19 felt in December.

### Proportion of 2019 passenger capacity operated by quarter

	Q1	Q2	Q3	Q4
Aer Lingus	15.2%	10.9%	27.1%	44.3%
British Airways	14.8%	14.1%	31.7%	52.7%
Iberia	37.5%	43.5%	62.7%	75.3%
LEVEL	10.0%	4.3%	15.5%	10.8%
Vueling	14.7%	32.2%	76.6%	79.4%
<b>Group</b>	<b>19.6%</b>	<b>21.9%</b>	<b>43.4%</b>	<b>58.3%</b>

Across the year, the travel restrictions for Ireland and the UK were greater than for Spain and consequently Iberia and Vueling were able to increase capacity earlier than the other Group airlines, with both reaching over 75 per cent of 2019 capacity in the final quarter of the year.

In the first three months of 2021, IAG capacity, measured in available seat kilometres (ASKs), was restricted to 19.6 per cent of that in the first quarter of 2019, with reductions across all regions. Capacity was significantly affected by the travel restrictions put in place, including new national lockdowns in the UK and Ireland in response to the third wave of infections at the start of the year. Passenger capacity for quarter 2 was up marginally at 21.9 per cent of 2019, with capacity increased where limited easing of travel restrictions allowed. Quarter 3 saw the highest passenger numbers and load factors since the start of the pandemic, but capacity was still severely constrained at 43.4 per cent of 2019. Capacity continued to increase in quarter 4, up to 58.3 per cent of 2019. The emergence of the Omicron variant impacted demand, mainly in December, as governments introduced stricter travel requirements and border restrictions in response.

The IAG passenger load factor was down 20.1 points from 2019 to 64.5 per cent, 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'). The passenger load factor for 2021 was up marginally on the 63.8 per cent seen in 2020. Some flights were operated mainly for cargo purposes, with low passenger load factors, but still cash-positive for the Group. The reduction in capacity across the industry continues to benefit cargo operations with favourable cargo yields and record cargo revenues.

### IAG regional capacity

Year to December 31, 2021	ASKs higher/ (lower) v2019	ASKs higher/ (lower) v2020	Passenger load factor	Higher/ (lower) v2019	Higher/ (lower) v2020
Domestic	(26.5)%	46.3%	74.9	(12.3) pts	3.9 pts
Europe	(64.7)%	19.3%	69.1	(14.5) pts	4.5 pts
North America	(71.3)%	(6.8)%	49.4	(34.7) pts	(3.8) pts
Latin America and Caribbean	(52.3)%	33.7%	69.8	(16.6) pts	(2.9) pts
Africa, Middle East and South Asia					
South Asia	(66.8)%	(14.0)%	67.4	(15.6) pts	0.2 pts
Asia Pacific	(87.9)%	(58.7)%	39.4	(46.4) pts	(21.9) pts
<b>Total network</b>	<b>(63.9)%</b>	<b>7.7%</b>	<b>64.5</b>	<b>(20.1) pts</b>	<b>0.7 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 travel restrictions and quarantine requirements.

Capacity in IAG's Domestic markets recovered to a greater extent than other regions, with capacity lower by only 26.5 per cent versus 2019 and 46.3 per cent higher than in 2020. British Airways' capacity reflected demand from UK holidaymakers avoiding overseas destinations, which were subject to quarantine restrictions and expensive testing requirements. Vueling operations focused on connecting the Spanish peninsula with both the Canary and Balearic Islands and Iberia maintained similar Domestic routes for connectivity. Aer Lingus maintained its route between London and Belfast and benefitted from UK citizens opting for domestic holidays. Passenger load factor for the region was the highest for the Group at 74.9 per cent, down only 12.3 points versus 2019.

The Group's capacity in Europe was 64.7 per cent lower than 2019, however it recovered 19.3 per cent above 2020 as vaccination rates increased and travel restrictions eased. Aer Lingus, Vueling and Iberia benefitted from the introduction of the EU Digital Covid Certificate in the summer, allowing EU travellers to avoid self-isolation on travelling to other member states, with passenger load factors in the second half of the year significantly higher as a result. British Airways had a good performance throughout the summer on the routes operated to destinations included on the UK Government's 'Travel Corridor' Green and Amber list countries, once self-isolation requirements for double-vaccinated passengers were removed.

### North America

IAG's North American capacity was severely limited by the United States government's COVID-19 restrictions, which for a large portion of the year only allowed residents and nationals to enter the country. These restrictions were only lifted for EU and UK citizens on November 8, 2021. Prior to the entry requirements being relaxed, flights were operated primarily for cargo purposes. British Airways and Aer Lingus operated regular flights to New York, Boston, Washington and Chicago. Iberia operated flights to Miami and New York and LEVEL resumed operations to San Francisco and New York. Passenger load factor for the region was down 34.7 points versus 2019 to 49.4 per cent, reflecting the US government's strict border restrictions.

### **Latin America and Caribbean (LACAR)**

IAG's capacity in LACAR was still down significantly on 2019, but increased 33.7 per cent on 2020, as routes re-opened and benefitted from significant visiting friends and relatives (VFR) and leisure demand. British Airways operated regular flights to Caribbean destinations, benefitting from leisure travel demand during holiday periods. Routes to Sao Paulo and Buenos Aires only resumed in December. Iberia benefitted from significant VFR travel during 2021 and load factors reached over 80 per cent from September onwards. Aer Lingus launched operations from Manchester in October 2021, with flights to Barbados starting in October. Passenger load factor for the region was down 16.6 points on 2019 at 69.8 per cent.

### **Africa, Middle East and South Asia (AMESA)**

British Airways operated to multiple destinations including Dubai, India, South Africa and Pakistan. Capacity and demand were impacted by the emergence of new COVID-19 variants, including the Delta variant, which resulted in additional travel restrictions on certain destinations. Iberia operated regularly to Dakar and restarted operations to Israel and Morocco when travel restrictions were eased. Vueling also re-opened routes as restrictions eased, restarting routes to Morocco and Tunisia whilst continuing regular operations to Senegal and Algeria. Passenger load factor for the region was down 15.6 points versus 2019 at 67.4 per cent.

### **Asia Pacific**

The Asia Pacific region was the most capacity-constrained region in 2021, as strict travel restrictions in the region continued to severely impact demand. British Airways operated routes to Hong Kong, Singapore and Tokyo regularly, mainly for cargo purposes. Iberia operated charter flights to China and Tokyo. Passenger load factor for the region was the lowest for the Group, down 46.4 points versus 2019 at 39.4 per cent.

### **Basis of Preparation**

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, including considering plausible but severe downside scenarios, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to June 30, 2023 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 the status and impact of COVID-19 worldwide that are outside of the control of the Group. These include the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the speed at which vaccines are deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus 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 Directors are not able to provide certainty that there could not be more severe downside scenarios than those that have been considered in the modelling, including the sensitivities the Group 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 may need to secure sufficient additional funding over and above that which is contractually committed as at February 24, 2022.

The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020 and 2021 and secured an additional €5.5 billion of non-aircraft related debt, in addition to a fully subscribed equity raise of €2.7 billion in 2020. The Group has negotiated and executed €2.8 billion of committed general facilities during 2021; these facilities were undrawn as at February 24, 2022 and would be available over the going concern period. However, the Directors cannot provide certainty that the Group will be able to secure additional funding, if required, in the event that a more severe downside scenario than those they have considered were to occur and accordingly this represents a material uncertainty that could cast doubts upon the Group's ability to continue as a going concern. Refer to note 2 of the consolidated financial statements for further information.

### **Summary**

The COVID-19 pandemic continued to have a significant impact on the Group's results, although there were meaningful signs of recovery in the second half of the year, as travel restrictions were eased and the US lifted its severe restrictions (imposed in March 2020). Passenger capacity and passenger revenue were 7.7 per cent and 5.9 per cent higher than 2020 respectively, with cargo revenue 28.1 per cent higher. Passenger capacity rose from 19.6 per cent of 2019 in first quarter of 2021 to 58.3 per cent in the final quarter of the year. The Group continued to take action to mitigate the impact of COVID-19 by reducing costs and benefitted from the full-year impact of restructuring programmes implemented in the second half of 2020.

The net result was an operating loss for the year of €2,765 million, versus an operating loss of €7,451 million in 2020. The loss after tax for the year was €2,933 million, versus a loss of €6,935 million in 2020.

### **Loss for the year**

Statutory results € million	2021	2020 <sup>1</sup>	Higher/ (lower) vly
Operating loss	(2,765)	(7,451)	4,686
Loss before tax	(3,507)	(7,827)	4,320
Loss after tax	(2,933)	(6,935)	4,002

<sup>1</sup> 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

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. In 2020, the Group recorded a number of exceptional items arising as a direct result of COVID-19. During the course of 2021, the Group continued to record the fair value movements on derivatives de-designated from hedge accounting in 2020 as exceptional. In addition, new exceptional items arose in 2021, including the reversal of the impairment of certain aircraft stood back up in 2021, following the Vueling successful slot allocation at Paris Orly, together with adjustments to previously recorded restructuring provisions.

A summary of the exceptional items relating to 2020 and 2021 is given below, with more detail in the Alternative Performance Measures section, including a breakdown of the exceptional items by operating company.

**Summary of exceptional items**

Income statement line	Exceptional item description	Credit/(charge) to the Income statement € million		Alternative Performance Measures (before exceptional items), € million	2021	2020 <sup>1</sup>	Higher/ (lower) vly
		2021	2020				
Passenger revenue	Discontinuation of hedge accounting for foreign currency derivatives for revenue	5	(62)				
Employee costs	Restructuring costs	18	(313)				
Fuel, oil and emissions costs	Discontinuation of hedge accounting for fuel and associated foreign exchange derivatives	154	(1,694)				
Engineering and other aircraft costs	Inventory write-down and charge in relation to contractual lease provisions	7	(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	21	(856)				
Non-operating costs	Payment to Globalia related to termination of Air Europa acquisition	(75)	-				
Tax	Tax on exceptional items	(25)	463				

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.

In 2021 all the exceptional items, apart from the termination payment to Globalia, relate to adjustments made to the COVID-19 related exceptional charges in 2020, reflecting movements in fuel prices and foreign exchange rates, changes to fleet plans and adjustments to provisions. See the Alternative Performance Measures section for further information.

Excluding the impact of the exceptional items shown above, the operating loss for 2021 was €2,970 million, €1,420 million lower than 2020, reflecting the recovery in capacity, particularly in the second half of 2021, when travel restrictions were eased, notably for travel to the US from November 8, 2021. The loss after tax and before exceptional items was €3,038 million, €1,299 million lower than 2020.

Alternative Performance Measures (before exceptional items), € million	2021	2020 <sup>1</sup>	Higher/ (lower) vly
Operating loss	(2,970)	(4,390)	1,420
Loss before tax	(3,637)	(4,766)	1,129
Loss after tax	(3,038)	(4,337)	1,299

<sup>1</sup> 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

**Revenue**

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Passenger revenue <sup>1</sup>	5,835	323	5.9%
Cargo revenue	1,673	367	28.1%
Other revenue	947	(41)	(4.1)%
Total revenue	8,455	649	8.3%

<sup>1</sup> Includes an exceptional credit of €5 million (2020: exceptional charge of €62 million related to discontinued hedge accounting of revenue foreign currency derivatives). Further information is given in the Alternative Performance Measures section.

**Passenger revenue**

Passenger revenue increased by 5.9 per cent on 2020, driven by an increase in the second half of the year, in which 80 per cent of passenger revenue was generated, as travel restrictions reduced and passenger capacity increased. Passenger unit revenue, measured as passenger revenue before exceptional items per available seat kilometre (PRASK), was down 2.9 per cent versus 2020 (in which the main impact of COVID-19 was only seen from March). PRASK rose significantly in the second half of 2021, with an increase in the passenger load factor. Passenger revenue for the year was 74.1 per cent lower than in 2019, with PRASK down 28.1 per cent versus 2019.

**Cargo revenue**

2021 was a record year for cargo revenue, for the second consecutive year, as additional flights were operated in the absence of passenger capacity and available aircraft were used for additional cargo-only flying. During the year 3,788 additional cargo-driven flights were operated. The overall impact of the cargo operation, including the additional cargo-driven flights, was an increase in Cargo revenue of €367 million, or 28.1 per cent higher versus 2020. Cargo revenue for the year was 49.8 per cent higher than in 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 by the continued impact of COVID-19. In the case of MRO and Handling, these revenues were affected by lower demand following reduced 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, although there was an increase in the second half of the year as operations increased. Overall, for the year, Other revenue was down €41 million, or 4.1 per cent, versus 2020 and was 50.7 per cent lower than in 2019.

## Operating costs

Due to the continued impact of COVID-19 on the Group's flying programme, with significantly reduced revenues versus 2019, the Group continued to take action to offset the financial impact by reducing costs, together with measures to increase the variability and flexibility in its cost base. The Group benefitted from the full-year impact of restructuring and other cost-saving programmes implemented during 2020.

Total expenditure on operations fell from €15,257 million in 2020 to €11,220 million in 2021. Excluding the impact of exceptional items, Total expenditure on operations fell by €838 million, or 6.8 per cent versus 2020, despite a 7.7 per cent rise in passenger capacity.

### Employee costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Employee costs <sup>1</sup>	<b>3,013</b>	(572)	(16.0)%

- 1 Includes an exceptional credit of €18 million related to the release of restructuring provisions (2020: 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.) Further information is given in the Alternative Performance Measures section.  
 2 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the consolidated statements for further information.

Employee costs fell by €572 million versus 2020. In 2020 the Group recorded a €313 million exceptional charge relating to Group-wide restructuring programmes, which resulted in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce as at June 2020) and 500 at Aer Lingus (or approximately 10 per cent of the workforce at June 2020). Excluding the impact of exceptional credits in 2021 and exceptional charges in 2020, Employee costs reduced €241 million, or 7.4 per cent, versus 2020, despite the 7.7 per cent increase in passenger capacity.

National governments continued to provide 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, although the UK's support ended in September 2021. The direct impact of these mechanisms was to reduce employee costs by approximately €555 million.

### Fuel, oil and emissions costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Fuel, oil costs and emissions charges <sup>1</sup>	<b>1,781</b>	(1,954)	(52.3)%

- 1 Includes an exceptional credit of €154 million (2020: exceptional charge of €1,694 million) related to the 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.

Fuel, oil and emissions charges were down €1,954 million, or 52.3 per cent versus 2020; excluding the exceptional net overhedging credit in 2021 and overhedging charge in 2020, Fuel, oil and emissions charges were down €106 million, or 5.2 per cent versus 2020 and down €4,086 million or 67.9 per cent on 2019.

## Commodity prices

Commodity fuel prices rose steadily over the course of 2021, having seen a dramatic fall in March 2020 as COVID-19 spread worldwide and a partial recovery by December 2020. Prices at the end of 2021 were 60 per cent higher than at the start of the year.

### Jet fuel price trend (\$/mt)



### Fuel hedging

The Group seeks to reduce the impact of volatile commodity prices by hedging prices in advance. In May 2021, the Board approved a revised fuel hedging policy, which is designed to provide flexibility to respond to both significant unexpected reductions in travel demand or capacity and/or material or sudden changes in jet fuel prices. The revised policy allows for differentiation within the Group, to match the nature of each operating company, and a greater use of call options. The revised policy operates on a two-year rolling basis, with hedging up to 60 per cent of anticipated requirements in the first twelve months and up to 30 per cent in the following twelve months and with flexibility for low-cost airlines within the Group to adopt hedging up to 75 per cent in the first twelve months. For all Group airlines, hedging between 25 and 36 months ahead will only be undertaken in exceptional circumstances.

### Exceptional items

In 2020, due to the rapid fall in the commodity fuel price, the Group 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 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 a 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 were 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. During 2021, there was limited further de-designation necessary, as capacity operated was broadly consistent with the volume of fuel hedged. However, due to the increase in the commodity fuel price, the losses on the remaining contracts were lower than anticipated and the Group recognised an exceptional credit of €154 million.

### Fuel consumption

The Group continued to benefit from reduced fuel consumption associated with the investment in new fleet, together with the early retirement of older aircraft, including the full-year impact of the retirement of 15 Airbus A340-600 and 32 Boeing 747-400 aircraft in quarter 2 of 2020.

### Supplier costs

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Handling, catering and other operating costs	<b>1,308</b>	(32)	(2.4)%
Landing fees and en-route charges	<b>923</b>	5	0.5%
Engineering and other aircraft costs <sup>1</sup>	<b>1,085</b>	(371)	(25.5)%
Property, IT and other costs <sup>2</sup>	<b>758</b>	(24)	(3.1)%
Selling costs	<b>434</b>	29	7.2%
Currency differences	<b>(14)</b>	(95)	nm

- Includes an exceptional credit of €7 million (2020: exceptional charge of €108 million) related to an inventory write-down and a charge relating to contractual lease provisions, with a related credit in 2021 due to adjusted fleet plans. Further information is given in the Alternative Performance Measures section.
- For 2020 includes a settlement provision in relation to the theft of customer data at British Airways in 2018 of €22 million and an exceptional charge of €6 million related to legal costs of the Group-wide restructuring programme undertaken in the year. Further information is given in the Alternative Performance Measures section.

Handling, catering and other operating costs were down €32 million on 2020, or 2.4 per cent, despite the higher volume of flying in 2021, as the Group continued to focus on reducing its cost-base and benefitted from the full-year impact of savings made in 2020 and ground handing contract negotiations in 2021.

Landing fees and en-route charges were up €5 million on 2020, or 0.5 per cent, reflecting the impact of increased flying.

Engineering and other aircraft costs reduced primarily due to the reduction in fleet since quarter 2, 2020 and the exceptional charges in 2020. Savings were negotiated for various maintenance contracts, including a new joint venture in Barcelona. Excluding the exceptional credit in 2021 and exceptional charge in 2020, Engineering and other aircraft costs were lower than 2020 by €256 million, or 19.0 per cent.

Property, IT and other costs were down €24 million, or 3.1 per cent, on 2020, which included exceptional charges for a settlement provision in relation to the theft of customer data at British Airways in 2018 and for legal costs relating to restructuring programmes undertaken in 2020. Excluding these exceptional charges in 2020, Property, IT and other costs were up €4 million or 0.5 per cent versus 2020.

Selling costs increased by €29 million or 7.2 per cent versus 2020, reflecting increased booking activity for future travel, particularly in the second half of the year as travel restrictions eased. Cost increases were contained by negotiated savings for third party selling systems and commissions.

Overall, Supplier costs (excluding fuel costs) were €488 million or 9.8 per cent, lower than 2020. Excluding exceptional charges and credits, Supplier costs (excluding fuel costs) were €4,626 million, or 50.7 per cent, lower than in 2019.

### Ownership costs

Ownership costs include depreciation, amortisation and impairment of tangible and intangible assets, including right of use assets.

Statutory results € million	2021	Higher/ (lower) vly	Higher/ (lower) vly
Ownership costs <sup>1</sup>	<b>1,932</b>	(1,023)	(34.6)%

1 Includes an exceptional credit of €21 million related to the partial reversal of an impairment of fleet assets and other assets in 2020. (2020: exceptional charge of €856 million related to the impairment of fleet assets and other assets.) Further information is given in the Alternative Performance Measures section.

The reduction in ownership costs is mainly driven by the exceptional impairment charge made as a result of the fleet reductions brought about as a result of COVID-19 during 2020, when 82 aircraft were retired early, which led to an impairment charge of €856 million. For aircraft that were stood down temporarily as a result of COVID-19, depreciation costs continued to be charged. During 2021, Vueling was the successful bidder in a competition for additional take-off and landing slots at Paris Orly airport, which led to the requirement to return to service four Airbus A320 aircraft that were previously assumed surplus to requirements. The return of these four aircraft led to a €14 million reversal of the exceptional impairment charge recorded in 2020. There was also a €7 million reversal of an exceptional engine impairment charge recorded in 2020. Excluding the exceptional credit in 2021 and exceptional charge in 2020, Ownership costs were down €146 million, or 7.0 per cent.

### Aircraft fleet

In 2021, the in-service fleet reduced by two aircraft, with 11 aircraft delivered and 13 aircraft removed from service for disposal or lease return.

### Number of fleet

Number of fleet in-service	2021	2020	Higher/ (lower) vly
Shorthaul	<b>363</b>	367	(1.1)%
Longhaul	<b>168</b>	166	1.2%
	<b>531</b>	533	(0.4)%

Of the 531 "in-service" fleet at the end of the year, 55 were temporarily grounded. In addition to the in-service fleet, there were a further 29 aircraft held by the Group pending disposal or lease return.

### 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 2021 the Group operating loss before exceptional items was reduced by €98 million due to favourable exchange rate impacts.

#### **Exchange impact before exceptional items**

€ million Favourable/(adverse)	2021		
	Translation impact	Transaction impact	Total exchange impact
Total exchange impact on revenue	220	(163)	<b>57</b>
Total exchange impact on operating expenditures	(251)	292	<b>41</b>
Total exchange impact on operating loss	<b>(31)</b>	<b>129</b>	<b>98</b>

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

The exchange rates for the Group were as follows:

	2021	2020	Higher/ (lower) vly
<b>Translation - Balance sheet</b>			
€ to €	1.18	1.10	7.3%
<b>Translation - Profit &amp; Loss (weighted average)</b>			
€ to €	1.15	1.13	1.8%
<b>Transaction (weighted average)</b>			
€ to €	1.15	1.13	1.8%
€ to \$	1.20	1.13	6.2%
£ to \$	1.38	1.27	8.7%

#### **Total net non-operating costs**

Total net non-operating costs for the year were €742 million, versus €376 million in 2020. The main driver of the increase was the net currency retranslation charge of €82 million compared with a €245 million credit in 2020. Finance costs were up €160 million (23.9 per cent), related to interest on new debt and arrangement costs, including the IAG unsecured and convertible bonds issued in 2021. Non-operating costs also include a €89 million non-cash credit relating to movements in the fair value of the €825 million IAG convertible bond issued in the year.

The Group incurred an exceptional non-operating charge of €75 million in December 2021, relating to a settlement agreement reached with Globalia to terminate the agreements signed on November 4, 2019 and January 20, 2021 under which Iberia had agreed to acquire the issued share capital of Air Europa.

#### **Tax**

The tax credit on the loss for the year was €574 million (2020: €892 million), and the effective tax rate was 16 per cent (2020: 11 per cent). 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 2021 of 19 per cent, 25 per cent and 12.5 per cent respectively, which result in an expected effective tax rate of 20 per cent. The difference between the actual effective tax rate of 16 per cent and the expected effective tax rate of 20 per cent is primarily due to certain current and prior period losses in Iberia and Vueling not being recognised and the effect of the rate change in the UK.

On March 3, 2021 the UK Chancellor announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On May 24, 2021 the increase in the rate of corporation tax in the UK was substantially enacted, which led to the remeasurement of deferred tax balances during the year and will increase the Group's future current tax charge accordingly.

On October 8, 2021 the Irish government announced that it would increase the rate of corporation tax for certain multinational businesses to 15 per cent with effect from 2023. This expected tax rate change has not been reflected in these results because it has not yet been substantively enacted.

## Operating profit and loss performance of operating companies

	British Airways £ million		Aer Lingus € million		Iberia € million		Vueling € million	
	2021	Higher/ (lower)	2021	Higher/ (lower)	2021	Higher/ (lower)	2021	Higher/ (lower)
Post-exceptional items <sup>1</sup>								
Passenger revenue	2,321	(519)	(18)%	307	(72)	(19)%	1,724	564
Cargo revenue	1,097	207	23%	65	(23)	(26)%	394	154
Other revenue	281	64	29%	4	4	nm	666	(193)
<b>Total revenue</b>	<b>3,699</b>	<b>(248)</b>	<b>(6)%</b>	<b>376</b>	<b>(91)</b>	<b>(20)%</b>	<b>2,784</b>	<b>525</b>
Fuel, oil costs and emissions charges	830	(1,166)	(58)%	89	(197)	(69)%	519	(197)
Employee costs	1,471	(467)	(24)%	180	(37)	(17)%	723	(75)
Supplier costs	2,188	(252)	(10)%	305	(65)	(18)%	1,412	(132)
Ownership costs <sup>2</sup>	979	(496)	(34)%	140	(17)	(11)%	350	(262)
<b>Operating loss</b>	<b>(1,769)</b>	<b>2,133</b>	<b>(55)%</b>	<b>(338)</b>	<b>225</b>	<b>(40)%</b>	<b>(220)</b>	<b>1,191</b>
<i>Operating margin</i>	<i>(47.8)%</i>	<i>51.1 pts</i>	<i>(90.0)%</i>	<i>30.4 pts</i>	<i>(7.9)%</i>	<i>54.6 pts</i>	<i>(23.0)%</i>	<i>nm</i>
Alternative Performance Measures <sup>3</sup>								
Passenger revenue	2,316	(578)	(20)%	308	(74)	(19)%	1,724	564
Cargo revenue	1,097	207	23%	65	(23)	(26)%	394	154
Other revenue	281	64	29%	4	4	nm	666	(193)
<b>Total revenue before exceptional items</b>	<b>3,694</b>	<b>(307)</b>	<b>(8)%</b>	<b>377</b>	<b>(93)</b>	<b>(20)%</b>	<b>2,784</b>	<b>525</b>
Fuel, oil costs and emissions charges	939	(220)	(19)%	99	(43)	(30)%	528	156
Employee costs	1,482	(235)	(14)%	180	(13)	(7)%	728	(56)
Supplier costs	2,188	(210)	(9)%	305	(58)	(16)%	1,412	(80)
Ownership costs <sup>2</sup>	985	(91)	(8)%	140	7	5%	350	(20)
<b>Operating loss before exceptional items</b>	<b>(1,900)</b>	<b>449</b>	<b>(19)%</b>	<b>(347)</b>	<b>14</b>	<b>(4)%</b>	<b>(234)</b>	<b>525</b>
<i>Operating margin before exceptional items</i>	<i>(51.4)%</i>	<i>7.3 pts</i>	<i>(92.1)%</i>	<i>(15.3) pts</i>	<i>(8.4)%</i>	<i>25.2 pts</i>	<i>(25.8)%</i>	<i>82.7 pts</i>

1 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.

See note 2 to the financial statements for further information.

2 Ownership costs reflects Depreciation, amortisation and impairment.

3 Further detail is provided in the Alternative performance measures section

## Review by operating company

The results for all operating companies continued to be impacted by COVID-19 in 2021, with the divergence in the relative operating results of each of the airlines reflecting the travel restrictions imposed in their markets. Aer Lingus operated the lowest passenger capacity relative to 2019, with ASKs at 24.4 per cent of 2019, British Airways operated at 28.3 per cent, Vueling at 53.0 per cent and Iberia at 55.4 per cent.

### Operating (loss)/profit before exceptional items

	2021	2020	2019
British Airways (£ million) <sup>1</sup>	(1,900)	(2,349)	1,890
Aer Lingus (€ million)	(347)	(361)	276
Iberia (€ million)	(234)	(759)	497
Vueling (€ million)	(262)	(623)	240

<sup>1</sup> 2020 and 2019 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information.

Employee costs fell versus 2020, due to the use of wage support or similar schemes in all the operating companies' home countries, in which the substantial portion of employees are based. Support applied across the year in Ireland and Spain, although reduced as the year progressed in Spain, with the operation increasing. In the UK the furlough arrangements ended in September of 2021. Restructuring programmes were implemented in 2020, including at British Airways and Aer Lingus, with Iberia also making reductions in management numbers and reductions outside of Spain. The full-year impact of these 2020 restructuring programmes was seen in 2021, as most of the affected employees had left by the end of 2020.

The operating companies all operate similar hedging programmes, under a Group policy, which resulted in overhedging of jet fuel purchases and related currency transactions in 2020. Excluding the impact of overhedging, fuel costs fell in line with the capacity reductions, with an additional benefit from the efficiency of new-generation aircraft versus the aircraft they replace, together with a reduced effective price net of hedging.

Supplier costs continued to benefit from initiatives in all the operating companies to reduce expenditure in light of the impact of the pandemic, including the full-year impact of actions taken during 2020.

Ownership costs were impacted by the reduction in the Group's fleet of aircraft in 2020, leading to the impairment of aircraft and related assets in each operating company, with 2021 seeing a full-year benefit of the reduced fleet in depreciation costs.

Operating margins are much less meaningful than in previous years, given the significant impact of COVID-19, but are included for completeness; the margins reflect the size of operation each operating company was able to fulfil in 2021.

### Capital expenditure

In November 2019, at its Capital Markets Day, the Group announced its anticipated capital expenditure for the period 2020-2022 was €14.2 billion. In response to COVID-19, in 2020 the Group agreed to defer 68 aircraft scheduled for delivery over the period 2020-2022 and to re-schedule certain pre-delivery payments to aircraft manufacturers. The result of these changes was a significant reduction in expected capital expenditure over

the period 2020-2022, with capital expenditure over that period expected to be below €7 billion. In February 2021 the Group expected capital expenditure in 2021 to be €1.7 billion.

During 2021, four Airbus A350 aircraft and three Boeing 787 aircraft were not delivered as anticipated and are now expected in 2022. As a response to the continued impact of COVID-19 and related travel restrictions, the Group continued to take actions to preserve liquidity by reducing certain project-related expenditure, whilst continuing to invest in key projects, including cyber-related investments. As a result, capital expenditure for 2021 reduced to €0.7 billion.

The Group did not enter into any new agreements to acquire additional aircraft in 2021, either from aircraft manufacturers or lessors.

In 2021 the Group took delivery of 11 aircraft, with six for British Airways, one for Iberia and four for Aer Lingus. Of these deliveries, five were aircraft acquired directly from manufacturers and six were leased from aircraft lessors. 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.

Aircraft deliveries	2021	2020
Airbus A320 family	8	15
Airbus A330	1	2
Airbus A350	-	7
Boeing 777-300	-	4
Boeing 787-10	-	2
Embraer E190	2	4
<b>Total</b>	<b>11</b>	<b>34</b>

### Capital commitments

Capital expenditure authorised and contracted for at December 31, 2021 amounted to €10,911 million (2020: €10,545 million). Most of this commitment is denominated in US dollars and includes commitments until 2027 for 110 aircraft including 56 aircraft from the Airbus A320 family, 10 Boeing 787s, 18 Boeing 777s and 26 Airbus A350s.

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, 2021.

Aircraft future deliveries at December 31	2021	2020
Airbus A320 family	56	64
Airbus A330	-	1
Airbus A350	26	26
Boeing 777-9	18	18
Boeing 787-10	10	10
Embraer E190	-	2
<b>Total</b>	<b>110</b>	<b>121</b>

### Working capital and other initiatives

In 2020, as a response to COVID-19, the Group negotiated deferrals to supplier payments and lease payments, rolled over fuel derivatives, monetised EU Emissions Trading Scheme credits and foreign currency derivatives. These initiatives reduced cash

outflow in 2020 by approximately €625 million, with deferrals to future years accounting for approximately €375 million, with the majority due in 2021. In quarter 3 of 2020 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 for future years. Despite the partial unwinding of these initiatives in 2021, the working capital cash inflow for 2021 was €473 million higher than in 2020 at €1,634 million, principally driven by a significant increase in bookings for future travel in the second half of the year and an increase in trade payables as the flying programme increased.

Deferred revenue on ticket sales, which includes loyalty points (Avios), rose €1,422 million to €6,552 million at December 31, 2021; €6,161 million is included in current liabilities and €391 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 €95 million versus 2020 at €2,820 million, reflecting the net impact of a partial unwind of the American Express pre-payment in 2020 and the balance of Avios issued versus redeemed in 2021. Sales in advance of carriage, related to passenger ticket sales, were up €1,327 million versus 2020 at €3,732 million. At constant currency, Sales in advance of carriage were at the same level as December 2019. The cash impact of cancelled flights continued to be 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, 2021 at approximately the same level as December 2020 and representing one third of Sales in advance of carriage.

Trade receivables rose by €178 million, related to the significantly increased bookings for future travel versus those taken in the final months of 2020.

Trade and other payables rose by €902 million, related mainly to the significantly increased flying schedule and related costs in the final quarter of 2021, in which the Group operated 58.3 per cent of 2019 passenger capacity, versus only 26.6 per cent operated in quarter 4 of 2020.

British Airways deferred monthly UK pension deficit contributions that would otherwise have been due in quarter 4, 2020 to the value of €125 million, together with contributions of €390 million relating to the first three quarters of 2021, with the resultant amounts deferred due for payment in the 12 months ending March 2024. British Airways granted security over certain property assets to the Trustee of NAPS 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. In October 2021, the funding level of NAPS for the purposes of an overfunding protection mechanism, agreed in 2019, meant that British Airways made no contributions from October to December 2021. Should the funding level fall, contributions will resume at an accelerated rate to recover the contributions not made during the period the overfunding trigger applied. The triennial valuation of the scheme, based on conditions as at March 31, 2021, is expected to be completed in 2022 and will measure the latest funding position of the scheme, which may lead to a new schedule of deficit contributions.

#### 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 a stable outlook; these ratings remained unchanged up until the outbreak of COVID-19. The Group's current ratings (as at February 24, 2022) are: S&P: BB (3-notch decline), Moody's: Ba2 (2-notch decline), based on the impact of COVID-19 on the Group and the airline industry, together with the expected timing of the recovery of global air traffic.

#### Debt and capital

The Group monitors leverage using net debt to EBITDA, in addition to closely following measures used by the credit ratings agencies, including those based on gross debt.

 See Alternative Performance  
Measures section for calculation

The Group had previously set a target of net debt to EBITDA below 1.8 times.

In 2021, due to the significant impact of COVID-19, EBITDA was negative, rendering the net debt to EBITDA ratio not meaningful; the calculation for 2021 results in net debt to EBITDA of minus 11.5 times.

#### **Net debt**

€ million	2021	2020	Higher / (lower)
Debt	<b>15,679</b>	14,254	1,425
Cash and cash equivalents and interest-bearing deposits	(5,917)	(6,683)	(766)
Net debt at January 1	<b>9,762</b>	7,571	2,191
(Increase)/decrease in cash net of exchange	(2,026)	766	(2,792)
Net cash outflow from repayments of borrowings and lease liabilities	(2,265)	(2,514)	249
Net cash inflow from new borrowings	<b>4,817</b>	3,567	1,250
Non-cash impact from new leases	<b>518</b>	1,179	(661)
Increase in net debt from financing	<b>3,070</b>	2,232	838
Exchange and other non-cash movements	<b>861</b>	(807)	1,668
Net debt at December 31	<b>11,667</b>	9,762	1,905

Gross debt increased by €3,931 million, principally driven by non-aircraft debt raised by: British Airways (£2.0 billion), Aer Lingus (€75 million) and by IAG €1.2 billion of unsecured bonds and an €825 million IAG convertible bond. British Airways repaid £300 million of debt raised under the UK's CCFF mechanism in 2020. Gross debt is subject to foreign exchange translation movements, as the majority of the Group's aircraft debt is denominated in US dollars. Over the course of 2021 the euro weakened against the US dollar and the pound sterling and as a consequence €820 million of the increase gross debt was due to adverse foreign exchange translation. Cash increased by €2,026 million, leading to net debt €1,905 million higher at €11,667 million.

#### **Cash**

##### **Cash and interest-bearing deposits**

The cash balances at December 31, 2021 in IAG and other Group companies include the impact of additional non-aircraft related debt raised in the year and the translation of British Airways' and IAG Loyalty's cash balances, which are mainly held in pound sterling. The pound sterling ended the year 6.9 per cent stronger against the euro than at the start of 2021.

€ million	2021	2020	Higher/ (lower)
British Airways	<b>1,986</b>	1,389	597
Iberia	<b>761</b>	822	(61)
Vueling	<b>441</b>	590	(149)
Aer Lingus	<b>228</b>	266	(38)
IAG and other Group companies	<b>4,527</b>	2,850	1,677
<b>Cash and deposits</b>	<b>7,943</b>	5,917	2,026

#### **Debt**

The Group has been able to continue to obtain efficient funding secured against aircraft deliveries. Of the 11 aircraft delivered in 2021, four for British Airways were financed using asset financing lease arrangements, including three financed through a new sustainability-linked Enhanced Equipment Trust Certificate (EETC) financing agreed in July 2021. As at December 31, 2021 the remaining undrawn balance of this facility was \$635 million. One Iberia aircraft delivered in 2021 and two delivered in late 2020 were financed through sale and leaseback transactions. An additional six aircraft were introduced through leasing arrangements direct from lessors. The Group also raised additional financing against aircraft delivered in previous years and spare engines

In 2021, the Group drew non-aircraft debt facilities agreed in 2020, namely a £2.0 billion Export Development Guarantee (EDG) term loan for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028.

The debt actions above resulted in total 'Proceeds from borrowings' for the year of €4,817 million. Repayments of borrowings during the year included the repayment of British Airways' commercial paper issuance from the UK's Coronavirus Corporate Finance Facility (CCFF), which raised £300 million (€329 million) in March 2020.

## Equity

No equity was raised during the year. In quarter 4, 2020, the Group successfully completed a capital increase, with gross proceeds of €2.7 billion.

## Liquidity facilities

During the year, the Group signed a committed secured Revolving Credit Facility (RCF) with a syndicate of banks for \$1.755 billion, available for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of whom has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. No drawings against this facility were made in 2021 and the facility remained undrawn at February 24, 2022. Simultaneous with entering into this new RCF, British Airways cancelled its US dollar revolving credit facility that was due to expire in June 2021 and which had \$786 million undrawn and available at December 31, 2020.

On November 1, 2021, the Group agreed and executed a £1.0 billion committed credit facility for British Airways, partially guaranteed by UK Export Finance, which was not drawn in 2021 and remained undrawn at February 24, 2022.

The Group also has certain other committed and undrawn general facilities, bringing total committed and undrawn general facilities at December 31, 2021 to €2,917 million.

The Group also holds €1,126 million of committed and undrawn aircraft financing facilities, including the \$635 million remaining undrawn from British Airways' 2021 sustainability-linked EETC financing and backstop financing arrangements, which can be used against certain future aircraft deliveries.

In total, the Group had €4,043 million of committed and undrawn general and aircraft facilities as at December 31, 2021.

The facilities values above do not include the balance of certain shorter-term working capital facilities available to the Group's operating companies.

## Dividends

No dividends were proposed in 2021; in 2020 a proposal to pay a final dividend in respect of 2019, announced with the 2019 financial results in February of 2020, was withdrawn in April 2020.

## Liquidity and cashflow

Total liquidity, measured as cash and interest-bearing deposits of €7,943 million and committed and undrawn general and aircraft facilities of €4,043 million, was €11,986 million at December 31, 2021. This represented an increase of €1,730 million versus pro forma liquidity of €10,256 million at the end of 2020, which included a £2.0 billion UK EF facility agreed in December 2020 and drawn as debt in March 2021.

## Cash flow

	2021	2020 <sup>1,2</sup>	Movement
€ million			
Operating loss	(2,765)	(7,451)	4,686
Depreciation, amortisation and impairment	1,932	2,955	(1,023)
Movement in working capital	1,634	1,161	473
Payment related to restructuring	(161)	(383)	222
Pension contributions net of service costs	(15)	(288)	273
Provisions and other non-cash movements	305	486	(181)
(Realised)/unrealised net loss on discontinuance of fuel and foreign exchange hedge accounting	(497)	569	(1,066)
Interest paid	(640)	(548)	(92)
Interest received	3	22	(19)
Tax received	63	45	18
<b>Net cash outflows from operating activities</b>	<b>(141)</b>	<b>(3,432)</b>	<b>3,291</b>
Acquisition of PPE and intangible assets	(744)	(1,939)	1,195
Sale of PPE, intangible assets and investments	544	1,133	(589)
Decrease in current interest-bearing deposits	91	2,366	(2,275)
Other investing movements	(72)	2	(74)
<b>Net cash flows from investing activities</b>	<b>(181)</b>	<b>1,562</b>	<b>(1,743)</b>
Proceeds from borrowings	4,817	3,567	1,250
Repayments of borrowings	(784)	(978)	194
Repayment of lease liabilities	(1,481)	(1,536)	55
Dividend paid	-	(53)	53
Proceeds from rights issue	-	2,674	(2,674)
Settlement of derivative financial instruments	(268)	136	(404)
Acquisition of Treasury shares and other financing movements	(49)	-	(49)
<b>Net cash flows from financing activities</b>	<b>2,235</b>	<b>3,810</b>	<b>(1,575)</b>
Net increase in cash and cash equivalents	1,913	1,940	(27)
Net foreign exchange differences	205	(228)	433
Cash and cash equivalents at January 1	5,774	4,062	1,712
<b>Cash and cash equivalents at year end</b>	<b>7,892</b>	<b>5,774</b>	<b>2,118</b>
<b>Interest-bearing deposits maturing after more than three months</b>	<b>51</b>	<b>143</b>	<b>(92)</b>
<b>Cash, cash equivalents and interest-bearing deposits</b>	<b>7,943</b>	<b>5,917</b>	<b>2,026</b>

1 2020 comparative figures have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. See note 2 to the financial statements for further information

2 The 2020 results include a reclassification to conform with the current period of presentation regarding settlement of derivative financial instruments. See note 2 to the financial statements for further information.

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

Restructuring payments principally include payments in Spain relating to redundancy programmes agreed prior to 2020.

Pension payments in 2020 included nine months of contributions to the main British Airways pension fund, NAPS. Deferrals of deficit contributions were agreed with the NAPS Trustee from October 2020 to September 2021 and from October 2021 to December 2021 no deficit contributions were required, as the scheme had reached pre-agreed trigger levels for an overfunding protection mechanism to apply; this mechanism was agreed in 2019. Deficit contributions could resume should the funding level fall, or if the ongoing triennial valuation of the scheme, based on the funding position at March 31, 2021 and updated assumptions, determines there is a deficit.

 See note 32 to the financial statements 'Employee benefit obligations' for further information

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. As the fuel price rose in 2021 the required payments were lower than when measured at the end of 2020.

Sale of property, plant and equipment and intangibles, in addition to the aircraft sale and leaseback transactions discussed under 'Funding' above, includes the disposal of aircraft financed on sale and leaseback transactions, spare engines and other disposals.

Other investing movements includes the €75 million payment to Globalia, due to the settlement agreement to terminate the agreements under which Iberia had agreed to acquire the issued share capital of Air Europa.

Repayments of borrowings and lease liabilities includes the principal element of ongoing lease payments. Based on the share price at December 31, 2021, the remaining €500 million IAG convertible bond issued in 2015 will be due for repayment in November 2022.

The €53 million of cash outflow for dividends in 2020 relates to the Spanish withholding tax in respect of the 2019 interim dividend. No dividends were declared in respect of either 2020 or 2021.

Settlement of derivative financial instruments relates to settlements of foreign exchange instruments taken out to hedge long-term debt payments, including US dollar lease payments. The outflow in 2021 is partly due to gains that would otherwise have been received in 2021 being accelerated into 2020, as part of the initiatives to preserve liquidity after the spread of COVID-19 in 2020.

# We're building a brighter future for British Airways



**Sean Doyle**  
Chairman and Chief Executive Officer of  
British Airways

**"We're working hard to offer our customers even more of the choice, value and unique British Airways service we know they love."**

## Business overview

The COVID-19 pandemic has remained the most challenging period of our 102-year history, prohibiting meaningful travel for almost two years. The dedication and resilience shown by our colleagues across the airline has helped us to get through this crisis, introducing new safety measures, constantly reviewing our schedules to respond to the frequent changes in restrictions and working dynamically to increase flights to countries when restrictions eased. We continued to offer flexibility to our customers with the guarantee that if their plans were affected by the pandemic, they could move their flight to an alternative date and/or destination or accept a voucher for future travel. Despite the financial impact the pandemic has had on our business we have continued to invest, in new aircraft, cabins and food and drink to delight our customers. We have also put sustainability at the heart of everything we do and invested heavily in our new sustainability programme, BA Better World.

## Our people

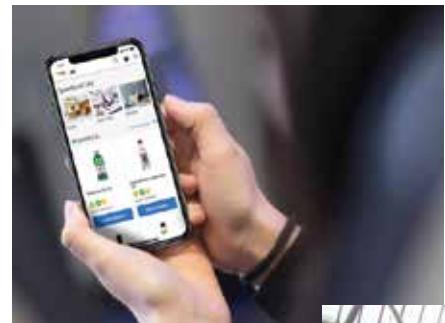
I am incredibly grateful to everyone at British Airways for their hard work and commitment during this period, not only for their resilience in the most difficult of times, but for pulling together to go the extra mile for our customers and to develop creative solutions to the problems generated by the pandemic. It was a difficult and an uncertain year for everyone in the company and we were absolutely delighted to welcome back our colleagues when the Covid Job Retention Scheme (CRJS) came to an end in September. As we emerge from the crisis, and look forward to more meaningful travel and fewer restrictions, we have started to recruit again, to help us rebuild our business as we seek to grow.

I also want to thank the 1,500 colleagues who gave up their time while on furlough to volunteer and support organisations across the UK, including COVID-19 vaccination and test centres, foodbanks and charities such as the British Red Cross and St John's Ambulance.

## Our customers

In many ways the pandemic has helped us to drive radical changes in our customer experience. These include working with

**The airline is recruiting thousands of new colleagues to support its summer schedule**



**In July 2021, British Airways introduced a new digital ordering platform for customers to choose food and drink from its Speedbird Café to be delivered to their seat in the British Airways lounges**



# -51.4%

**Operating margin**  
+7.3 pts vs 2020

# -71.7%

**ASK change**  
vs 2019

# 276

**Fleet in service**  
-1 vs 2020

VeriFLY to allow health documents to be digitally, rather than manually, checked at the airport enabling passengers to check in online and reducing queue times, introducing an app for customers to order food and drink to their table in our lounges, allowing them to socially distance from

other customers, and introducing a dedicated section of ba.com to provide information about travel restrictions, discounted testing partners as well as a new interactive map to help them check the entry requirements for the destination they're travelling to.

In the face of constantly changing travel restrictions, alongside lockdowns affecting our global engagement centres, we know that some of our customers had difficulty in contacting us via phone and faced lengthy waits in queues. This is not the level of service they should expect, and as we rebuild our business, we are investing in new technology to address this and improve the experience we offer our customers.

Offering a premium proposition for our customers is at the heart of our strategy and we want every customer journey to be enjoyable and more seamless. Our IT teams are working on a new baggage tracing system which will allow customers to track their bags. In our lounges we have



**In September 2021, British Airways launched its new BA Better World sustainability programme**

**British Airways announced that all of its Boeing 777 fleet would feature its new Club Suite from the end of 2022**



listened to our customers feedback and have maintained the mobile table ordering service to ensure a premium experience. By the end of the year, 34 aircraft were fitted with our new Club Suite business cabin seat and WiFi installed on more than 80 per cent of our fleet. All our Heathrow-based Boeing 777 aircraft will feature our Club Suite by the end of this year. During the pandemic we also formed a new partnership with highly acclaimed chef Tom Kerridge, with a new menu for our Euro Traveller customers travelling on shorthaul flights.

#### **Our planet**

In September 2021 we launched our new sustainability programme BA Better World, acknowledging that this is 'our most important journey yet' and putting sustainability at our heart. We are working hard to reduce our emissions and waste and positively contribute to the communities we serve to create a great place for our people to work and build a resilient, responsible business. During the year we invested in ZeroAvia to further develop hydrogen-powered aircraft, as well as in the development of Sustainable Aviation Fuel (SAF), with a new deal with LanzaJet in the US as well as investment in four UK-based projects, which also received funding from the Government during the past year. We are committed to achieving net zero carbon emissions by 2050, and worked with bp to provide enough sustainable aviation fuel for our flights between London and Glasgow and Edinburgh during COP26, as well as for our first transatlantic flight to New York once restrictions were lifted on November 8, 2021; operating an Airbus A350 aircraft using a 35 per cent blend of SAF reduced emissions by more than 50 per cent compared to the now-retired Boeing 747 aircraft that used to operate that route. We've also championed the use of sustainability financing, with three credit facilities linked to sustainability targets.

#### **Looking forward**

During the most challenging period in our history I have been hugely impressed by the resilience and professionalism of our colleagues, who are determined to help us rebuild into an even better airline than before. We are creating a new subsidiary at Gatwick to offer more choice to our customers as well as reviewing our policies and procedures to ensure we empower colleagues to do the right thing for those who fly with us. And we're working on new initiatives to make British Airways an even more attractive place to work — something we know will drive even better customer service.

# Flexibility and drive to gain momentum



**Javier Sánchez-Prieto**

Chairman and Chief Executive Officer of Iberia

**“2021 has once again tested our ability to adapt to a very challenging environment.”**

## Business overview

We have seized opportunities to add more capacity than our competitors while strengthening our position on routes to Latin America. We are now operating almost 100 per cent of our pre-pandemic network although our capacity is still below 2019.

Our handling and maintenance divisions have done a great job and both businesses have generated positive results in 2021.

It was very disappointing in December that we had to terminate an agreement reached previously with Globalia to acquire Air Europa. However, we have committed to analyse alternative arrangements.

## Our people

I am incredibly proud of the commitment our employees have shown during the last year, which has helped us weather this pandemic and stimulate demand in all the markets in which we operate. Our people have gone above and beyond to help where needed, helping repatriate thousands of people and transporting more than six million vaccines to the Spanish islands and across Latin America.

Our priority during this crisis has been looking after our employees. The

implementation of the emergency furlough scheme approved by the Spanish Government allowed us to protect more than 15,000 jobs from our workforce.

During the summer we also collaborated with the Spanish vaccination programme, by setting up a centre where more than 25,000 people received their jabs, including our employees and members of the community in Madrid.

## Our customers

At Iberia, as with all IAG's airlines, our customers are and will always be at the centre of our business. To ensure their utmost comfort, we updated our safety, prevention and hygiene measures, to ensure we could recommence travel with confidence. These measures earned us a four-star Skytrax rating and ranked us among the ten safest airlines in terms of protecting against COVID-19 in the world, according to the Safe Travel Barometer.

COVID-19 accelerated the digitalisation of our business, which was already underway prior to the pandemic. Our goal is to improve the customer experience through innovation, and we have been working on a range of new solutions, such as the Iberia chatbot on WhatsApp, and digitising the documentation required to fly.



**Iberia's maintenance team has provided preservation services to more than 150 IAG aircraft and third-party customers in Madrid, Palma, Málaga and Seville**



**Three Airbus A330 aircraft will pass from Iberia to the Ministry of Defence to be transformed into Multi-Role Tanker Transport (MRTT). Iberia has trained the army pilots who will operate these aircraft and has provided handling equipment to assist them**



# -8.4%

**Operating margin**  
+25.2 pts vs. 2020

# -44.6%

**ASK change**  
vs 2019

# 87

**Fleet in service**  
-2 vs 2020

## Our planet

In November, Iberia and Repsol operated the first flight in Spain using sustainable aviation fuel made from waste which reduced emissions by 1.4 tonnes of CO<sub>2</sub> emissions than a flight operated with fossil fuel. We flew one of the most efficient

aircraft in the world, the Airbus A320neo, which reduces noise by 50 per cent and produces 50 per cent less NOx.

Iberia also completed the construction, at its maintenance facilities, of the largest self-consumption solar panel plant of the IBEX companies. Built in partnership with specialist firm Getting Greener, the new facility is part of an ambitious plan to generate a total 10MW of power over the next three years, with production of more than 13 million kWh, generating the equivalent power consumed by more than 4,000 homes.

## Looking forward

We expect Iberia's recovery to be consolidated in 2022. We will focus on returning the airline to profitability while continue working to make significant progress on the decarbonisation of aviation. Our teams will take every opportunity to strengthen Iberia's position in all the markets we operate, offering its customers a more personalised service using innovation.



**Repsol and Iberia have completed the Madrid – Bilbao route with sustainable fuel produced from waste at the Petronor refinery. The flight was operated with the Airbus A320neo, one of the airline's most efficient aircraft**

**Iberia and Getting Greener begin operating the largest self-consumption plant of the Ibex in La Muñoz**



**IBERIA  
EXPRESS**

## Contributing to the recovery

Iberia Express has once again demonstrated its flexibility and efficiency.

Iberia Express has set ambitious targets to reduce its environmental footprint. In March 2021 the fourth Airbus A321neo aircraft was added to its fleet. This is the most efficient short- and medium-haul Airbus model and represented a further step in its fleet renewal as part of its roadmap towards zero net emissions by 2050.

Together with Iberia and IAG Cargo, Iberia Express contributed to the transport of vaccines to the Canary Islands and the Balearic Islands throughout the year. Additionally, it carried humanitarian aid to support the crisis caused by the eruption of the volcano on La Palma, an example of the company's commitment to the islands.

Throughout the COVID-19 pandemic, Iberia Express has always guaranteed connectivity with the Canary Islands. Last summer the number of seats offered to the Canary Islands and Balearic Islands was higher than in the same period of 2019. In summer 2021, the airline launched the new seasonal route to Kefalonia, landing for the first time on the Ionian island in July and expanding its network of more than 30 domestic and international destinations.

Iberia Express ranked among the most punctual airlines in Europe. Iberia's Express team is the airline's greatest asset. Despite the complex environment, they did their best to provide excellent customer service, achieving the best NPS in the company's history.

# Transforming to emerge stronger



**Marco Sansavini**

Chairman and Chief Executive Officer of Vueling

**“While withstanding an unprecedented situation due to the pandemic, Vueling is undertaking an ambitious transformation plan to emerge stronger.”**

#### **Business overview.**

For the second year in a row, around 4,000 Vueling employees faced the most unprecedented crisis in our industry's history.

In terms of managing the crisis, we focused on four key priorities.

First, our main objective has been to protect the health and well-being of our employees and customers. Second, we enhanced flexibility to enable us to constantly adapt our capacity to match demand, identifying any new opportunities to fly, which generated cash. Third, we had to rigorously adapt our costs as much as possible to meet the level of flight activity. Finally, we had a constant focus on cash, working capital and financing.

However, while managing the crisis, we also began preparing to emerge even more efficient and competitive in a post-pandemic environment by implementing the 19 initiatives included in our Plan 'Vueling Transform'. These

initiatives aim to unlock the full potential of our airline by generating more value for our shareholders, our employees, our customers and ultimately society.

For example, we transformed our maintenance model by launching a new joint venture company that manages Vueling Line Maintenance; we changed the structure of our fare families and introduced new ancillaries such as Guaranteed Hand Bag, giving more flexibility to our customers to choose the services they exactly need; and we redefined our Mission Vision and Values to lead our people through this period of uncertainty.

#### **Our people**

I'm incredibly thankful to all our people at Vueling: the impressive resilience and commitment that they demonstrated all through the year has been the driving force behind our achievements at a time where many were required to make personal sacrifices.

In its 17 years of history, Vueling has faced several challenges and, has always been able to emerge stronger afterwards. Once again, this crisis demonstrated what Vueling people are capable of and that the ability to rise to a challenge is in our DNA.

**As a result of the creation of a new joint venture company that manages Vueling Line Maintenance, a new warehouse has been built**



Vueling has received the prestigious Skytrax award and has been designated as the Best European low-cost carrier



# -25.8%

**Operating margin**  
+82.7 pts vs 2020

# -47.0%

**ASK change**  
vs 2019

# 117

**Fleet in service**  
+4 vs. 2020

## Our customers

We are honoured that thanks to all the efforts made by Vueling's people we were rewarded by our customers with the prestigious Skytrax award as Europe's best low-cost carrier. This is a reflection of the continuous hard work made to help our customers throughout difficult circumstances, for instance being the first European low-cost airline to implement the IATA travel pass and offering digital solutions to simplify the customer experience.

This was combined with another unprecedented achievement in 2021: Cirium named Vueling as The Most On-time European Airline in 2021.

For us, achieving these awards in a year that required so many sacrifices and efforts is a clear testimony of the exceptional level of commitment and dedication of all our people at Vueling.

Another key milestone in our progress to offer a stronger customer proposition has been to expand our offering in Orly: the European Commission assessed Vueling's proposal as the best for the 18 Air France slots that became available at Paris-Orly Airport, following a competitive process. As a result of obtaining these slots, Vueling becomes the second-largest operator —after the Air France Group— which allows us to offer our customers 32 new destinations from Paris-Orly airport.

Similarly, our efforts to strengthen our Spanish domestic network have been well received by our local customers. Last summer, we operated a level of capacity up to 114 per cent of 2019 levels and opened 42 new routes both in domestic and international markets.

Still, in a year of so many achievements, we believe it has not been always easy to adjust our level of capacity as rapidly as demand was changing, and we have in time improved our agility to be able to react even more quickly than we did at the beginning of the crisis.

## Our planet

Sustainability forms a key part of Vueling Transform, reflecting all the actions we are undertaking to reach our net zero commitment and, to achieve 10 per cent usage of Sustainable Aviation Fuels (SAF) by 2030. In this respect we recently signed an agreement with Repsol for the supply of SAF and we operated our first green flight on a Barcelona-Seville route on November 10, 2021.

In terms of diversity, Vueling continues to increase the ratio of women in management positions with the percentage of women in leadership roles now 38 per cent.

Furthermore, we are proud to be the leading airline in the transport of human organs for transplantation in Spain.

## Looking forward

In conclusion, while recognising that 2021 continued to be an extremely challenging year, we are confident that we are closer to recovery, and are well placed to successfully adapt to market conditions as they evolve. Vueling Transform is preparing us for the future and achievements such as the Skytrax award, and the attainment of slots at Paris-Orly, reinforce our confidence that, with the commitment of our Vueling employees, we will be able to emerge from the crisis stronger.



**Since 2013, Vueling has been the leading commercial airline in Spain in the transport of organs for transplantation**

Vueling has recently signed an agreement with Repsol on Sustainable Aviation Fuel procurement and we operated our first green flight on a Barcelona-Seville route



# Navigating the crisis, readying for recovery



**Lynne Embleton**  
Chairman and Chief Executive Officer of Aer Lingus

**"In a rollercoaster year we have laid the foundations to emerge stronger from the pandemic."**

## Business overview

During the COVID-19 pandemic, Ireland had the most stringent travel restrictions within Europe. The non-essential travel ban in Ireland was in place until well into the summer season. The inbound travel bans to the US — which covered the entirety of the Aer Lingus longhaul network — remained in place for over ten months of the year.

The impact has been profound: international travel to and from Ireland was less than 25 per cent of 2019 levels in 2021.

However, Ireland is an island nation. Irish people love to travel. And Ireland's geographic position is a natural location for a successful North Atlantic hub. Therefore, whilst navigating the crisis, we have been readying ourselves for the recovery.

Our schedule for summer 2022 triples our capacity compared to summer 2021 and reaches 90 per cent of 2019 levels by the summer peak. We are reintroducing capacity during the first quarter of 2022 to be operationally ready for this summer peak.

Following constructive discussions with our pilot and cabin crew communities we have agreed structural changes covering both pay scales and working practices. These will make us more cost competitive and support future investment and growth.

2021 also saw a significant milestone with the creation and launch of our new subsidiary airline. This allows us to pursue longhaul market opportunities out of the UK and we commenced our first transatlantic services from Manchester in October.

The focus on liquidity continued throughout the year and a series of debt facilities were made available through the Ireland Strategic Investment Fund (ISIF) and IAG. Consequently, we finished the year in a firm liquidity position.

## Our people

The low number of flights operated in 2021 belies the effort, teamwork and creativity of our Aer Lingus colleagues. It was a year of re-planning, re-booking, re-training, and returning aircraft to service, compounded by COVID-related supply chain issues and staff absences. Despite these challenges, the commitment to strong punctuality and high levels of customer service prevailed.

Many office-based colleagues have not returned to the workplace since March 2020. Whilst our people have adapted to

**Team Ireland athletes onboard the Aer Lingus flight ahead of their Paralympic homecoming**



Aer Lingus has signed a deal with Daon to extend the use of the VeriFLY app, following the successful rollout of the technology across its network



# -92.1%

**Operating margin**  
-15.3 pts vs 2020

# -75.6%

**ASK change**  
vs 2019

# 47

**Fleet in service**  
-3 vs. 2020

working from home, this hasn't been without challenge. We look forward to re-establishing face-to-face engagement and embracing flexible working following the Government's announcement in January 2022 that workers can return to the workplace on a phased basis.

Throughout the crisis we sought to retain the employment of as many of our people as possible. That required significant salary reductions across the organisation. Payroll savings were reached by agreement with our workforce in 2020 and 2021 and the Irish government Employee Wage Subsidy Scheme (EWSS) provided important support.

### Our customers

The social and economic benefits of air travel are compelling. We have consistently challenged the government to insist any COVID restrictions are evidence-based, proportionate and in place for the minimum amount of time. When restrictions have been lifted the customer response has been positive. In order to support consumer confidence, we have introduced market-leading flexible booking policies. Additionally, investment in digital solutions provide customers clarity of travel requirements, confidence in being ready-to-fly and a smoother experience through the airport.

We further developed our digital capability in areas such as disruption management, baggage, ancillary revenues and readiness to participate in the Atlantic Joint Business.

Following the sudden collapse of Stobart Air – the franchise operator of Aer Lingus Regional – Aer Lingus stepped in to provide rescue flights and open new routes in order to minimise customer impact. We have successfully developed a new franchise partnership with Emerald Airlines and Aer Lingus regional service operations will restart from March 17, 2022.

### Our planet

We continue resolute in our commitment to sustainability. In 2021 we took delivery of three fuel-efficient Airbus A321 LR aircraft to operate across the Atlantic and support the sustainable development of our Dublin hub. We are working with IAG and the other operating companies to develop a comprehensive sustainability programme.

### Looking forward

Our customer research tells us that Irish people are very keen to get back flying. The Aer Lingus team have laid the foundations for recovery, we have an ambitious schedule planned and a competitive product. Our vision is to be at the heart of travel to, through and beyond Ireland for generations to come. We look forward to more and more customers experiencing the warm welcome for which Aer Lingus is renowned.

## MANCHESTER AIRPORT DEPARTURES



**Departure of the airline's first ever non-stop direct flight from Manchester to Barbados**



**Aer Lingus extends 'Book with Confidence' policy to offer additional flexibility to customers**

# Unlocking every possible opportunity

## IAG Cargo



**David Podolsky**  
Chief Strategy Officer and Chief Executive Officer of IAG Cargo

**“Our people have worked tirelessly to adapt our business to the opportunities presented by a strong cargo market, unlocking every possible opportunity for the Group and achieving record revenues.”**

### Business overview

In 2021 the role of air cargo remained very much in the spotlight. Our people went above and beyond to find solutions to the global capacity crunch and airfreight restrictions and, in turn, we were able to keep world trade moving, delivering essential supplies and the vital components of everyday life. Our ‘always moving’ mantra enabled us to deliver for our customers as passenger flying continued to be disrupted.

We reshaped our business to take advantage of the strong cargo market and actively repurposed Group capacity when appropriate. The business delivered record revenues of €1,673 million, up 28 per cent from 2020, with a sustained resurgence in the volume of flights and yields exceeding 2020 levels.

In the second half of the year we saw momentum build. Capacity started to return, and the business began to take increasingly confident steps towards a more stable future as the economic recovery from the COVID-19 pandemic gained ground. IAG Cargo also saw conversions from sea freight as shippers turned to air cargo to minimise the impact of supply chain disruption. We are still endeavouring to utilise available fleet and crew to align our network to cargo customer demand, with cargo-only flying.

### Our people

We would not have achieved the results we did without the determination and creativity of our people, who faced the challenges of the pandemic head on. Our people have shown significant flexibility as they have adapted to the changing demands of the industry and business environment.

We are grateful for the key role our frontline operational colleagues have played, ensuring we were always delivering. During the year, we launched our Operational Leadership programme to further strengthen the resilience and management capabilities of our business.



**IAG Cargo’s people went above and beyond to find solutions to the global capacity crunch**



**IAG Cargo and Iberia celebrate the second anniversary of the multi-million-euro pharmaceutical centre in Madrid, as it takes centre stage in the COVID-19 vaccine roll out**



## **Our customers**

Despite ongoing restrictions affecting passenger movements, we were able to provide cargo capacity where our customers most needed it, with cargo-led flying and co-sponsored activity with our passenger counterparts. We aligned our network to customer demand, increasing frequencies on important trade routes.

We invested in improving the functionality of our online offering and expanded our partnerships with third-party platform providers. Both actions supported online channel shift and digital bookings whilst providing more flexibility to our customers.

Strengthening our collaboration with our largest customers we launched our Global Partnership Programme, embarking on more strategic joint endeavours and aligning our sustainability ambitions. Supporting customers, we also enhanced our Customer Relationship Management (CRM) capabilities to provide more effective communications to help them build their businesses with us.

Charters remained popular. In 2021 we operated 745 charters, opening new stations in Haiti, USA and Canada to service bespoke requests including keeping an automobile production line on schedule, keeping supermarket shelves stocked, supplying global communities with PPE and delivering ballot papers for elections. We also created further capacity for our charter customers by removing the seats from the cabins of three Airbus A330 LEVEL aircraft.

## **Our planet**

In 2021 our cold chain service, Constant Climate was responsible for shipping millions of doses of lifesaving COVID-19 vaccines to almost every corner of the world. IAG Cargo started a partnership with UNICEF, committing its support to the organisation's COVAX programme, the global effort aimed at providing equitable access to COVID-19 vaccines.

In addition, IAG Cargo also funded several relief flights. Joining forces with British Airways, IAG Cargo's teams worked around the clock to transport emergency aid to Delhi to support the Indian government as the country battled rising COVID-19 cases with dwindling oxygen supplies. Working with the UK Government and UNICEF Spain, IAG Cargo helped support the recovery efforts in Haiti, flying 25 tonnes of aid to help the recovery efforts following the earthquake that struck the country in August 2021.

We are constantly looking at ways to reduce our impact on the environment whilst improving our customer offering and to that end, we were delighted to complete our first Sustainable Aviation Fuel (SAF) charter chain of 16 flights from Stuttgart to Atlanta. Working with our partner Kuehne+Nagel, IAG Cargo sourced 1.2 million litres of sustainable aviation fuel. The collaboration marked the first time ever that passenger-freighter charter flights were operated with net zero carbon emissions.

## **Looking forward**

In 2022 as passenger traffic numbers recover, our flexibility to optimise towards customer demand and provide bespoke solutions will become more constrained. We will work with our Group airlines to allocate capacity with the aim of maximising return from Group assets. The team at IAG Cargo is excited to enter 2022, starting a new and ambitious phase of activity.

In December 2021 we reached Practical Completion on our new Premium facility at London Heathrow, which will allow us to not only begin to increase capacity in 2022 also but add new product capability. Next year, we will also be investing in our pricing systems, distribution and the continued development of our people.



**IAG Cargo partners with Kuehne+Nagel to complete its first charter chain from Stuttgart to Atlanta in the United States using Neste MY Sustainable Aviation Fuel (SAF)**



# Positioned for growth

## IAG Loyalty<sup>®</sup>



**Adam Daniels**

Chairman and Chief Executive Officer of IAG Loyalty

**"Our Loyalty business has continued to demonstrate resilience. We have now established the required foundations for our long-term success and to deliver a step change in the role of loyalty for our customers and the IAG airlines."**

### Business overview

Throughout the pandemic IAG Loyalty has demonstrated the resilience of our model and the value of being able to maintain engagement with our customers. We remained profitable and cash generative throughout the pandemic.

2021 has been a year of modernising our infrastructure to enable us to accelerate our business plan. We continued to invest in our customer propositions and technology development to ensure our loyalty asset was ready for the lifting of global travel restrictions.

We have enhanced our ways of working and made new appointments in the management team that are enabling us to deliver more initiatives at speed.

We have new long-term agreements with IAG airlines and secured a doubling of our guaranteed reward seats in the process.

Our role of providing the Group airlines with a pioneering centre of excellence for loyalty continues to develop at pace.

In 2021, customers collected over 54 billion Avios. Avios collected from flying was down 80 per cent versus 2019, though collection from everyday spend with our partners was less impacted by the pandemic, being down by 27 per cent versus 2019. Of our 2021 issuance, 77 per cent came through customers collecting with non-air partners.

### Our people

As a non-airline operating company, we often require different expertise and skillsets. To meet this need we have created an Employer Value Proposition and Employer Brand to amplify our strengths and differentiators. We're delivering a compelling people plan and a broad range of initiatives spanning all aspects of the people agenda, ensuring we have the right capabilities, culture and opportunities in place for colleagues to thrive.

Our people have embraced significant change during the year with hybrid working, moving to a new office in central London and the implementation of agile ways of working to enable the business to



**We have moved to a hybrid model of working, including new space for our team to collaborate in**



**For the first time ever, British Airways Executive customers can convert their Avios and Nectar balances both ways**



deliver value that's highly aligned to our customer needs and is outcome driven. This has empowered our people to be curious and innovative in our approach to delivery and I'd like to thank them for their energy and commitment through this transition.

#### **Our customers**

In the UK, our British Airways cobrand credit card was relaunched, implementing a number of changes agreed during our renegotiation with American Express in 2020. We have added enhanced availability in business cabins for Premium Plus card members. This builds on the already industry-leading Companion Voucher card benefit and is proving popular with customers.

It has been a challenging year, particularly in the UK, managing the level of customer calls for redemption flight bookings during the changing travel restrictions globally. We have a high focus on improving the speed of answer and first call resolution. Whilst the volumes are a positive sign of demand and engagement with Avios, we are aware this has been a frustration for a number of customers.

Our Aer Lingus AerClub customers are now able to settle their purchases, e.g. commercial tickets, seats and extra baggage, in full with Avios. This is live across Aer Lingus booking channels and proving exceptionally popular with customers as an enhancement from the previous part-payment options.

In Spain, Santander, a key partner for our Iberia Plus members, continues to grow across credit card and banking products. We also launched a cobrand card between CaxiaBank and Vueling to give additional Avios collecting opportunities for customers.

#### **Our innovation**

2021 has seen the migration of British Airways and Iberia to our Global Loyalty Platform, holding over 38 million customer records and many billions of Avios. The scale, complexity and challenge of this migration led to a delay in being able to reactivate some of the entry points for our customers to access their account for several days. Despite this challenge the migration was successful and this concludes the initiative to bring Group airline programmes onto a single, more capable and agile platform.

We created new innovative proprietary products, for example, the platform that enables customers earning Nectar points to exchange for Avios. We have seen strong engagement from customers to link their accounts and exchange.

We have recently announced a new agreement with Qatar Airways that will see Avios adopted as the currency of the Privilege Club, Qatar Airways' loyalty programme. This is a new and innovative way to globalise our currency. The new relationship will increase customer acquisition and value, through an enhanced earning and redemption proposition.

#### **Looking forward**

Our business is in growth mode and ready to realise the full potential of loyalty for our customers and the Group.

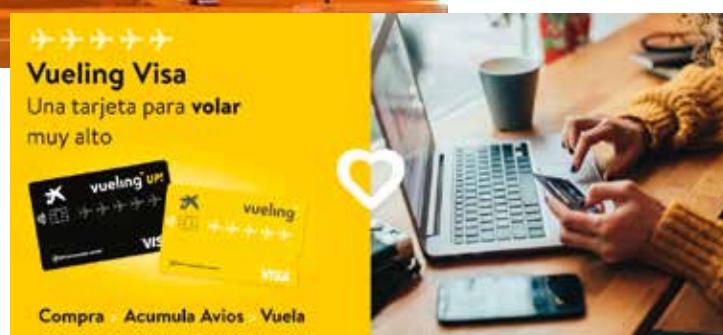
Focus and development in our technology and data capabilities will continue to enable deep digital expertise and delivery of best-in-class products.

We will be expanding the reach of the Avios currency globally by developing new ventures, delivery of new partnerships and earning opportunities for customers.



**The Checkout the World campaign projected onto Marble Arch, London, launched in partnership with British Airways and American Express**

Our Vueling Club members are now able to earn Avios from their everyday spend on the new cobrand card with CaxiaBank



# Strengthening Barcelona's longhaul connectivity



**Fernando Candela**  
Chief Executive Officer of LEVEL

**"LEVEL has moved decisively towards the full reactivation of longhaul flights from Barcelona. It has adapted to the pandemic, seeking alternatives that have allowed it to maintain its operations and fulfil its raison d'être: to connect the world and people."**

#### Business overview

At LEVEL we have played a crucial role in maintaining Barcelona's connectivity, adapting our operations to the varying restrictions, offering our clients an alternative choice of destinations. Reactivation commenced as soon the restrictions were lifted in our consolidated routes, peaking during the summer months when we attained 24 per cent of the seats flown to the United States out of Barcelona. Our commitment to air cargo allowed us to maintain operations in the most difficult months of the year. True to the model, we combined the most competitive fares with a boost in the sale of ancillary products. In addition, and thanks to the sale of connections with Vueling, we expanded the reach of our services. During the third quarter of the year, 16 per cent of sales were connecting flights. Despite facing

one of the most challenging years in aviation history, our commitment to the reactivation of the sector has strengthened our position in Barcelona.

#### Our people

**Destination equality.** In 2021 we consolidated the team in Barcelona and solidified our way of doing things: disruptive thinking and a start-up culture to reinvent both processes and work dynamics. At LEVEL, diversity and inclusion run in our DNA, with 41 per cent of the senior roles held by women. During the month of March, we led an important campaign for gender equality: we focused our efforts to create an equalitarian company, being the first airline in adopting inclusive language in all our Spanish communications and empowering women to fly their way by creating a digital community to connect female travellers.

#### Our customers

Unfortunately, during 2021 we were still forced to readjust our operations, which left many customers without their flight of choice. The high volume of requests meant it was not always possible to maintain the expected standard of quality. For that reason, we strengthened digital distribution and opted for 360° communication channels that allowed us to be where we were needed: close to our customers. Since then, more than 30 per cent of enquiries were made through our

digital channels such as social networks, live chat, or chatbot. In 2021, we went a step further in the customisation of travel with LEVEL thanks to new web developments, which have allowed us to offer an easy and tailor-made experience. We have guaranteed very competitive departure prices and complementary products designed to meet the preferences of every customer. We launched flights to Punta Cana and Cancun to offer attractive alternatives to destinations opened to tourism.

#### Our planet

##### Optimise processes to reduce their environmental impact.

**environmental impact.** We have worked to put technology at the centre, to improve efficiency and reduce waste. To that end, we designed a pre-order portal that has allowed us to adjust the amount of food we load to the specific demand on each flight. With this project, only what is going to be consumed is loaded on the plane, reducing leftovers and minimising waste.

#### Looking forward

We will continue to strengthen Barcelona as a hub between United States and Europe, reviewing every process and rethinking each aspect so that every trip on board LEVEL is the personalised, warm, and digital experience that the new generations demand.



# Delivering through times of challenge and change



**Zoe Davis**  
Director of IAG GBS

**"IAG GBS delivered support and significant savings during 2021, pivoting and adapting to the challenges we faced and helping the Group to come out of the pandemic right-sized for the future."**

## Overview

In 2021, through our established central platform, we used our scale and agility to continue supporting every part of the Group. We used our expertise to deliver centralised services for procurement, finance and airport operations.

With our constant focus on delivering IAG's Cost per Available Seat Kilometre (CASK) targets, we monitored, managed and simplified the supply chain; mitigated costs; and ensured the Group had a robust supply chain during a very challenging global environment.

Our specialists delivered automation and innovation to drive industry-leading process improvements right across IAG. We introduced the Integrated Support Centre leveraging new chatbot functionality and AI ticketing technology to better support employees and suppliers with their queries. The automation programme also accelerated

to improve efficiencies in our financial processes leading to better performance and analytics.

We utilised our unique position as the hub of working capital activity for the Group, providing valuable insight and a constant overview.

2021 has been the year we defined and started to deliver on our four core transformation pillars:

- Driving further synergies by leveraging the existing platform and onboarding additional services, including managing the critical Right to Fly services for British Airways and Iberia
- Continuing the in-depth restructure of the Group's cost base to optimise unit costs; to partner with suppliers who share our values and ways of working; and to manage supplier performance
- Delivering automation and analytics, while using our insights from around the Group to optimise the mix of onshore, nearshore and offshore work
- Proactively monitoring any potential supplier risks to mitigate emerging issues, and leading on our supplier sustainability commitments

We continue to seek additional opportunities to leverage our established platform and deliver further synergies for the Group.

## Our people

With a diverse global organisation, we are focused on continuing to create a high-performing team, attracting, engaging, developing and retaining industry experts with initiatives in place to support them on their journey. This includes establishing our own Internal

Learning Academy: a place to share and store knowledge and expertise, evaluate and enhance competencies, and create a pipeline for future skills and career growth.

Fundamentally, we have empowered our teams to think differently, find better solutions and this gives us all even more reasons to be proud of our work and our people.

## Our planet

We led the initiative, and IAG's subsequent commitment, to be the first airline group in the world to set the target of achieving Scope 3 (supply chain) net zero emissions by 2050. This follows the industry-first Scope 1 and 2 targets that IAG set in 2019. Scope 3 emissions are those produced by our suppliers and partners and represent around 23 per cent of our total emissions. We have set an interim measure of a 20 per cent reduction in Scope 3 emissions by 2030 and are confident in our ability to achieve this challenging target.

## Looking forward

IAG GBS will continue to focus on driving transformation across the Group by creating and delivering innovative centralised solutions through our four core transformation pillars, all underpinned by our people.



# Driving towards technology excellence

## IAG Tech



**John Gibbs**  
Chief Information Officer

**“In 2021, we completed the work on our new IT/Digital operating model and are focused on driving continuous improvements to our ways of working, including creating an environment where our technology professionals can thrive.”**

### Overview

Our new IAG Tech operating model is now live, with improvements to the products and services we offer the business; increased efficiency and effectiveness of our value streams and processes; adoption of modern methods and tools; a leaner organisation structure; clearer roles and accountabilities, and improved governance with enhanced reporting. This has resulted in new capabilities being delivered faster and more regularly due to the adoption of agile methodologies. We also saw reductions in the number of incidents affecting our customers and a decrease in the time to restore services. Progress was hampered though, by our need to support the business in responding to COVID-19, for example reducing investments to preserve cash. However,

we have maintained our focus on increasing the maturity of our cyber security capabilities, including strengthening our Security Operations Centre and the start of a new Group-wide identity and access management solution.

### Our people

We have launched a new IAG Tech website as part of our strategy to create a thriving technology community that attracts and retains the very best talent. We now have over 1,500 active members of our guilds sharing best practice and knowledge, supported by a learning academy that is developing our future digital leaders. We also welcomed our second intake of graduates and apprentices.

Our Digital Factory is rapidly deploying Robotic Process Automation and Low Code Solutions to automate processes and help our employees, for example, chatbots that can answer questions on our Ground Operations Manual. This automation is being accelerated through a Digital Champions network that identifies the opportunities and seeks to exploit this technology.

We continue to modernise our internal systems, for example, the upgrade of our call centre technology for British Airways in UK and Hong Kong. We are improving decision-making through use of artificial intelligence, machine learning, data analytics and dashboards including the deployment of a digital boardroom for our IAG GBS management team.

### Our customers

We introduced a wide variety of solutions to assist with travel in a COVID-19 world including automating the validation of customers' travel documentation, pre-ordering of onboard food and drink, and biometric boarding.

Our omni-channel strategy saw the introduction of voice recognition, chatbots and WhatsApp used by our Iberia customers. In parallel, enhancements have been made to all .com platforms including dynamic pricing capability for fares and ancillaries. We increased self-service capabilities such as introducing disruption management onto airport kiosks. We also

introduced new distribution channels for our travel agent partners.

We have supported partnership launches and the delivery of the Global Loyalty Platform for Aer Lingus, Iberia and Vueling, providing a more customised and better experience for our customers.

We migrated Vueling onto our Salesforce platform which enabled us to deploy chatbots to handle routine tasks and answer many of our customer's questions. This resulted in a 60 per cent reduction in back office workload and improved customer satisfaction to over 90 per cent.

### Our planet

Our fifth Hangar 51 innovation accelerator platform explored how new technologies can help us meet our sustainability commitments, and improve operational efficiency, performance, safety, and customer experience.

Many of our technology investments also contribute to our sustainability plan. This included investments in network, aircraft and operational planning systems to reduce the environmental footprint of our flights; the introduction of pre-ordering of food and drink onboard that has reduced waste; and the launch of three data centre migration programmes that will move all of our systems onto new infrastructure hosted in the cloud, providing enhanced resilience, performance and an 80 per cent lower CO<sub>2</sub> footprint for our technology.

### Looking forward

We have three main priorities in 2022, in our pursuit of Technology Excellence. We will accelerate the delivery of the new technology capabilities required to support the Group's transformation, including making significant progress on our data centre migration and replacing obsolescence. We will continue to embed and improve the IAG Tech operating model. We will continue to develop a culture where we value the diversity across our technology professionals, ensure that everyone feels included and is treated equally, and that we have a thriving and supportive community with a strong sense of belonging.

# Driving change to create truly sustainable aviation

**We are committed to creating and delivering long-term sustainable value for our stakeholders, who include our colleagues, all those we do business with, the communities where we operate, investors, regulators, customers, and our society.**

We ensure that we understand the needs of all of our key stakeholders to prioritise their requirements in our plans to deliver a fully sustainable business.

A critical aspect of delivering a fully sustainable business is recognising, managing and reducing our impact on the planet, which is critical to driving change across the industry so that we can play our full part in tackling climate change.

Having previously set clear and ambitious targets relating to our most material issues, we worked this year to embed our net zero transition pathway within our business strategy and shift our focus to delivery of our plans this decade.

We have done this by accelerating progress in sustainable aviation fuels and operational efficiency and by continuing our investment in green technologies such as hydrogen-powered planes and carbon removal as well as new aircraft which are up to 40 per cent more fuel efficient than those they replace.

Meanwhile, we also stepped up in the delivery of our social targets, including improving our diversity performance, our employee engagement and the implementation of our programme to reach all our stakeholders. As part of our commitment to ensure we are a diverse and inclusive organisation last year we set a new target of having at least 40 per cent of senior roles held by women by 2025.

We are determined to support the long-term prosperity of the communities we serve. In 2021, we continued to support countries' efforts to combat the pandemic by helping out wherever we could,

transporting vaccines and humanitarian aid to places that needed us most.

To ensure we fully understand our stakeholders' concerns, in 2021 we completed a comprehensive review using an independent, specialist third party, Simply Sustainable, to analyse 26 different environmental, social and governance (ESG) topics that are crucial to our operations. With these issues as the foundation, we then conducted 34 internal and external stakeholder interviews and gathered a further 131 responses from stakeholder surveys. We also benchmarked the results against industry peers.

The findings led to the production of two materiality matrices, over three-year and ten-year timescales respectively, with issues grouped into four different areas: People, Planet, Prosperity, and Governance. By aligning these with our strategic priorities and measuring our performance, we are best able to put all our stakeholders at the heart of our decision-making to ensure IAG can have a positive impact on society over the long term.

**"We are determined to support the long-term prosperity of the communities we serve."**

## Contents of this section:

- |           |                             |
|-----------|-----------------------------|
| <b>65</b> | A. Principles of Governance |
| <b>75</b> | B. Planet                   |
| <b>92</b> | C. People and Prosperity    |

This sustainability report has also been prepared in reference to GRI standards, which are listed under relevant section headings. Criteria for choosing specific standards are based on compliance with Spanish Law 11/2018 and on material issues.

### Driving efforts to tackle climate change

IAG has been the leading airline group building global momentum towards net zero aviation. As well as taking pioneering actions within our business, IAG has proactively engaged with other airlines to build consensus around net zero. This successful advocacy will enable faster emissions reductions across the industry.

IAG is delighted that IATA has joined the journey to net zero emissions. Since IAG's net zero commitment in October 2019, over 290 airlines are now also committed to net zero, representing over 82 per cent of global air traffic. This rapid shift within two years is profound.

IAG supports efforts for a long-term target for aviation at the ICAO General Assembly in 2022.

IAG was also pleased to gain another climate "Leadership" (A-) grade from the Carbon Disclosure Project (CDP) in 2021. This placed IAG in the top 6 per cent of global respondents. We are the only airline group worldwide to gain three leadership grades in the past five years.

The business will continue to lay the groundwork to accelerate emissions reductions both for our operations and at an industry level.

Key achievements and 'firsts' include:

- October 2019. First airline group to commit to net zero carbon emissions by 2050, setting a precedent for aviation;
- November 2019. First airline group to publish a roadmap for achieving this, a detailed plan which could be emulated;
- February 2020. Actively supported the first national aviation commitment and roadmap to net zero (UK, via Sustainable Aviation);
- January 2021. British Airways was the first airline to receive a sustainability-linked loan tied directly to ESG targets;
- February 2021. Actively supported the first regional aviation commitment and roadmap to net zero (Europe, via A4E);

- September 2021. Actively drove the first global aviation alliance commitment and roadmap to net zero (via **oneworld**);
- April 2021. First European airline group to commit to 10 per cent sustainable fuels by 2030; and
- April 2021. First airline group worldwide to commit to net zero Scope 3 emissions by 2050.



Our Hangar 51 platform continues to engage with and support innovative companies like ZeroAvia to accelerate new zero emissions technologies.

# A. Principles of Governance

## A.1. Defining sustainability and material issues

**Reference to GRI, TCFD and SASB standards:**

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

In this context, sustainability covers both environmental and social issues.

IAG's sustainability strategy, initiatives and reporting are based on a rigorous assessment of which business activities have a material impact on the environment and people and what is most important to key stakeholders.

In 2021, IAG repeated a comprehensive materiality assessment to assess these issues. This was facilitated by leading sustainability consultancy Simply Sustainable as an independent third party, with the scope as described in the introduction to this section.

The internal stakeholders included all IAG Management Committee members, certain Board members, and operating company sustainability representatives. External stakeholders included investors, corporate customers, policymakers, trade associations, fuel suppliers, airports, and NGOs. The materiality assessment was complemented by an ESG staff survey distributed in English and Spanish.

The results have informed our disclosures and strategy.

Tackling climate change remains our most material issue in the long run, and engagement with policymakers, customers and suppliers was identified as key to this effort. In the short term, as the business recovers from COVID-19, profitability and customer and employee engagement remain a high priority. In addition, wellbeing is a material issue and IAG has elevated its focus on this.

Water consumption, biodiversity and light pollution were assessed as non-material for IAG. More information on water and biodiversity is available in the Additional Disclosures section of the Non-Financial Information Statement (NFIS).

IAG does not have specific risk provisions, targets or guarantees related to these non-material issues.

## Material issues as identified in 2021

The icons represent UN Sustainable Development Goals (SDGs).

### Principles of Governance

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



### Planet

- Reducing our climate impact
- Influencing policy



### Prosperity

- Running a profitable business
- Pleasing our customers



### People

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



The above four categories are aligned to best practice in the 2020 World Economic Forum "Measuring Stakeholder Capitalism" report.

## Changes in material issues to 2030

### To 2023 (Three-year timeframe)

- 1 Running a profitable business
- 2 Engaging with our employees
- 3 Reducing our climate impact
- 4 Pleasing our customers
- 5 Investing in the future
- 6 Planning for climate-resilient operations

### To 2030 (Ten-year timeframe)

- 1 Investing in the future
- 2 Reducing our climate impact
- 3 Influencing policy
- 4 Building a diverse, inclusive and equal workplace
- 5 Working with suppliers
- 6 Pleasing our customers

Note: the most material issues are assessed using the combination of their importance to stakeholders, and their residual impact to the business after current mitigation plans.

## Supporting UN Sustainable Development Goals to 2030

The UN has identified 17 SDGs to support as part of the global 2030 Agenda for Sustainable Development. IAG has identified four priority SDGs to support, with examples below. Within the Group, Iberia is a member of the UN Global Compact.

SDG	Description	See sections	Examples of 2021 activities which support SDG
5 GENDER EQUALITY	Gender equality	C.1. Workforce overview C.3. Diversity, inclusion and equality	The IAG Board has maintained the same ratio of seven male and five female directors from 2020 to 2021 (42% female representation)  IAG received the “gender equality” award at the Vocento Business Awards in Spain for its efforts to encourage diversity
7 AFFORDABLE AND CLEAN ENERGY	Affordable and clean energy	Spotlight: Sustainable Aviation Fuel	British Airways, Iberia, Vueling and IAG Cargo used SAF in flights for the first time  Multiple Sustainable Aviation Fuel (SAF) deals to secure future supply
8 DECENT WORK AND ECONOMIC GROWTH	Decent work and economic growth	C.1. Workforce overview	Doubling of staff engagement in Group-wide Occupational Health Surveys
13 CLIMATE ACTION	Climate action	A.5. Sustainability stakeholder engagement B.1. Climate change and TCFD disclosures	IAG was instrumental in driving industry coalitions at national, regional and global levels to set net zero climate targets, and lobbying for UK policy support for SAF

## Sustainability governance structure



## A.2. Sustainability governance

Reference to GRI, TCFD and SASB standards: GRI 102-46, 102-48. TCFD Governance a, b

### Overview

IAG has multiple levels of governance in place to ensure robust, aligned and progressive sustainability decision-making.

In 2021, IAG appointed a Chief People, Corporate Affairs and Sustainability Officer (CPCASO) to further drive forward environmental and social initiatives. The CPCASO is a member of the Management Committee and reports into the IAG CEO. The IAG Group Head of Sustainability and Group Head of People report into the CPCASO.

The Group sustainability strategy covers Group policies and objectives, governance structures, 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 which is regularly reviewed to ensure alignment with the Group strategy.

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

Key governance structures include:

- quarterly meetings of the Board Safety, Environment and Corporate Responsibility (SECR) Committee to provide dedicated oversight of the Group's sustainability programme and a link between the IAG and operating company management committees and the IAG Board;
- quarterly meetings of the Sustainability Steering Group (SSG), comprised of senior representatives from each operating company and key IAG teams, to provide oversight of environmental and social initiatives and reporting;
- monthly meetings of the IAG Sustainability Network, comprised of sustainability representatives from all operating companies, to share ideas and updates;

- regular meetings of the SAF Steering Group and People Working Group reporting into the SSG; and
- as part of the Group-wide Enterprise Risk Management (ERM) process, bi-annual reporting of the principal sustainable aviation risks to the IAG Management Committee and Board's Audit and Compliance Committee.

Internal Group-wide policies related to sustainability help to ensure that wider decision-making aligns with the sustainability strategy. These include the Code of Conduct, Supplier Code of Conduct and specific policies on Environmental Sustainability, Modern Slavery, Anti-Bribery and Corruption, Equal Opportunities and Selection and Diversity. These are approved by the Board of Directors.

Individual airlines are also adopting ISO 14001-aligned internationally recognised environmental assessment and management tools. All four main airlines are working towards Stage 2 accreditation for the IATA Environmental Assessment (IEnvA)<sup>1</sup> management system. Only seven airlines worldwide have this accreditation. British Airways, Aer Lingus and Vueling have already achieved Stage 1 certification and Iberia plans to complete Stage 1 in 2022.

### Reporting standards

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

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

IAG also goes beyond compliance requirements and voluntarily aligns sustainability reporting with the

Sustainability Accounting Standards Board (SASB), the IATA Airlines Reporting Handbook, and relevant criteria from external ESG rating agencies. IAG supported IATA and the Global Reporting Initiative (GRI) to develop the IATA handbook.

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

### Data governance

Unless otherwise stated:

- The scope of environment performance data in this report 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, IAG Loyalty and IAG GBS functions are not in scope for environmental reporting as the environmental impacts of these business units are not material; and
- Workforce data includes all IAG operating companies and support functions.

Emissions data from intra-European flights is also independently verified within six months of the year end, for compliance with the UK and EU Emissions Trading Schemes (ETS), and for all flights for the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

In specific 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 prior year 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 Organization for Standardization (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. Sustainability strategy

IAG has a vision to be the world's leading airline group on sustainability. That means using its scale, influence and track record

to not only transform the business, but drive the system-wide change required to create a truly sustainable aviation industry. IAG is committed to delivering best

practices in sustainability programmes, processes and impacts, while executing on Group strategy. Creating a truly sustainable business is fundamental to our long-term growth.

IAG has three overall strategic priorities for its business. The environmental strategy is aligned to these:

Strengthening a portfolio of world-class brands and operations	Growing global leadership positions	Enhancing IAG's common integrated platform
<ul style="list-style-type: none"> <li>Ensuring customers have visibility of, and are engaged in, our sustainability programmes</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrating industry leadership</li> <li>Maturing our transition pathway towards a net zero business</li> <li>Leadership in carbon disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Investing in efficient aircraft fleet and delivering best practice in operational efficiency</li> <li>Innovating and investing to accelerate progress in sustainable aviation fuels, future aircraft and low-carbon technologies</li> </ul>

In 2021, the Board agreed to a broadening of the sustainability strategy and progress is now tracked against nine priorities.

Nine strategic priorities	Key 2021 progress
1. Clear and ambitious targets relating to IAG's most material issues	<ul style="list-style-type: none"> <li>See B.1. 'Climate change and TCFD disclosures' section</li> <li>2021 materiality review</li> <li>New SAF, waste, diversity, Scope 3 emissions targets</li> </ul>
2. Low-carbon transition pathways embedded in business strategy	<ul style="list-style-type: none"> <li>Sustainability budgets form part of operating company three-year business plans updated annually. Carbon costs are integrated into business cases for fleet purchasing and planning. (see below)</li> </ul>
3. Management incentives aligned to delivering a low-carbon transition plan	<ul style="list-style-type: none"> <li>IAG was the first airline group to explicitly agree climate targets as part of annual incentive plans. See remuneration section for more details. These are expected to be reinstated in 2022.</li> </ul>
4. Leadership in carbon disclosures	<ul style="list-style-type: none"> <li>CDP (climate-specific ranking): A-, top 6% of scored companies</li> <li>TPI (climate-specific ranking): Met 17 of 18 criteria, highest level</li> <li>Sustainalytics (cross-sector ESG ranking): 9<sup>th</sup> out of 68 airlines</li> </ul>
5. Accelerating progress in low-carbon technologies including aircraft technology, SAF, carbon offsets and carbon removals	<ul style="list-style-type: none"> <li>See "Spotlight: Sustainable Aviation Fuel"</li> </ul>
6. Accelerating innovation in low-carbon technology as above	<ul style="list-style-type: none"> <li>Dedicated sustainability category in Hangar 51 accelerator programme</li> </ul>
7. Industry leadership in the innovation and deployment of SAF including power-to-liquids	<ul style="list-style-type: none"> <li>10 per cent SAF by 2030 commitment and several new supply partnerships</li> </ul>
8. Stepping up our social commitments including on diversity, employee engagement and sustainability as a core value	<ul style="list-style-type: none"> <li>New diversity targets set</li> </ul>
9. Industry leadership in stakeholder engagement and advocacy	<ul style="list-style-type: none"> <li>Continued leadership positions in key industry associations with more action planned for 2022</li> </ul>

To embed low-carbon transition pathways in business strategy, IAG concurrently applies internal carbon prices to financial planning and scenario analysis. Prices are based on market values and reputable external forecasts:

- EU ETS prices are based on market prices and the UK Department for Transport (DfT) Aviation Forecast to 2050; and
- CORSIA prices are based on International Energy Agency (IEA) and ICAO price forecasts to 2035.

For the period 2021-35, EU ETS prices of €50-€166/tonne and CORSIA prices of \$8-\$40/tonne were used for modelling compliance costs. The Fleet team used updated carbon prices and price forecasts for shorthaul and longhaul fleet purchasing decisions.

To support management incentives, in 2020, climate-related incentives were agreed by IAG's MC, Remuneration Committee and Board so that 60 of the most senior executives across the Group, including the IAG CEO, would have a proportion of their annual incentives linked to achievement of annual carbon intensity targets. More details are in the report of the Remuneration Committee.

To support leadership in carbon disclosures, in 2021 IAG Investor Relations completed a survey of key IAG investors to identify their expectations, views on best practice in ESG reporting, and those ratings they prioritise. IAG plans to engage with relevant rating agencies in 2022 to enable more accurate calculations of IAG's scores and to identify actions to improve the scores.

IAG is the only airline group worldwide to receive three leadership (A-/A) grades from CDP in the past five years and in 2021 received the joint-highest score of any airline from the Transition Pathways Initiative (TPI), which assesses companies' readiness for a low-carbon economy.

## A.4. Sustainability risk management

**Reference to GRI, TCFD and SASB standards: GRI 102-11, 102-15. TCFD Governance a, b, Strategy a, b, c, Risk Management a, b, c**

Sustainable aviation risks have been collectively identified as one of IAG's principal risks.

In 2021, IAG received 'A' grades from CDP for its climate risk and opportunities disclosures to CDP. This response is available on the IAG website.

Climate-related risks are considered and assessed under the Group Enterprise Risk Management (ERM) framework which is presented to the Board. More details on the framework and process for how risks are assessed, and how Group risks inter-relate, can be found in the 'Risk Management, Principal risks and uncertainties' 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 years) timescales.

Sustainability enterprise risks are bi-annually reported to and reviewed by the

IAG Management Committee and the IAG Audit and Compliance Committee.

Detailed sustainability risks and opportunities are also reported to the IAG CPCASO who reports to the IAG CEO. Plans to mitigate risks are developed by relevant risk owners in specific areas of the business.

Sustainability risk assessments have informed specific decisions related to business operations and strategy, and IAG allocates significant resources to environmental risk management. Examples include:

- IAG has maintained its commitment to invest in SAF development, production and supply as part of its 20-year US\$400 million (€360 million) SAF commitment, to manage climate policy risks and take advantage of energy-related opportunities;
- in 2018, TCFD-aligned scenario analysis identified a need for more ambitious action on climate change, which led to the 2019 decision to design and adopt the industry-leading Flightpath Net Zero strategy to deliver net zero emissions by 2050;

- in 2021, IAG set a new net zero target by 2050 for Scope 3 emissions and IAG GBS appointed EcoVadis to help to track supplier sustainability performance and mitigate supply chain-related sustainability risks; and
- all operating airlines to work towards Stage 2 accreditation of the environmental management system IEnvA<sup>1</sup>, including investments in people and IT systems, to manage environmental compliance risks.

IAG is committed to mitigating the impacts of hazards which, if they occur, have uncertain but potentially negative outcomes on the environment or people. 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 strategy.

Detailed mitigation for climate-related risks is outlined in Section B.1.

### Related risk: Environmental regulation compliance

#### Risk description

An inadvertent breach of compliance requirements related to ESG reporting, emissions or waste management, or other environmental issues, leading to fines and potential reputational damage.

#### Mitigating actions

- Strengthening sustainability governance including reviews of annual disclosures via the Audit and Compliance Committee
- Internal governance, training and assigning ownership for environmental compliance obligations
- Working towards IEnvA<sup>1</sup> accreditation to improve internal compliance processes

<sup>1</sup> See A.2. Sustainability governance

## A.5. Sustainability stakeholder engagement

Reference to GRI, TCFD and SASB standards: GRI 102-13, 102-43, 102-44

Engagement with key stakeholder groups is outlined over the next three pages.

IAG is a member of multiple trade associations which deal with environmental and climate-related issues.

If the climate-related positions of trade associations are inconsistent with internal stances, IAG representatives take roles on task forces and working groups and respond to consultations to communicate our stances and constructively move to alignment.

IAG's stance on climate change is to align its efforts with the latest science on achieving 1.5°C pathways. This applies both to the goal of achieving net zero by 2050 and to pathways aligned to the science. IAG sees both gross and net reductions in emissions as crucial elements of aviation decarbonisation, supports the mechanisms of fleet modernisation, airspace and operational efficiency, sustainable aviation fuels, carbon pricing schemes and voluntary offsets and removals, and advocates for effective policies to promote

those that are effective, and fair, and ideally global. IAG also supports the principle of carbon pricing, which is to drive emissions reductions where they are most cost-effective. IAG does not support carbon taxes as it has been proven that these are environmentally inefficient.

IAG has internal governance to ensure that wider stakeholder engagement on sustainability is consistent with its material issues and environmental goals.

Stakeholders	Why we engage	Key 2021 activities
<b>Industry associations</b>	<ul style="list-style-type: none"> <li>To develop common policy positions</li> <li>To improve advocacy effectiveness</li> <li>To ensure consistency between IAG sustainability goals and the goals of associations of which IAG or operating airlines are members</li> <li>To share environmental and policy expertise to drive a more sustainable industry</li> </ul>	<ul style="list-style-type: none"> <li>Supporting IATA industry commitment to net zero emissions</li> <li>Key inputs to A4E 'Destination 2050' roadmap to net zero for aviation</li> <li>Coordinated oneworld roadmap to net zero and 10% SAF by 2030 commitment</li> <li>Working group for new 2030 and 2040 emissions targets for UK aviation industry</li> <li>Policy advocacy on evolution of EU 'Fit for 55' climate policies</li> </ul>
<b>Government and other regulators</b>	<ul style="list-style-type: none"> <li>To support UK and EU commitments to net zero emissions</li> <li>To build support for a net zero emissions target for aviation through the UN aviation regulator ICAO</li> <li>To influence UK, Spanish, Irish, EU and global policies</li> <li>To increase research and funding for low-carbon aircraft, SAF and carbon removal technologies</li> </ul>	<ul style="list-style-type: none"> <li>Responses to UK SAF Mandate and Jet Zero Consultations</li> <li>IAG staff chair two of four groups of the UK Jet Zero Council (JZC)</li> <li>Direct advocacy with EU policymakers over proposed EU 'Fit for 55' climate policies</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>To demonstrate IAG's sustainability commitments to action, initiatives and leadership</li> <li>To facilitate passenger action on the environment</li> <li>To stay attuned to changing customer demands</li> <li>To offer employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>British Airways, Aer Lingus, Iberia and Vueling continued and updated sustainability communications to customers</li> </ul>
<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>Occupational Health and Engagement Surveys across the Group</li> <li>Frequent sustainability presentations at internal forums</li> <li>Vueling created a new Vision, Mission and Values which included sustainability</li> </ul>

Stakeholders	Why we engage	Key 2021 activities
<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>• Interviews and surveys of key suppliers as part of materiality assessment</li> <li>• IAG GBS appointed EcoVadis to track supplier environmental performance</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 externally</li> <li>• To maintain and increase transparency</li> <li>• To respond to legal obligations</li> </ul>	<ul style="list-style-type: none"> <li>• Completed ESG investor survey</li> <li>• 2021 and 2020 CDP scores A-</li> <li>• 2021 TPI score the joint-highest of any airline</li> <li>• British Airways receives first financial loan linked to ESG targets.</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>• To support vulnerable or under-served communities via charitable causes</li> <li>• To increase IAG's positive wider impacts</li> <li>• To minimise potentially negative impacts of aircraft operations, such as noise and air pollution, on quality of life in communities near to where airlines operate</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple IAG airlines supported efforts to distribute COVID-19 vaccines and aid</li> <li>• €2.7 million raised for charitable causes</li> <li>• See Section C.5. 'Community engagement and charitable support'</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 sustainability expertise for the benefit of industry progress on the environment</li> </ul>	<ul style="list-style-type: none"> <li>• Updated Group materiality assessment</li> <li>• Continued engagement with Cranfield University supporting a range of sustainability projects</li> <li>• Engaged with the Science Based Targets initiative (SBTi) as one of 11 airlines on the aviation Technical Working Group and one of 84 companies to road-test the SBTi Net Zero Standard</li> </ul>

## SUSTAINABILITY

## A. PRINCIPLES OF GOVERNANCE

Member of organisation	Scope of organisation	Stance on climate change*	2021 role and leadership action
<b>Sustainable Aviation (SA)</b>	UK	Consistent	<ul style="list-style-type: none"> <li>IAG is one of twelve members of the SA Council, which governs activities for 36 member organisations</li> <li>Part of working group which developed new 2030 and 2040 emissions targets</li> </ul>
<b>Jet Zero Council (JZC)</b>	UK	Consistent	<ul style="list-style-type: none"> <li>IAG staff chair two of the four groups: SAF Delivery Group, COP26 subgroup</li> <li>British Airways CEO a member</li> </ul>
<b>Royal Aeronautical Society (RAeS)</b>	UK	Consistent**	<ul style="list-style-type: none"> <li>IAG on Executive Committee of Greener by Design group</li> </ul>
<b>Grupo Español para el Crecimiento Verde</b>	Spain	Consistent	<ul style="list-style-type: none"> <li>Iberia is one of 53 corporate members</li> </ul>
<b>Airlines 4 Europe (A4E)</b>	European	Consistent	<ul style="list-style-type: none"> <li>IAG actively supported development of Destination 2050 net zero roadmap for European aviation, organised by five aviation industry organisations</li> </ul>
<b>Coalition for Negative Emissions</b>	Global	Consistent	<ul style="list-style-type: none"> <li>One of eleven founding members and seven steering group members</li> <li>Active contributor to landmark Case for Negative Emissions report, produced in collaboration with McKinsey</li> </ul>
<b>oneworld</b>	Global	Consistent	<ul style="list-style-type: none"> <li>IAG representative chairs Environment and Sustainability Best Practice Group (ESB) consisting of 14 airlines</li> <li>Coordinated first roadmap to net zero</li> <li>Coordinated 10 per cent SAF by 2030 commitment</li> </ul>
<b>Air Transport Action Group (ATAG)</b>	Global	Consistent	<ul style="list-style-type: none"> <li>Five staff formally acknowledged for contributions to Waypoint 2050 global decarbonisation roadmap</li> </ul>
<b>World Economic Forum</b>	Global	Consistent	<ul style="list-style-type: none"> <li>Contributed expertise to SAF evidence base as part of Cleaner Skies for Tomorrow coalition</li> <li>Supported 10 per cent SAF by 2030 ambition statement</li> </ul>
<b>IATA</b>	Global	Consistent	<ul style="list-style-type: none"> <li>IAG representative chairs the IATA Sustainability and Environment Advisory Council (SEAC) of 20 airlines. IATA represents 290 airlines</li> <li>Representatives on four IATA working groups – SAF, Fuels, Long-Term Targets, Waste</li> </ul>

\* In relation to aiming for net zero emissions by 2050. The approaches for achieving this goal can vary by organisation.

\*\* Based on the Greener by Design objectives on their website.



## A.6. Supply chain sustainability

Reference to GRI, TCFD and SASB standards: GRI 308-2, GRI 414-2. Supports SDG 12

In 2021, IAG led the industry by becoming the first airline group worldwide to extend its net zero commitment to its supply chain. The Group will liaise with, support and monitor suppliers to ensure net zero emissions by 2050 for products and services provided to IAG.

IAG Global Business Services (IAG GBS) manages the relationships and interactions with suppliers on behalf of the Group. This important supply chain sustainability programme is being delivered by the IAG GBS Group Procurement Team, with relationship owners and buyers closely involved in the collaboration with suppliers.

### Opportunities for impact

The Group supply chain covers approximately 13,272 suppliers across every category. Working with key partners, including fuel suppliers, the business will target Scope 3 net zero emissions by 2050, and a 20 per cent reduction by 2030 relative to 2019. In 2021, Scope 3 emissions are 23 per cent of IAG's total CO<sub>2</sub> and 68 per cent of Scope 3 emissions relate to fuel and energy.

In 2021 the Group appointed EcoVadis, a market-leading provider of business sustainability ratings, to support us in understanding every aspect of sustainability in our supply chain, including environment, labour and human rights, and ethics.

### From insight to action

Transparency in sustainable supply chain performance is right at the top of the IAG GBS Procurement agenda. We will work with EcoVadis to assess our suppliers against a range of measures and identify opportunities to improve our sustainable performance. This will give IAG, and its suppliers, a baseline for collaboration on emissions reduction and achievement of the Scope 3 targets. We want to work with suppliers who share our vision and want to join us in this vitally important work. Additionally, suppliers can share the findings of the EcoVadis assessment with their other customers via a simple scorecard, meaning that the overall impact of this work could reach well beyond IAG.

The Supply Chain Sustainability Programme includes four other key pillars:

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

The IAG GBS Supplier Code of Conduct clarifies the standards of behaviour expected from all suppliers working with any part of our business, emphasising the importance of sustainability. It has already been issued to the existing supply chain and integrated into the supplier onboarding process. IAG will only work with businesses that share our standards and ways of working.

Social and corporate governance is also a high priority. We expect our suppliers to provide a safe and healthy environment for their workforce. Supplier selection considers potential industry and geographical risk and where necessary on-site audits are carried out. These audits are performed by independent inspectors with CSR expertise using the SEDEX Members Ethical Trade Audit (SMETA) methodology. In 2021, 30 audits were completed.

As a minimum, all suppliers undergo bi-annual screening for any legal, social, environmental and financial risks. The Procurement and Compliance Teams assess any suppliers identified as having potentially higher levels of risk and implement a mitigation plan where necessary. Any issues are flagged to the risk owners within the Group to jointly take appropriate action.

In 2022, sustainability will be a key part of the IAG GBS continuous transformation plan. As well as continuing the measures outlined above, the plan includes embedding sustainability KPIs into procurement processes and the criteria for awarding new business to suppliers. We are also developing a wider training programme for employees, building sustainability awareness and driving higher sustainability performance across the entire organisation.

Year	Total number of suppliers	Suppliers screened	Suppliers with additional compliance assessment	Critical suppliers under regular risk monitoring	Independent CSR Audits in year
<b>2021</b>	<b>13,272</b>	<b>13,272</b>	<b>1,510</b>	<b>34</b>	<b>30</b>
2020	22,947	22,947	1,818	35	25
2019	27,033	18,369	2,912	n/a	28

### Related risk: Supply chain sustainability compliance

Risk description/impact	Mitigating actions
Potential breach of compliance on sustainability, human rights or anti-bribery by an IAG supplier resulting in financial penalties, legal, environmental, social and/or reputational impacts.	<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>

## A.7. Ethics and integrity

Reference to GRI, TCFD and SASB standards: 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, issued in 2019 and 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. Mandatory 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 reputation of the Group or other areas of compliance.

In 2021, a total of 164 Speak Up reports were received via the Group's independently provided Speak Up facilities, compared with 193 in 2020.

These reports concerned issues relating to employment matters (60 per cent), dishonest behaviour/reputation (14 per cent), health and safety (23 per cent) and regulatory matters (2 per cent). 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 the Group Code of Conduct and supporting policies which are available to all Directors and employees. An 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 IAG General Counsel, and annually they conduct a review of bribery risks at operating company and Group level.

In 2021, 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 material compliance breaches were identified in 2021.

Anti-bribery and corruption training is mandatory for all relevant personnel in 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 was rolled out in 2019. Employees are required to complete this every three years. In 2021, 1,404 employees completed the anti-bribery e-learning. This lower number is as expected due to those employees who have previously completed the training not being required to retrain.

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 2021 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.

	vly	2021	2020	2019
Employees completing anti-bribery e-learning	-29%	1,404	1,984	7,933

Employees completing anti-bribery e-learning

vly	2021	2020	2019
-29%	1,404	1,984	7,933

# B. Planet

## B.1. Climate change and TCFD disclosures

IAG was pleased to be an early adopter of Task Force on Climate-related Financial Disclosures (TCFD) guidance. A high-level summary of TCFD-aligned activities is below.

TCFD section	Current TCFD-aligned activities and processes	Planned activities
Governance	Board oversight of programmes via SECR Committee; appointed CPCASO; multiple layers of governance; repeated materiality assessment for 2023 and 2030	Regular SECR meetings planned for 2022; materiality assessment to be repeated by 2024
Strategy	Delivering on 2019 Flightpath Net Zero strategy; TCFD-aligned scenario analysis carried out in 2018 and 2021	Implementing new sustainability strategy approved in December 2021, rolling TCFD-aligned scenario analysis, further integration of climate strategy into financial planning
Risk management	Sustainable aviation risks are treated as a principal risk; risk disclosures received 'A' rating from CDP	Further work on risk quantification and further integration of climate-related impacts into financial planning
Metrics and targets	Clear metrics and targets for 2025, 2030 and 2050; first airline to set a net zero Scope 3 emissions target	Re-introduction of management remuneration targets. A focus on performance improvements and policy advocacy to support delivery of existing targets

IAG has made climate-related disclosures consistent with the eleven recommendations of the TCFD listed below. More details are in the relevant sections.

TCFD recommendation	Relevant section/s
Governance: Disclose the organisation's governance around climate-related risks and opportunities.	
A. Describe the Board's oversight of climate-related risks and opportunities.	A.2., A.4.
B. Describe management's role in assessing and managing climate-related risks and opportunities.	
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	
A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	A.4., B.1.3., 'Risk management, Principal risks and uncertainties', 'Stakeholder engagement'
B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	
C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Business model B.1.2.
Risk management: Disclose how the organisation identifies, assesses and manages climate-related risks.	
A. Describe the organisation's processes for identifying and assessing climate-related risks.	A.4., B.1.3.
B. Describe the organisation's processes for managing climate-related risks.	'Risk management, Principal risks and uncertainties'
C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	
Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	
A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	B.1.4., B.1.6.
B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	
C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	

## B.1.1. Governance

### Reference to GRI, TCFD and SASB standards: TCFD Governance a, b

 See "Principles of Governance" section for sustainability-related governance, which includes climate-related governance.

## B.1.2. Strategy – scenario analysis

### Reference to GRI, TCFD and SASB standards: TCFD Strategy c

In 2021, IAG conducted analyses modelling climate risk scenarios. These included ongoing analysis of climate mitigation to 2050, detailed modelling of the impacts of the EU Fit for 55 proposals to 2035; and TCFD-aligned scenario analysis under a timeframe of 2030.

TCFD analysis is a formal process to identify ways to strengthen organisational resilience in the face of climate change and related impacts. TCFD guidance outlines a six-step process, where scenarios assess climate-related impacts on business input costs, operating costs, revenues, supply chain, and business interruption. Potential responses are then mapped out in terms of changes to business model/s, portfolio mix, investments in transition capabilities and technologies and the potential impact on strategic and financial plans.

Companies choose emissions scenarios for this analysis. In 2018 IAG chose a 4°C and 2°C scenario. In 2021, a 3°C, 1.5°C orderly<sup>1</sup>, and 1.5°C disorderly scenario were used. This change was based on the impacts of the latest global emission pledges versus the goal of the 2015 Paris Agreement.

Scenario workshops were hosted virtually to engage IAG representatives in the UK, Ireland and Spain. A wide range of teams were represented including Strategy, Treasury, Finance, Government Affairs, Commercial Planning, Investor Relations, People, IAG Tech, IAG GBS, IAG Loyalty and sustainability representatives from all operating airlines.

Four categories of TCFD-aligned climate impacts were explored – physical, market, technology, and policy.

This exercise identified that key potential impacts were industry-wide policy and market shifts. Significant uncertainty also exists around the global policy, technology and market pathways for aligning with 1.5°C by 2030.

The business is broadly resilient to the identified impacts, based on Flightpath Net Zero plans. However, there are further opportunities to maximise resilience to wider societal changes. These results informed our climate-related risk assessment and disclosures.

In December 2021, the SSG also agreed that TCFD-aligned scenario analysis would become a rolling exercise from 2022 onwards. Ten year time horizons would be further embedded into sustainability-related planning wherever relevant.

## B.1.3. Climate-related risk management

### Reference to GRI, TCFD and SASB standards: TCFD Risk Management a, b, c

 See "A.4. Sustainability risk management"  
See "Risk management, Principal risks and uncertainties"

IAG takes a proactive approach to managing climate-related risks and is committed to managing the regulatory, reputational, market and technology aspects of these.

In 2021, IAG Sustainability and the ERM team undertook a review of all climate-related risks and opportunities. This was informed by the materiality assessment and TCFD scenario analysis.

A revised summary of risks, trends and potential impacts over short-, medium- and long-term timescales are disclosed on the next page. The risk environment has changed and this is reflected in the updated set of risks.

Trends and the external environment continue to be reviewed on an ongoing basis. Mitigating actions are also reviewed on an ongoing basis. Carbon reduction targets are the key measures for assessing

the mitigation of these risks and other measures will be reviewed.

<sup>1</sup> "Orderly" and "disorderly" as defined in the TCFD report "Guidance on Scenario Analysis for Non-Financial Companies". These scenarios compare smooth and idealised climate-related changes with variable, abrupt and disjointed changes.

## Revised summary of risk trends

Risk trends below are grouped by risk type. Short term is 1-2 years, medium term is 3-5 years, long term is more than 5 years.

Primary TCFD risk type	Risk description	Timeframe	Trend
Market	*Loss of ESG-conscious customers	Short term	↑
	Perceptions of aviation industry CO <sub>2</sub> progress	Medium term	↑
	Viability of offset projects	Medium term	↔
Physical	*Resilience to acute weather events	Short term	↔
	Reduced flying to chronically climate-affected destinations	Long term	↔
Policy	*EU Fit for 55 and UK climate policy	Medium term	↑
	*Carbon pricing	Medium term	↑
	Policy asymmetry	Medium term	↑
	Extra regulation on activity not emissions	Long term	↑
	*Lack of supporting SAF infrastructure or policy	Medium term	↑
	Regulation on non-CO <sub>2</sub> effects	Long term	↑
Technology	Use of lower-emission technologies	Medium term	↔
	Use of lower-emission sources of energy	Long term	↔

\* Risks as described in the 'Risk management, Principal risks and uncertainties' section.

## Summary of climate-related risk impacts and mitigation/adaptation

See the table above for risk trends. Specific risks are mitigated through existing processes, additional investments, or specific strategies as outlined in the table below. The potential for further mitigating actions is reviewed on an ongoing basis.

### Market risks

#### Loss of ESG-conscious customers

Risk description	Potential financial impacts	Mitigating/adapting actions
<ul style="list-style-type: none"> <li>ESG concerns becoming an increasing factor in customer choices may mean they choose to travel less frequently, less far, or choose different travel modes. Corporates may travel less to meet internal emission targets.</li> <li>A potential loss of customers to other airlines with more comprehensive ESG programmes.</li> </ul>	<ul style="list-style-type: none"> <li>Lost revenue due to corporate or leisure passengers reducing flying, or travelling with other airlines perceived to be greener.</li> </ul>	<ul style="list-style-type: none"> <li>IAG refined Group ESG messaging to clarify stances to external stakeholders</li> <li>Continued operating company engagement and collaboration with corporate customers to identify and address potential environmental desires or concerns in advance of changes in behaviour</li> <li>British Airways launched the BA Better World programme in 2021, including a voluntary SAF offer to customers and updated communications across multiple channels</li> <li>Iberia planned new communications for 2022</li> <li>Aer Lingus launched a new sustainability webpage outlining its ESG efforts</li> <li>Vueling launched an external sustainability challenge to engage customers</li> <li>IAG Loyalty began integrating sustainability objectives into the Avios proposition</li> </ul>

This risk presents an opportunity for IAG to differentiate its brands by showing leadership, innovation and action to mitigate climate impacts, so attracting climate-conscious corporates and agreeing deals to support green solutions.

### Perceptions of aviation industry CO<sub>2</sub> progress

Risk description	Potential financial impacts	Mitigating/adapting actions
Perceptions that industry action is at odds with national or international climate goals and publicly stated ESG progress, could lead to more restrictive policies, loss of customers or funding, or industry-wide reputational impacts.	Lost revenue due to corporate and leisure passengers choosing not to fly. Costs from extra regulation as described on the next page.	<ul style="list-style-type: none"> <li>Working to accelerate wider industry progress through trade associations, by supporting new commitments and roadmaps to net zero emissions at national, regional and global levels, building momentum for a net zero target at ICAO in 2022</li> <li>Building global momentum around 2030 SAF ambitions of at least 10 per cent, to enable more passengers to reduce emissions from flights</li> </ul>

This risk presents an opportunity for IAG to show faster progress than the industry and to attract funding and customers relative to peers.

### Viability of offset projects

Risk description	Potential financial impacts	Mitigating/adapting actions
Offset projects around the world are used for CORSIA compliance and voluntary IAG and customer offsetting. Spikes in prices or sudden changes in the availability or credibility of these projects could increase costs, or negatively impact the ability to meet net emissions targets, damaging credibility.	Additional compliance costs under UK and EU ETS or CORSIA programmes, or increased costs associated with use of voluntary offsets.	<ul style="list-style-type: none"> <li>Working in collaboration with key reputable partners such as the not-for-profit charity Pure Leapfrog</li> <li>Carrying out due diligence to select reputable providers and carbon reduction projects that meet and align with verified quality standards such as Gold Standard and Verified Carbon Standard (VCS)</li> <li>Using an effective procurement strategy for carbon credits to protect against price volatility</li> <li>Engaging with external organisations like CORSIA and SBTi to clarify and refine offset eligibility criteria</li> </ul>

## Physical risks

### Resilience to acute weather events

Risk description	Potential financial impacts	Mitigating/adapting actions
Potential low resilience to increased frequency of acute weather events such as high winds, fog events, storms, turbulence, sustained extreme heat events or a stronger jet stream could increase operating costs by increasing delays, fuel burn and requiring additional cooling and maintenance costs above planned spend. Local climate-related circumstances such as fires, algal blooms and droughts could make destinations temporarily less attractive.	Lost revenue due to weather-related disruption, or increased operational costs due to physical impacts, that are unable to be effectively mitigated or planned for.	<ul style="list-style-type: none"> <li>Operating airlines continuing to manage multiple forms of disruption across IAG's global network within existing roles and processes, such as flight operations departments and customer call centres</li> <li>Continuing to work closely with IATA and other industry bodies to better understand e.g. the impacts and locations of turbulence and how the business can mitigate these</li> </ul>

### Reduced flying to chronically affected destinations

Risk description	Potential financial impacts	Mitigating/adapting actions
Chronic changes in weather 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.	Revenue loss in a scenario where no changes have been made to the route network in the face of changing physical impacts.	<ul style="list-style-type: none"> <li>Operational and network development teams continuing to assess and understand changes in customer demand globally and managing network developments and flight schedules to respond to such changes</li> <li>Analysis of historical weather-related impacts to support future planning</li> <li>TCFD-aligned scenario analysis to better understand potential physical impacts of climate change in future, and the potential locations of this e.g. more turbulence on transatlantic flights, fires in Mediterranean destinations, and hurricanes in the Caribbean</li> </ul>

## Policy risks

### Carbon pricing

Risk description	Potential financial impacts	Mitigating/adapting actions
IAG carries passengers within the UK and Europe, where aviation emissions are subject to carbon prices due to the UK and EU Emissions Trading Schemes. Increases in carbon unit prices above planned levels, or unplanned exposure to carbon pricing, could mean increasing operating costs.	Additional compliance costs under UK and EU ETS.	<ul style="list-style-type: none"> <li>Minimising emissions and so exposure to carbon pricing, via the Flightpath Net Zero programme</li> <li>Operating airlines factoring carbon prices into operational decisions</li> <li>Fleet team using up-to-date models of carbon prices to inform fleet-purchasing decisions</li> <li>Using an effective procurement strategy for carbon allowances and offsets to protect against price volatility</li> </ul>

### EU Fit for 55 and UK climate policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Current and proposed UK and EU policy includes an intra-EU kerosene tax, SAF mandates, and non-implementation of CORSIA on intra-EU flights. Policy risks include layering (airlines paying for the same carbon twice) and competitive distortion between EU and non-EU carriers. Taxes increase compliance and operating costs without leading to lower CO <sub>2</sub> emissions.	Lost demand due to potential passthrough of significantly higher compliance costs to customers. Traffic lost to non-EU carriers which don't face the same costs.	<ul style="list-style-type: none"> <li>Minimising emissions and so exposure to climate-related policies</li> <li>Responding to the 2021 ReFuelEU consultation and UK SAF Mandate consultation to minimise the risks of any mandates creating competitive distortion or carbon emissions from other flights or regions</li> <li>IAG Government Affairs engaging in direct advocacy with EU policy-makers and via trade associations SA, A4E and IATA to try to ensure finalised policies address climate change in an effective and fair way</li> </ul>

### Policy asymmetry and patchwork

Risk description	Potential financial impacts	Mitigating/adapting actions
A patchwork of differing national and regional carbon regulations could lead to duplication of compliance costs and effects that distort competition between airlines.	Additional compliance costs, and loss of traffic and revenue due to competitive distortion i.e. other carriers not experiencing the same costs.	<ul style="list-style-type: none"> <li>Advocacy for a global policy approach based on carbon pricing, by building momentum for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022. Actions include supporting a European roadmap to net zero and oneworld roadmap to net zero and convergence around a 10 per cent SAF ambition by 2030</li> <li>Continuing to support the UN CORSIA scheme as part of policy advocacy at national and regional levels</li> <li>Allocating resources to engage with governments, trade associations, IATA and ICAO</li> </ul>

### Extra regulation on activity not emissions

Risk description	Potential financial impacts	Mitigating/adapting actions
The UK Climate Change Committee has recommended aviation demand management by 2050 in the sixth carbon budget. While the UK government has not adopted this approach, it remains a potential risk in the long term. Other long-term risks include enforced fleet renewal, additional taxes and frequent flyer levies, which are costly and ineffective policies for reducing CO <sub>2</sub> .	Lost revenue due to lower flying activity, and potential operational costs due to need to shrink operations relative to plan or absorb or pass through additional costs.	<ul style="list-style-type: none"> <li>Working via Sustainable Aviation to set 2030 and 2040 net reduction targets and demonstrating credible industry pathways to net zero without the need for demand management</li> <li>Advocacy for a global policy approach based on carbon pricing, by supporting European and oneworld roadmaps to build momentum 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</li> </ul>

### Lack of supporting SAF infrastructure or policy

Risk description	Potential financial impacts	Mitigating/adapting actions
Meeting UK and EU SAF mandates and IAG SAF commitment in 2030 is partly contingent on adequate policy support. A potential lack of supporting government policy to enable infrastructure could limit SAF supply, leading to SAF imports with lower sustainability performance, or higher ETS costs or reputational damage.	Higher UK and EU ETS compliance costs if SAF supply cannot meet demand or mandated volumes.	<ul style="list-style-type: none"> <li>Building global momentum for SAF ambitions and policies by working with trade associations</li> <li>Through JZC, lobbying for UK government support in the form of loan guarantees and financial support for first-of-a-kind SAF plants, and a price stability mechanism to reduce risks for investors</li> <li>€8.6 million invested in 2021 as part of \$400 million SAF commitment, along with multiple SAF projects in multiple regions to secure future supply and a procurement strategy to minimise price-related risks</li> </ul>

### Regulation on non-CO<sub>2</sub> effects

Risk description	Potential financial impacts	Mitigating/adapting actions
EU or other policy makers taking a punitive approach to reducing non-CO <sub>2</sub> impacts, by incorporating them into climate compliance schemes and climate-neutral policy objectives, which could increase compliance or operating costs.	Lost revenue due to industry demand impact of higher compliance costs, applied to all airlines not just IAG.	<ul style="list-style-type: none"> <li>Working through trade association SA and research partnerships with the RAeS to identify actionable solutions to reduce non-CO<sub>2</sub> impacts</li> <li>A 2030 SAF commitment to accelerate uptake of SAF, which early external research suggests reduces non-CO<sub>2</sub> effects</li> </ul>

## Technology risks/opportunities

### Use of lower-emission technologies

Risk/Opportunity description	Potential financial impacts	Mitigating/enabling actions
Potential low supply of new zero-emissions technology meaning its use is restricted across the industry or is not available to IAG. Suppliers not being ready to use new technology means uptake is low or costly.	Limited ability to access or scale-up new technologies could lead to increased operating costs and carbon compliance costs relative to competitors.  Lower fuel and compliance costs from a fleet averaging 80g CO <sub>2</sub> /pkm, the Group 2025 target	<ul style="list-style-type: none"> <li>€10.8 billion committed for deliveries of 110 new fuel-efficient aircraft between 2022-27</li> <li>Hangar 51 platform making early investments in innovative companies to accelerate their development e.g. work with ZeroAvia</li> <li>Ongoing horizon scanning by IAG Tech for new technologies and opportunities for ventures investment</li> <li>A dedicated sustainability category in the Group ten-week accelerator programmes, to identify low-carbon innovators to work with</li> </ul>

There is an opportunity to make use of latest-generation aircraft, which can reduce fuel burn and carbon impact by 15 to 40 per cent compared with the aircraft they replace.

### Use of lower-emission sources of energy

Risk description	Potential financial impacts	Mitigating/enabling actions
Potentially limited global supplies of SAF could affect the ability to uptake SAF in the EU ETS and meet IAG 2030 SAF commitment. This could also lead to reputational damage.	Additional operating costs and compliance costs.	<ul style="list-style-type: none"> <li>Ongoing investments as part of \$400 million SAF commitment, along with multiple SAF projects to secure future supply</li> <li>IAG staff chairing the SAF Delivery Group of the JZC, lobbying for a price stability mechanism to reduce risks to investors of scaling up SAF supply and securing UK Government support to incentivise 10 per cent SAF in 2030</li> <li>An effective IAG SAF procurement strategy to secure early supply and minimise price-related risks</li> </ul>

Securing supplies of sustainable fuel presents a commercial and environmental opportunity, reducing operating costs relative to other carriers and reducing compliance costs for CORSIA and the UK and EU ETS.

## B.1.4. Metrics

Reference to GRI, TCFD and SASB standards: GRI 301-1, 302-1, 305-1, 305-2, 305-3, 305-4, 305-5. TCFD Metrics and Targets a, b, c

IAG tracks and verifies Scope 1, 2 and 3 CO<sub>2</sub>-equivalent (CO<sub>2</sub>e) emissions.

Emissions are calculated by multiplying fuel and energy use by appropriate conversion factors that are aligned with the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report. 2021 UK Government conversion factors are applied across the Group as these are deemed to be the most robust available.

IAG discloses methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) as Scope 1 non-CO<sub>2</sub> greenhouse gases (GHGs), in line with these conversion factors.

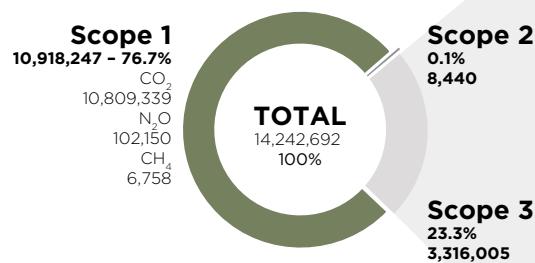
Emissions were 65 per cent below 2019 levels due to COVID-related impacts, and are expected to rise as flying demand recovers. However, internal forecasts suggest 2019 could represent peak emissions, due to future use of a more fuel-efficient fleet and greater use of SAF.

IAG focuses on reducing CO<sub>2</sub> from jet fuel use, as this represents 99.6 per cent of CO<sub>2</sub>e emissions.

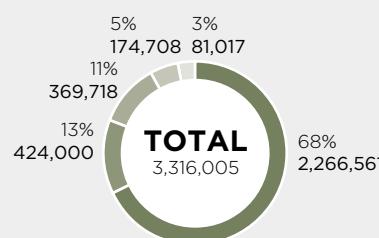
Renewable energy was 0.5 per cent of total energy use due to the low availability of sustainable jet fuel. Renewable electricity was 86 per cent of electricity use.

UK energy use was 55 per cent of total IAG energy use, based on British Airways Scope 1 emissions and Group electricity use in UK-based offices.

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</sup>



<sup>1</sup> Scope 1 MWh is 41,960,297, Scope 2 MWh is 189,013.

### Commentary on key metrics

Metric	Description	Commentary
Gross Scope 1 emissions	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. SAF use is counted as a reduction in gross emissions in line with globally recognised accounting standards	2021 emissions remained low due to low flying activity as a result of the COVID-19 pandemic.
Scope 2 emissions	Indirect emissions associated with electricity use in ground facilities like offices, lounges, data centres and hangars. <b>Market-based</b> emissions are based on the carbon intensity of electricity purchased from suppliers. <b>Location-based</b> emissions are based on the carbon intensity of national electricity grids. CO <sub>2</sub> e is calculated using gCO <sub>2</sub> e/kWh factors from national agencies in the UK, Ireland and Spain, and IEA national electricity emissions factors.	The 19% decrease in location-based emissions was driven by lower electricity use and greener national electricity grids e.g. from lower use of coal. Where the electricity use of overseas offices was not available, kWh was based on leased space in m <sup>2</sup> , multiplied by relevant kWh/m <sup>2</sup> factors based on historical data.
Scope 3 emissions	Indirect emissions associated with products IAG buys and sells. Twelve out of fifteen Scope 3 categories, as defined by the GRI, are relevant to IAG. Detailed descriptions of these categories are in the Additional Disclosures section of the IAG NFIS.	81% of Scope 3 emissions relate to fuel use and aircraft deliveries and retirements. Total Scope 3 emissions remained low due to low business activity.

Key carbon footprint metric	Unit	vly	v2019	2021	2020	2019	2018	2017
Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-1%	-65%	<b>10.92</b>	11.02	30.13*	29.99	28.76
Net Scope 1 CO <sub>2</sub> e	MT CO <sub>2</sub> e	-4%	-62%	<b>10.50</b>	10.85	26.95*	27.22	26.17
Scope 2 location-based	kt CO <sub>2</sub> e	-19%	-47%	<b>39.2</b>	48.2*	68.6	70.4	92.6
Scope 2 market-based	kt CO <sub>2</sub> e	-9%	-57%	<b>8.4</b>	9.3*	21.7	40.7	61.9
Scope 3	MT CO <sub>2</sub> e	-9%	-60%	<b>3.32</b>	3.63*	8.20*	8.79	7.88
<hr/>								
Other metric	Unit	% vly	v2019	2021	2020	2019	2018	2017
Flight-only emissions intensity	gCO <sub>2</sub> /pkm <sup>1</sup>	-11%	+5%	<b>94.6</b>	106.2	89.8	91.5	92.3
Scope 2 emissions intensity	gCO <sub>2</sub> /pkm	-28%	+55%	<b>0.34</b>	0.47*	0.20	0.22	0.28
Revenue per tonne CO <sub>2</sub> e	€/tonne CO <sub>2</sub> e	+9%	-7%	<b>771</b>	705	827	811	796
Jet fuel <sup>2</sup>	MT fuel	-1%	-65%	<b>3.42</b>	3.45	9.65	9.41	9.02
Electricity	'000 MWh	-6%	-29%	<b>189.0</b>	200.1*	267.7*	234.9	253.2
Energy	Mn MWh	+1%	-42%	<b>42.1</b>	41.9*	119.7	119.4	114.4
Renewable electricity	%	0%	+14%	<b>86%</b>	86%	72%	54%	54%
Renewable energy	%	+0.1%	0.3%	<b>0.5%</b>	0.4%	0.2%	nr	nr

Note: "nr" means "not reported". \* means restated using the latest robust data and assumptions.

Descriptions and commentary on other metrics is available in the 'Additional Disclosures' section of the IAG Non-Financial Information Statement.

1 pkm means "passenger-km" as defined in the commentary below.

2 SAF use was 2,350 tonnes of fuel in 2021 and delivered 6,506 tonnes of CO<sub>2</sub> savings. See B.1.7. 'Gross emissions reductions'

### Commentary on key metrics

Metric	Description	Commentary
Flight-only emissions intensity	Grammes of CO <sub>2</sub> per passenger kilometre (gCO <sub>2</sub> /pkm) is a standard industry measure of flight fuel efficiency. It is calculated by dividing total jet fuel use by total passenger-km, assuming ten cargo-tonne-km is equivalent to one passenger-km. For accuracy, IAG excludes the jet fuel used by franchises, cargo carried on other airlines, and engine testing, and excludes no-show passengers. The passenger-km used in the 2021 calculation is 77,280 million and the cargo-tonne-km is 3,656 million.	The 11% improvement in 2021 is driven by a recovery in passenger load factors, although average load factors remain below 2019 levels. Average Group fuel efficiency is forecast to be below 90g CO <sub>2</sub> /pkm in 2022 and on track for the 2025 target of 80g CO <sub>2</sub> /pkm. IAG remains committed to the 2025 target.
Net Scope 1 emissions	Net emissions are calculated based on gross emissions and then subtracting any carbon savings from EU ETS compliance obligations, volumes of offsets purchased to meet CORSIA compliance obligations, and the volumes of offsets voluntarily purchased. 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.	2021 net emissions are reduced by 0.42 MT due to compliance with the UK, Swiss and EU ETS in addition to voluntary offsetting by Group airlines and passengers. Net emissions reductions are also expected to be achieved via CORSIA credits when global international emissions rise above 2019 levels.
Renewable electricity	The share of electricity generated by renewable sources such as solar power and wind, based on volumes procured from renewable electricity suppliers. In cases where data on electricity sources was unavailable, the source of electricity is assumed to be the national grid.	Renewable electricity use across the Group has increased by 32 percentage points since 2017. This percentage is expected to increase in 2022. It will be difficult to attain 100% due to use of electricity supplied at airports and at overseas office locations where renewable electricity is not available.

## SUSTAINABILITY

## B. PLANET

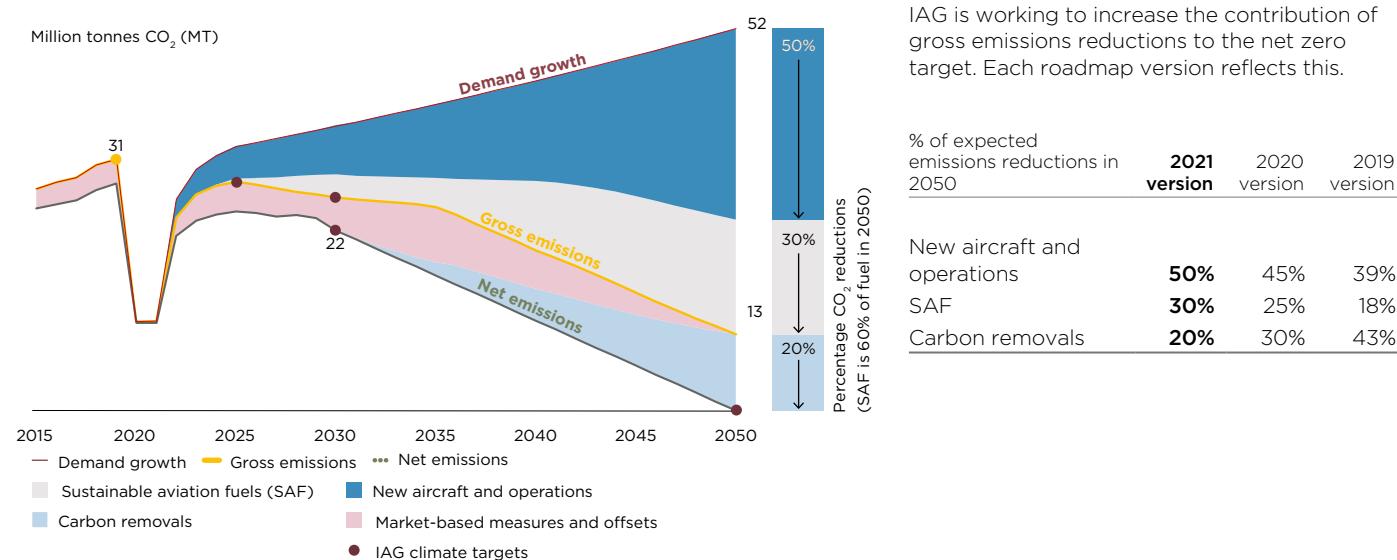
## B.1.5. Transition plan

IAG recognises that all transport modes need to transition to net zero emissions to keep global warming below 1.5°C.

In 2019 IAG was the first airline group to sign the Business Ambition for 1.5°C Pledge and to commit to a transition to net zero emissions by 2050. The IAG Flighthpath Net Zero strategy included a 30-year emissions roadmap to meet this outcome as well as short- and medium-term targets and a commitment to climate-related management incentives. The roadmap currently informs ongoing scenario analysis, planning, strategy, and risk management. The latest scenario is shown below with key assumptions on the next page.

IAG has also been a leader in developing aviation industry transition plans. It was the first airline group to support roadmaps to net zero emissions across national, regional and global industry alliances, one of only two airlines worldwide to engage in both the SBTi Technical Working Group for aviation targets and the road-testing of the SBTi Net Zero Standard, and one of only three airlines to be acknowledged in the ATAG Waypoint 2050 work on global aviation decarbonisation. In 2021, via industry association SA, IAG staff helped to develop and launch the first 2030 and 2040 climate targets for UK aviation: 20% and 40% net reductions respectively.

IAG will continue working with multiple industry partners, regulators, and stakeholders on pathways for aviation that support global 1.5°C ambitions, and to increase the ability of the industry to deliver emissions reductions.



### Pillar of carbon roadmap

#### New aircraft and operations

### Related actions to accelerate progress and innovation (also see Section B.1.9. 'Innovation')

- Ongoing fleet modernisation
- British Airways was the first airline worldwide to invest in hydrogen, with a Ventures investment in ZeroAvia at the beginning of 2021
- Venture capital investment in i6 fuel management software company

#### Sustainable Aviation Fuels (SAF)

- See "Spotlight: Sustainable Aviation Fuel"

- Venture capital investment in leading sustainable fuels company Lanzatech

#### Market-based measures with offsets

- Support for the global CORSIA scheme to limit net emissions from aviation

#### Carbon removals

- Horizon scanning of carbon capture and removal opportunities

## B.1.6. Targets

**Reference to GRI, TCFD and SASB standards: TR-AL-110a2. TCFD Metrics and targets c. Supports SDG 13**

IAG's net zero emissions by 2050 target will be delivered by working in collaboration with key stakeholders and proactively advocating for supportive government policy and technology development. 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.

IAG will review targets on non-CO<sub>2</sub> impacts when the science around these becomes robust enough to attribute impacts and reductions to individual airlines. Key actions to reduce non-CO<sub>2</sub> impacts include greater uptake of SAF and route optimisation, and IAG continues to explore these solutions through its trade associations.

IAG GBS is developing supply chain sustainability targets in conjunction with EcoVadis. To meet Scope 3 targets IAG will focus on influencing change, identifying collaborative emissions reduction projects and phasing in contractual requirements. Some suppliers will use a combination of gross and net reductions to meet their own targets and IAG plans to report more detail on this balance in future.

IAG remains committed to science-aligned targets. Independent guidance on 1.5°C-aligned targets for aviation has yet to be published and we will review future guidance to ensure it accounts for the practical differences between aviation and other sectors. Where possible, we will also work with the SBTi and other relevant stakeholders to build understanding of these differences and of industry decarbonisation pathways.

IAG will continue working with other stakeholders to enable delivery of targets.

### Current transition plan targets:

Base year	Target year	Target
2020	2020	Net zero CO <sub>2</sub> emissions for all British Airways UK domestic flights from 2020 onwards. Achieved in 2020 and 2021.
2019	2025	11 per cent improvement in gross fuel efficiency. From 89.8g CO <sub>2</sub> /pkm in 2019 to 80g CO <sub>2</sub> /pkm in 2025.
2019	2030	10 per cent SAF. Equivalent to approximately 1 million tonnes of fuel in 2030.
2019	2030	20 per cent reduction in combined net Scope 1 and 2 CO <sub>2</sub> emissions. From 27.6 MT in 2019 to 22 MT.
2019	2030	20 per cent reduction in net Scope 3 CO <sub>2</sub> emissions. From 8.1 MT in 2019 to 6.5 MT.
2019	2050	Net zero Scope 1, 2 and 3 emissions. Use of removals to mitigate any residual Scope 1 and 2 emissions.
Operating company-specific climate targets for sustainability-linked loans		
2019	2025	88.3g CO <sub>2</sub> /pkm in 2025 for British Airways, an 8 per cent reduction compared to 2019.

In January 2021, British Airways was the first airline worldwide to receive a loan linked explicitly to achievement of ESG targets.

### Current transition plan assumptions:

The roadmap chart to the left represents a core Group scenario which assumes continued policy support for aviation decarbonisation, an overall recovery to 2019 levels of passenger demand by 2023, and then annual demand growth aligned with industry growth forecasts and external guidance. Scenario and cost analysis is ongoing.

Key roadmap updates in 2021 are:

- A 2040 introduction for zero-emission shorthaul aircraft, based on manufacturer announcements and certification timelines;
- 60 per cent SAF in 2050, based on policy moves in the UK, Europe and USA;
- Net emissions reductions via the compliance schemes the UK and EU ETS, CORSIA and voluntary offset projects;
- A clearer pathway to full use of carbon removals in 2050 for any residual emissions.

IAG is working with relevant stakeholders to accelerate progress in every pillar of the roadmap.

Delivery of current plans, dependent on appropriate policy support, will enable an approximately 70 per cent drop in gross emissions by 2050 and an 80 per cent improvement in gross gCO<sub>2</sub>/pkm, relative to 2019. Only 10 per cent of total emissions reductions delivered between 2020 and 2050 are expected to be from compliance and voluntary offset projects.

IAG will update this core roadmap scenario in 2022 to account for relevant business, policy, scientific and technology developments.

## B.1.7. Gross emissions reductions and efficiency

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. GRI 305-5. Supports SDGs 3, 8, 13



IAG is actively driving reductions in its gross emissions. Based on the latest carbon roadmap, these represent 80 per cent of total emission reductions in the year 2050. There are four main methods of achieving these reductions:

- Modernising the aircraft fleet. Purchasing the latest aircraft models like the Airbus A320neo, Boeing 777 and Airbus A350, which are up to 40 per cent more efficient than aircraft they replace, whilst retiring older aircraft;
- Optimising the use and efficiency of the aircraft fleet. For example, optimising flightpaths, allocating fuel-efficient aircraft to specific routes and implementing in-flight efficiency initiatives which save fuel without compromising safety, service or flight schedules. These initiatives include optimised engine washes, single-engine taxiing, continuous descents, landing flaps and reducing weight onboard;
- Increasing the use of cleaner energy sources in the fleet. For example, use of SAF displaces fossil fuel use and delivers lower CO<sub>2</sub> emissions over a comparable lifecycle. Fuels from bioenergy and non-fossil carbon-rich feedstocks are also used outside the aviation industry; and
- Increasing the use of renewable electricity and renewable energy for ground facilities and operations.

IAG continues to develop operational and fuel efficiency initiatives for both aircraft and ground operations.

Metric	Unit	vly	v2019	2021	2020	2019	2018	2017
GHG reduction initiatives	CO <sub>2</sub> e tonnes	247%	-9%	<b>59,725</b>	17,208	77,386	65,887	nr
Fleet age	years	+8%	-2%	<b>11.2</b>	10.6	11.4	11.3	11.4

### Key 2021 emission reduction milestones:

- 6,506 tonnes of CO<sub>2</sub> saved due to SAF use in 2021 and a pipeline of projects in support of our 2030 SAF target;
- Regular meetings of an IAG-wide sustainability Fuel Efficiency Working Group to support and enable fuel efficiency practices across IAG's global network, including ongoing use of the Honeywell Flight Efficiency software;
- British Airways carried out a "perfect flight" from London to Glasgow on a fuel-efficient Airbus A320neo, delivering emissions 62 per cent lower than to a similar flight a decade ago due to a 35 per cent SAF blend and maximising on-ground and in-flight efficiency;
- Vueling reduced 1,000 tonnes of onboard weight by using lightweight trolleys and worked with the Spanish air traffic management provider ENAIRE to improve airspace efficiency;
- Aer Lingus carried out more robust evaluation of fuel efficiency trends;
- Iberia started receiving electricity from 10,000m<sup>2</sup> of solar panels on its engine maintenance hangar in Madrid, the largest site to self-generate electricity of any company in the IBEX 35; and
- IAG Cargo successfully completed trials of new electric vehicles at London Heathrow and Dublin airports.

# Spotlight: Sustainable Aviation Fuel

In April 2021, IAG was the first European airline to commit to 10% SAF by 2030, dependent on appropriate government policy support.

This is the equivalent of using 1 million tonnes of fuel in 2030, with the equivalent carbon saving of taking over 2 million cars off the road. IAG has a long-standing SAF commitment, having committed in 2017 to invest \$400 million in SAF over 20 years, and is targeting use of at least 19 million tonnes of SAF between now and 2040 based on the latest roadmap.

IAG is a leader in the development of SAF projects not only through committed purchases of SAF, but also by making direct investments in new and innovative SAF production capacity, spurring the wider development of the SAF market. The Group's investments are backed up with SAF purchase agreements which are critical to the financeability of the new SAF production capacity. IAG has also been leading the industry at developing and advocating for "second-generation" SAF, which use carbon-rich waste feedstocks and advanced conversion technologies, as opposed to first-generation SAF which is predominantly manufactured using crop feedstocks.

2021 was a significant year for the Group SAF programme. It remains on track with a total of €8.6m million invested in SAF



agreements. British Airways, Iberia and Vueling all operated flights using SAF blends, and IAG airlines had uptakes of mandated SAF volumes in Norway and Sweden.

Key firsts for the Group:

- Managing the import of the UK's first ever bulk SAF to supply IAG Cargo to operate the world's first net zero cargo

charter flights between Stuttgart, Heathrow and Atlanta for its customer Kuehne+Nagel; and

- Developing the partnership with the UK refiner Phillips 66 to develop the UK's first SAF production facility, with British Airways the first airline in the world to receive SAF from this facility from 2022.

## Some current SAF projects:

IAG continues to work with technology developers to establish a range of SAF supply options for the future. Below are some of the projects that are in the public domain and we continue to develop others including carbon capture projects.

Project/Partner	Feedstock	Production location	Planned production start
IAG Cargo/Neste	Used cooking oil (UCO)	Europe	2021 one-off
COP26/AirBP	UCO	Europe	2021 one-off
Phillips 66/Phillips 66	UCO/Food waste	Humber, UK	2022
Freedom Pines/LanzaJet	Agricultural wastes	Georgia, USA	2023
oneworld/Aemetis	Waste wood	California, USA	2024
Project Dragon/LanzaTech	Waste gases and agriculture	South Wales, UK	2025
Bayou Fuels/Velocys*	Forestry residues	Mississippi, USA	2026
Speedbird/LanzaTech/NovaPangea*	Waste wood, forestry residues	UK	2026
Altalto/Velocys*	Municipal waste	Immingham, UK	2027

\*includes carbon capture and storage.

## B.1.8. Net emissions reductions

Reference to GRI, TCFD and SASB standards: TR-AL-110a2. Supports SDGs 7, 9, 13



Net/out-of-sector emissions reductions are a critical part of aviation decarbonisation pathways, as airlines proactively lay the groundwork for faster reductions in gross emissions in future.

IAG sees carbon offset projects as key to reducing its emissions in the short and medium term, en route to full use of carbon removals in 2050 to mitigate any residual emissions.

IAG is delivering net reductions via three key channels:

- Through the EU-regulated Emissions Trading Scheme, purchasing carbon allowances from other sectors which drives and funds additional emission reduction projects. Airlines have been participating since 2013;
- Through the UN-regulated CORSIA scheme, investing in a combination of fleet modernisation, efficiency, SAF and offsets to meet the global goal of keeping net international aviation emissions at or below 2019 levels; and
- Through voluntary funding of internationally verified offset or carbon removal ('negative emissions') projects in the UK, Europe and around the world. This funding can either come from customers who choose to mitigate the

impact of their flights, or from IAG or operating companies funding projects directly. British Airways has offered voluntary offsetting since 2003.

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 such as Gold Standard- and Verified Carbon Standard (VCS)-verified carbon reduction projects.

2021 projects included rainforest protection in Cambodia, Peru and the Congo Basin, and sustainable cook stoves for communities in Sudan and Malawi.

IAG will be required to purchase credits for CORSIA when global emissions from international flights rise above 2019 levels.

### Key 2021 progress:

- IAG contributed to a landmark report by McKinsey and the Coalition for Negative Emissions outlining the Case for Negative Emissions and the need for urgent government action to develop supportive carbon removals policy;

Metric	Unit	vly	v2019	2021	2020	2019	2018	2017
Net emissions reduction through EU, UK, Swiss ETS	'000 tCO <sub>2</sub> e	n/a	-93%	<b>219</b>	0*	3,182	2,634	nr
Via voluntary funding and projects	'000 tCO <sub>2</sub> e	+17%	n/a	<b>197</b>	168	nr	nr	nr

\* Emissions levels in 2020 were below the EU ETS sector cap for aviation so no net reductions were delivered.

## B.1.9. Innovation

IAG invests in innovation to meet its targets, drive decarbonisation in the Group and to accelerate wider change towards a more sustainable industry.

Hangar 51 is IAG's core innovation platform, which continues to attract the world's top emerging technology companies working on sustainability solutions.

IAG also has established governance processes to review new potential investments in emerging climate technology and partnerships with start-ups. This process is overseen by the CSO, CFO, CIO and General Counsel.

IAG supports climate technology innovation via its accelerator, incubator, venture capital investments, university collaborations, active pilots, supporting applications for grant funding, and research and development consortia.

IAG representatives also sit on academic boards and public-private partnerships to support new technologies and innovation. For example, IAG staff sit on the UK Government's Jet Zero Council, academic boards (Cranfield and Heriot Watt Universities), the Aston Supergen consortium, and the Steering Board of the UK Biotechnology and Biological Sciences Research Council (BBSRC). Iberia continues the La Cátedra Iberia research collaboration with the Polytechnical University of Madrid.

In 2019, the Group launched the first dedicated sustainability accelerator in the aviation industry. In 2021, the focus of this broadened with the inclusion of a new Future Energy category. From hundreds of applications the Group chose to work with 12 pioneering start-ups covering topics such as new hydrogen fuel cell solutions, electrification infrastructure, customer engagement tools and carbon removal technologies.

In 2022, the Group will continue to expand its focus on sustainability innovation to accelerate decarbonisation.

All customers booking flights directly through British Airways are offered the choice to voluntarily donate to the BA Carbon Fund or an option to mitigate the carbon emissions of their flight through a standalone website: BA Carbon Neutral.

The British Airways Executive Club also allows customers to make a Carbon Fund donation using their Avios points.

In 2021, British Airways became one of the first airlines in the world to have a voluntary SAF offer available to customers including corporates.

All operating airlines are planning to expand their portfolios of sustainability products and services in 2022.

## B.1.10. Sustainable products and services

IAG offers customers including corporates a range of sustainable products and services to help them to reduce their carbon emissions and to support wider sustainability goals. These goals include community development and protecting biodiversity.

Within the Group, British Airways currently has the widest range of sustainability offers available for customers and has offered voluntary carbon offsets since 2003.

The British Airways Carbon Fund delivers carbon reduction projects in the UK and Africa with community co-benefits. British Airways receives no revenue from this fund.

## Spotlight: new waste targets

In 2021 IAG developed and approved new "5 through 2025" waste targets. More details are on the next page.

"5 through 2025" focus areas	2019 generation <sup>1</sup>	2025 generation target	2019 recycling	2025 recycling target
Single-Use Plastic (SUP)	-	Zero-based <sup>2</sup>	-	-
Onboard waste <sup>3</sup>	0.33 kg/pax	-20%	24%	40%
Office waste	96 kg/staff	-50%	35%	60%
Maintenance waste	0.63 kg/person-hour	-25%	50%	70%
Cargo waste	1.55 kg/kg cargo handled	-25%	63%	80%

1 Detailed definitions of waste types and metrics are available in the Additional Disclosures section of the IAG NFIS.

2 Zero-based means eliminating as much as possible in all areas of operation, acknowledging that some plastics may still be required in 2025 where alternatives do not exist.

3 The 40 per cent target is an average across the Group for waste processed at hub airports. Other targets apply to all operating companies as a minimum level of ambition.

## B.2. Waste

Reference to GRI, TCFD and SASB standards: GRI 306-1 (2020), 306-2 (2020), 306-3 (2020)

Supports SDG 12



### New targets:

IAG is committed to reducing, reusing and recycling waste. In 2021, IAG set new and comprehensive waste reduction targets as outlined on the previous page.

The “5 through 2025” waste strategy is expected to save approximately 20,000 tonnes a year from landfill and incineration

compared to 47,728 tonnes sent to landfill or incineration in 2019.

This strategy covers the five core areas of single-use plastic (SUP), onboard, office, cargo, and maintenance waste. Separate reduction and recycling targets are applied to all four airlines and to IAG Cargo.

IAG plans to report detailed progress against these targets in 2022. Currently, the impacts of the COVID-19 pandemic make it difficult to establish meaningful year-on-year trends.

IAG will also advocate to national governments and via IATA for clear and supportive waste policies which would enable the Group to be more ambitious.

### Key 2021 progress:

- IAG airlines worked together to identify common sustainable solutions for Group cutlery, to comply with the EU SUP ban which entered into force in July 2021;
- British Airways and Iberia launched new services (Buy-Before-You-Fly and DeliverFly) to give passengers the choice of buying fresh and ambient products before departure. These services remove food waste from unpurchased shorthaul economy meals while maintaining customer choice;
- Vueling developed an internal dashboard to track waste and set a target to segregate 60% of onboard waste by 2023; and
- IAG Cargo increased recycling rates by 6 per cent at both the London and Dublin hubs.

### Waste commentary:

Onboard services are IAG's main source of waste. Key inputs include onboard meals and amenity kits 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.

Waste regulations limit the amount which can be recycled. For example, Irish regulations require specific categories of onboard waste to be incinerated.

IAG supports innovation to minimise waste. For example, as part of the 2020 Hangar 51 platform, Iberia worked with Countalytics to track its flows of onboard waste and develop better onboard services.

Metric	Unit	vly	v2019	2021	2020	2019
Onboard waste at hub airports	'000 tonnes	-7%	-54%	<b>12.3</b>	13.2	27.0
Onboard waste generated per passenger at hubs	kg/pax	-19%	+42%	<b>0.47</b>	0.58	0.33
Overall waste (onboard, office, maintenance, cargo)	'000 tonnes	-10%	-54%	<b>27.6</b>	30.6	60.2
Overall recycled and recovered	%	+6%	+9%	<b>30%</b>	24%	21%

Note: 2019 and 2020 values have been restated due to a more rigorous methodology aligned to GRI standards.

Metric	Description	Commentary
Waste/pax at hubs	<ul style="list-style-type: none"> <li>Onboard catering waste generated per passenger, including volumes later recycled and recovered.</li> <li>Passenger numbers are based on those inbound and outbound passengers who have their waste processed at hub airports London Heathrow and Gatwick, Madrid, Barcelona and Dublin.</li> </ul>	Onboard waste generated per passenger decreased in 2021 due to more predictable passenger behaviour and a reduced share of longhaul flying, which has more comprehensive onboard meal services.  This metric is likely to increase in 2022 even with an enhanced focus on waste reduction across the business.
Overall waste	<ul style="list-style-type: none"> <li>Includes waste from all streams – onboard, office, cargo and maintenance waste – and an extrapolation of waste processed at overseas airports, where waste destinations are not always reported by third parties.</li> </ul>	2021 volumes remain much lower than 2019 due to reduced flying activity.
Overall recycled and recovered	<ul style="list-style-type: none"> <li>Excludes waste sent to incineration.</li> </ul>	Overall recycling/recovery rates have improved due to a higher share of flying from Spanish hub airports, where more waste can be recycled at processing facilities.

## B.3. Noise and air quality

Reference to GRI, TCFD and SASB standards: GRI 305-7. Supports SDGs 3, 11

IAG remains committed to reducing the impact of aircraft noise and air pollution on local communities near airports.

The average noise per journey – per landing and take-off cycle – has reduced by 19 per cent in the past five years. Due to the early retirement of Airbus A340s and B747s in 2020, an 8 per cent drop in average noise per sector was achieved in 2021 alone, almost meeting the 10 per cent noise reduction target set for 2025.

IAG will update noise targets in 2022.

Operating companies continue to work to minimise noise impacts. They regularly monitor noise and air quality performance using national databases and global aircraft noise standards. Improvements are driven via fleet modernisation and specific operational practices like continuous descents. Airlines also engage with stakeholders such as community groups, regulators and industry partners and

participate in research and operational trials.

IAG supports innovation to reduce noise impacts. In 2021, Iberia participated in the EU AVIATOR project to better understand air pollution impacts at airports using research on real aircraft. In 2022 a testing campaign will be carried out using SAF.

Detailed descriptions on all noise metrics are available in the IAG NFIS.

Metric	Unit	Vly	v2019	2021	2020	2019	2018	2017
Noise per cycle	QC per LTO	-8%	-12%	<b>0.88</b>	0.96	1.00	1.07	1.06
NO <sub>x</sub> per cycle	kg per LTO	-8%	-1%	<b>9.10</b>	9.84	9.23	9.71	nr
ICAO Chapter 14	% at standard	-2%	+3%	<b>56%</b>	58%	53%	50%	46%
CAEP Chapter 6	% at standard	0%	+2%	<b>80%</b>	80%	78%	74%	69%
CAEP Chapter 8	% at standard	3%	+8%	<b>43%</b>	40%	35%	29%	26%

% at standard is based on the fleet position at the end of 2021, including parked aircraft and excluding leased aircraft. Metrics per LTO are based on operational aircraft during the year.

### Related risk: Operational noise restriction and charges

#### Risk description

Airport operators and regulators apply operational noise restrictions and charging regimes which may introduce additional costs or restrict airlines' ability to operate e.g. restrictions on night flights.

#### Mitigating actions

- Investing in new quieter aircraft as part of fleet modernisation
- Continually improving operational practices including continuous descents, slightly steeper approaches, low-power low-drag approaches and optimised departures
- Internal governance and training and external advocacy in UK, Ireland and Spain to manage noise challenges

# C. People and Prosperity

## C.1. Workforce overview

Reference to GRI, TCFD and SASB standards: **GRI 403-4, 408-1, 409-1**

**Supports SDG 12**



2021 has been another challenging year for the Group and for our colleagues as we continue to navigate the impacts of the COVID-19 pandemic, aligning our resourcing levels to the operational needs of the business, ensuring we are ready to take advantage of opportunities as restrictions are lifted, and ensuring we protect the safety and wellbeing of colleagues and customers.

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. In addition to the Code of Conduct, 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 2021, 56,658 people were employed across the Group in 81 countries, a decline of 2 per cent in the year. Our voluntary turnover rate for 2021 was 5 per cent compared with 15 per cent in 2020, a change that reflects the completion of the necessary resizing of the business in response to COVID-19 but also giving some indication of new hiring and role creation in 2021. The necessary changes put in motion in 2020 and 2021 have positioned the business to a place which has allowed us to safeguard jobs in key areas of the business and take advantage of the opportunities as travel restrictions ease.

As the business pivots towards recovery from COVID-19, there has been a key emphasis and focus on maintaining and retaining employees during 2021 – which is reflective in our workforce measures. There has been no material change in our

headcount position compared to 2020 and there is some evidence of headcount growth in areas where we have seen a more regular pattern of flying return. As the world begins to open there is the expectation that our recovery will continue into 2022 and this will be reflected within our workforce population and composition.

As public health guidance changed and in line with operational requirements, employees across the Group started returning to our offices and our operating companies have taken approaches to coordinate and support the safe and flexible return of our employees. Our operating companies have promoted a balanced, flexible and hybrid working model which enables the right balance between flexibility whilst bringing the benefits of being together as a team. At Aer Lingus this is being promoted as “hybrid working” and is guided by the principles that people are expected to develop the right balance between home and office working, reflecting role requirements and personal circumstances. Similarly, British Airways has recently introduced a hybrid model of working, which allows employees to create a mix of remote and office working which is right for them based around the concept of “neighbourhood” communities for teams and hot-desking. Iberia has also welcomed back employees to its offices and has an individualised return to work programme for teams – launching targeted managerial and all employee guidance and mandatory training for all employees.

Operating companies have also been making considerable investments in the workplace and both Vueling and IAG Loyalty have recently modernised and moved into new office facilities. These new facilities have been created to foster a more open and modern office environment which will help to facilitate collaboration and communication between teams.

Measures to support employee satisfaction and talent management are primarily managed within operating companies and each operating company has its own

established methods of measuring employee satisfaction. In addition, IAG has introduced an organisational health survey, initially focused on management populations across all operating companies to benchmark management practices against a globally recognised metric. This survey was run initially in November 2020 and repeated in October 2021. Insights from the survey are used to shape and prioritise cultural development plans.

Individual operating companies are responsible for learning, development and talent within their business, to enable them to ensure they have the right skills and capabilities required to support their strategy. In 2021, IAG launched a new leadership and talent strategy, building on the work within each operating company and enabling improved attraction, retention and mobility of talent across the Group. IAG is currently working to align the talent management framework across the Group, initially focusing at Group level on the IAG Management Committee and their direct reports. IAG has a strong track record of retaining and promoting talent into senior roles, as evidenced by the Management Committee appointments during 2020 and 2021, and this new approach will improve the rigour and consistency of talent management across the Group.

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 2021, IAG hosted one full meeting of the EWC and 11 Select Committee meetings, which have all been held virtually. In November 2021 we commenced the nominations and elections process for new representatives of the EWC, a process which had been postponed due to the pandemic. Reflecting the changing geopolitical landscape and the specific role of the EWC

to manage transnational issues for EEA Member States, the UK will cease to have representatives within the EWC, and we will continue to engage with UK employee representative groups on matters relevant to them. The EWC election and appointment process for the new Select Committee and Chair will be completed in February 2022.

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

Reference to GRI, TCFD and SASB standards: Supports SDG 3



IAG is committed to safeguarding 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 Safety, Environment and Corporate Responsibility Committee monitors all matters related to the operational safety and Corporate Responsibility 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.

COVID-19 continues to be present in our communities and impacts our people and the Group continues to follow expert guidance from bodies such as the IATA Council Aviation Recovery Taskforce (CART), the WHO, Public Health England and Spanish and Irish authorities. New safety and hygiene measures have been introduced for all employees and customers. All these measures have been carefully thought through alongside the need to reflect the latest advice from public health authorities and aviation regulators.

To support employee wellbeing across the Group, each operating company has continued to create new websites and has deployed internal resources to support mental health and COVID-19 safety. For example, British Airways built on existing resources put in place throughout 2020 and issued daily press updates which continue to highlight wellbeing and the support available 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.

Iberia has also continued with its COVID-19 prevention training which is now mandatory for all employees returning to the office. In collaboration with local authorities in Madrid, Iberia has also assisted in the vaccination programme and operated a vaccination centre on premises between July 15 and September 30. Additionally, Iberia has taken part in the "Elige Cuidarte" ("Choose to take care of yourself") programme aimed at getting all its employees vaccinated against both COVID-19 and the flu.

## C.3. Diversity, inclusion and equality

Reference to GRI, TCFD and SASB standards: 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.

### Key 2021 progress on gender diversity and equality:

- IAG has increased the number of women in senior executive roles to 33 per cent, a 3 per cent increase on last year. In 2021, working with senior leaders across the Group, we have reviewed our targets and plans and are delighted to announce an increase in our external target to 40 per cent women in senior roles by 2025;
- Iberia and Vueling have revised their equality plans covering all employees in Spain reflecting new legislation;
- British Airways has made commitments to equal opportunities within its recruitment processes and has announced a commitment to 100% open recruitment, diverse shortlisting and diverse interview panels;
- IAG launched the Elevate programme – a peer networking programme for senior women;
- Iberia has successfully launched its “Take the Lead” programme aimed at cross-

mentoring for women within the business;

- Iberia participated in the III Business Summit #MujeresyLiderazgo (Women and Leadership), organised by the consulting firm 50 & 50 Gender Leadership in collaboration with CEOE;
- Vueling and Iberia, alongside the Spanish Aviation Safety and Security Agency (AEASA) and Airbus, produced an awareness campaign video on International Women’s Day to showcase women in the aviation sector;
- IAG and IAG GBS, to mark and celebrate International Women’s day, hosted a “fireside chat” led by female members of our Senior Executive community; and
- Aer Lingus achieved the “Investors in Diversity” Bronze accreditation.

### Key 2021 progress for other under-represented groups

In 2021 we created a new Diversity Panel to share best practice and to lead the co-design of new diversity and inclusion initiatives. We are reviewing key employment policies, to ensure they are inclusive and fair for all, and are looking into how we manage declarations in our core countries of operation reflecting the cultural and regulatory environment, with an aim to use data and insights to set targets and develop action plans.

### Key initiatives for under-represented groups:

- Our procurement team is using the EcoVadis tool to evaluate our top suppliers including a review of diversity

and inclusion, enabling us to promote and support inclusion throughout our supply chain;

- British Airways launched its Reverse Mentoring programme for ethnic minority colleagues up to Management Committee level and celebrated Black History Month with several events including: videos and interviews with the Senior Leaders; an all-Black gate team; and a webinar from Tessy Ojo OBE, Chief Executive Diana Award UK;
- Aer Lingus launched visual guides on aerlingus.com to support customers with cognitive disabilities and has rolled out disability awareness training for all front line employees; and
- GBS ran Lunch and Learn session led by an external expert to celebrate BHM and encourage people to speak about racism and allyship.

## C.4. Human rights and modern slavery

Reference to GRI, TCFD and SASB standards: Supports SDGs 3, 4, 5



IAG had no known cases of human rights violations across the Group during 2021. 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 IAG Group Slavery and Human Trafficking Statement, which was last updated in 2021 and is available on the IAG website. This

statement is made under section 54, part 5 of the 2015 UK Modern Slavery Act (MSA).

IAG is taking steps to prevent human trafficking. 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. 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. IAG also supports the 2018 IATA resolution denouncing human

trafficking and reaffirming a commitment to tackle this issue.

Operating airlines also train staff to recognise and respond to the signs of potential human trafficking situations and provide procedures for reporting where any cases are suspected. This training is managed at airline level. In 2021, over 27,000 employees have completed over 38,000 hours of training covering Human Rights topics.

In 2022, IAG plans to review the assessment of human rights risks within the business.

### Human rights

#### Risk description

Not preventing potential incidences of human trafficking via IAG routes, damaging efforts to improve human rights and associated legal and reputational impacts. Potential human rights or modern slavery violations in the supply chain leading to fines, compliance issues, business interruption or reputational damage.

#### 2021 Mitigating actions

- Updated Group Slavery and Human Trafficking Statement
- Training for staff to recognise signs of potential human trafficking and guidance and processes in place to report this
- See A.6. Supply chain sustainability

## C.5. Community engagement and charitable support

Reference to GRI, TCFD and SASB standards: GRI 102-13, 201-1. Supports SDG 11



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

- British Airways has partnered with the Disasters Emergency Committee for eight years and helped raise over £1.5 million supporting 17 humanitarian appeals;
- Vueling has been working with Save the Children for seven years and is the second-largest sponsor of this NGO in Spain;
- Iberia has been contributing to the UNICEF children's immunisation programme for eight years. This programme focuses on diseases like polio and measles and has paid for the vaccinations for more than a million children in Chad, Angola and Cuba;

- Aer Lingus staff have had an annual "Make a Difference" day for staff volunteering for a decade. While this did not go ahead in 2020 and 2021, Aer Lingus was a significant contributor to the COVID-19 global response via flights of medical equipment between Europe and China; and
- British Airways has been working with the "Flying Start" global charity programme, in partnership with Comic Relief, for over a decade. This programme has helped over 864,000 people in some of the world's poorest communities.

#### Key 2021 milestones:

- IAG Cargo transported over 19 million COVID-19 vaccines, including a 4 million dose shipment to Abuja, Nigeria in collaboration with UNICEF and its

COVAX initiative and 300,000 doses to Jamaica, donated by the UK Government;

- IAG GBS employees supported the "Business versus Smog" programme in Poland, improving environmental awareness among children;
- Iberia launched its corporate volunteering programme "Cada acción suma", and via a collaboration with NGO Mano a Mano and Iberia Express, sent almost five tonnes of supplies to La Palma residents affected by the volcanic eruption; and
- Vueling supported multiple causes including the Spanish Association Against Cancer, Caritas, ASPANOB and LOVAAS foundation which supports children with different degrees of autism.

In 2021, €2.7 million was raised for charitable causes across the Group. Of this, 33 per cent came from customer contributions, 10 per cent from company donations, 50 per cent from employee contributions, and 7 per cent from in-kind donations. The total remains lower than 2019 due to reduced flying affecting customer contributions and reduced business activity limiting fundraising campaigns.

Metric	Unit	vly	v2019	2021	2020	2019	2018	2017
Total raised	€ million	-42%	-53%	2.7	4.6	5.7	nr	nr

## C.6. Workforce measures

Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1

Description and commentary for key workforce metrics			
Metric	Unit	Description	Commentary
<b>Employment</b>	Average manpower equivalent	<ul style="list-style-type: none"> <li>Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors.</li> <li>The average is the mean of the manpower equivalent captured quarterly to reflect seasonality.</li> </ul>	<ul style="list-style-type: none"> <li>The 17.1% decrease reflects the resizing of the business in 2020. This is an average figure and most of the resizing took place in Q4 2020.</li> <li>This measure accounts for employees' contractual schedule of work and therefore does not account for the impact of COVID-19 job retention scheme.</li> </ul>
<b>Headcount</b>	Number of people	<ul style="list-style-type: none"> <li>Headcount is the actual number of people employed across the Group (employees) at December 31, 2021.</li> </ul>	<ul style="list-style-type: none"> <li>Overall headcount decreased over the year by 2.2%.</li> <li>Reflects the necessary workforce actions taken in 2020 and in the beginning of 2021.</li> </ul>
<b>Composition</b>	% headcount by employment type, contract and employee categories	<ul style="list-style-type: none"> <li>Composition is a breakdown of headcount as at December 31, 2021.</li> <li>Full-time employees are defined as those working full contractual hours as at December 31, 2021.</li> <li>A temporary employment contract has a defined end date.</li> <li>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 &amp; Logistics.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in temporary workers to 4%, driven by a stronger summer season in Spain, particularly in Vueling, mostly in Airport based roles.</li> <li>The modest increase in temporary employees has also increased our ratio of part time employees to 22%; these roles are typically focused on covering specific peak hours.</li> <li>A change in categorisation of employees in our Cargo and Logistic units has seen increases in maintenance and logistic roles to 13% and related reductions in Airport and Corporate. This aside, the Group has seen modest recovery in Airport employees linked to the broader recovery of travel.</li> </ul>
<b>Employees by country</b>	Number of people	<ul style="list-style-type: none"> <li>This metric depicts the distribution of the Group's employees according to the country in which they are based.</li> </ul>	<ul style="list-style-type: none"> <li>The increase in the proportion of Group employees based in Spain is due to the increased summer flying schedules at Iberia and Vueling. At the end of 2021 IAG had employees based in 81 countries.</li> </ul>
<b>Gender diversity</b>	% women at Board, senior executive, and Group level	<ul style="list-style-type: none"> <li>The share of women as a proportion of all staff at specific levels of seniority across the Group.</li> </ul>	<ul style="list-style-type: none"> <li>There were 194 senior executives as at December 31, 2021.</li> <li>IAG increased the proportion of women in senior executive roles to 33% by the end of 2021. IAG has maintained gender diversity of the Board at 42%.</li> <li>A decrease in the proportion of women across the whole Group is explained by the impact of COVID-19 and restructuring in 2020 and the underlying gender mix of the teams affected e.g. cabin crew</li> </ul>

Metric	Unit	Description	Commentary
Age diversity	% of staff in each age band	The 'on the ground' managerial population includes all airport, corporate and maintenance roles equivalent to a manager across the Group.  The 'in the air' managerial population includes all pilot and cabin crew roles equivalent to Captains and Cabin Service Managers.	The increase in the proportion of employees over 50 years of age is explained by larger voluntary turnover figures in younger cohorts. The group lost 1,035 < 30 year olds (1.8% turnover); 1,335 30-50 year olds (2.4% turnover); and 565 > 50 year olds (1.0% turnover).  The decrease in the proportion of employees under 30 years of age is explained by the end of temporary contracts and greater levels of voluntary leavers.
Workforce turnover	% voluntary and non-voluntary turnover	Measured as the number of leavers as a percentage of the average number of Group employees in the year. The number of leavers excludes temporary contracts and death in service. Voluntary turnover occurs when employees choose to leave (e.g. resignation, retirement, voluntary redundancy) and non-voluntary turnover occurs when employees leave for reasons other than a personal decision (e.g. compulsory redundancy, dismissal).	The overall annual turnover in 2021 was 6% - a total of 5,054 employees, of which 691 were non-voluntary leavers. This compares to 21% in 2020, a total of 13,654 of which 3,456 were non-voluntary leavers.  This significant decrease in turnover reflects the Group resizing completed in 2020

## Table of key measures

Metric	Unit	Sub-category	vly	2021	2020	2019	2018	2017
<b>Employment</b>	Average manpower equivalent <sup>1</sup>		-17.1%	<b>50,222</b>	60,612	66,034	64,734	63,422
<b>Headcount</b>	Number of people <sup>2</sup>		-2.2%	<b>56,658</b>	57,928	72,268	71,134	nr
<b>Composition</b>	% headcount by employment type	Full-time: Part-time:	-1pt 1pt	<b>78%</b> <b>22%</b>	79% 21%	74% 26%	75% 25%	nr
<b>Composition</b>	% headcount by employment contract	Permanent: Temporary:	-1pts 1pts	<b>96%</b> <b>4%</b>	97% 3%	94% 6%	94% 6%	nr
<b>Composition</b>	% headcount by employee categories	Cabin Crew: Pilots: Airport: Corporate: Maintenance:	1pt Opt -2pts -1pts 2pts	<b>32%</b> <b>13%</b> <b>23%</b> <b>19%</b> <b>13%</b>	31% 13% 25% 20% 11%	35% 11% 26% 17% 11%	35% 11% 26% 18% 10%	nr
<b>Employees by country</b>	% of people	UK: Spain: Ireland: India: USA: Other:	-1pts 2pts -1pts Opt 1pts -1pt	<b>49%</b> <b>36%</b> <b>7%</b> <b>2%</b> <b>2%</b> <b>4%</b>	50% 34% 8% 2% 1% 5%	54% 31% 7% nr nr nr	nr nr nr nr nr nr	nr

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, 2021.

## Reference to GRI, TCFD and SASB standards: GRI 102-7, 102-8, 401-1, 405-1

Metric	Unit	Sub-category	vly	2021	2020	2019	2018	2017
<b>Gender diversity</b>	% women at Board level <sup>1</sup>		Opts	<b>42%</b>	42%	33%	33%	25%
<b>Gender diversity</b>	% women at senior executive level		3pts	<b>33%</b>	30%	30%	27%	24%
<b>Gender diversity</b>	% women at Group level		-1pts	<b>42%</b>	43%	44%	45%	44%
<b>Age diversity</b>	% of managerial staff in each age band	<30	-1pts	<b>2%</b>	3%	4%	7%	6%
		30-50	-2pts	<b>55%</b>	57%	55%	57%	65%
		50+	3pts	<b>43%</b>	40%	41%	36%	29%
<b>Age diversity</b>	% of non-managerial staff in each age band	<30	-2pts	<b>16%</b>	18%	21%	22%	17%
		30-50	-1pts	<b>53%</b>	54%	50%	50%	51%
		50+	3pts	<b>31%</b>	28%	29%	28%	32%
<b>Workforce turnover</b>	% voluntary and non-voluntary	Voluntary	-11pts	<b>5%</b>	16%	7%	8%	8%
		Non-voluntary	-4pts	<b>1%</b>	5%	2%	3%	2%
<b>Workforce turnover</b>	Overall % by age group	<30	19pts	<b>35%</b>	16%	37%	35%	nr
		30-50	13pts	<b>46%</b>	33%	36%	34%	nr
		50+	-32pts	<b>19%</b>	51%	27%	31%	nr
<b>Workforce turnover</b>	Overall % by gender	Women	-3pts	<b>49%</b>	52%	47%	51%	nr
		Men	3pts	<b>51%</b>	48%	53%	49%	nr

## Reference to GRI, TCFD and SASB standards: GRI 102-41, 403-9, 404-1. TR-AL-310a1.

Metric	Unit		vly	2021	2020	2019	2018	2017
<b>Social dialogue and trade unions</b>	% covered by collective bargaining agreements		Opts	<b>89%</b>	89%	87%	86%	88%
<b>Average hours of training</b>	Average hours per employee per year		+47%	<b>38.9</b>	26.4	48.4	41.1	45.8
<b>Lost Time Injury (LTI) frequency rate</b>	LTI per 200,000 hours worked <sup>2</sup>		-9.1%	<b>2.19</b>	2.41	4.341	4.201	nr
<b>LTI severity rate</b>	Average days lost per LTI <sup>2</sup>		-10.1%	<b>34.00</b>	37.80	22.64	21.12	nr
<b>Fatalities</b>	Number of fatalities		Opts	<b>0</b>	0	0	1	nr

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

1. In 2020 Female board composition metric normalised for consistency with 2021 at 42%.

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

## D. Alignment with external frameworks

**Key:** Green is GRI CORE

Sustainability section	Sustainability subsection	Partial/full alignment with GRI Standard	SASB
Governance	A.1. Defining sustainability and material issues	<b>102-43, -44, -46, -47</b>	
	A.2. Sustainability governance	<b>102-46, -48</b>	
	A.4. Sustainability risk management	<b>102-11</b> , 102-15	
	A.5. Sustainability stakeholder engagement	<b>102-13, 102-43, -44</b>	
	A.6. Supply chain sustainability	308-2, 414-2	
	A.7. Ethics and integrity	<b>102-16</b> , 102-17, 205-1, -2, -3	
	B.1. Climate change and TCFD disclosures	<i>See next table</i>	TR-AL-110a1, -a2
Planet	B.2. Waste	306-1, -2, -3 (2020)	
	B.3. Noise and air quality	305-7	
	C.1. Workforce overview	403-4, 408-1, 409-1	
People and Prosperity	C.3. Diversity, inclusion and equality	406-1	
	C.5. Community engagement and charitable support	<b>102-13</b> , 201-1	
	<i>Other metrics</i>	<i>See next table</i>	TR-AL-310a1
	Key climate change metrics in Section B	Partial/full alignment with GRI standard	SASB
Scope 1		305-1	TR-AL-110a1
Scope 2		305-2	
Scope 3		305-3	
Emissions intensity		305-4	
Electricity, energy		302-1	
Jet fuel use		301-1	
GHG reduction initiatives		305-5	
Key people metrics in Section C	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	

# Agile risk management to support the delivery of sustainable long-term value

## Enterprise risk management (ERM) approach

### Agility in risk management

The risk management framework remains responsive to the needs of the business and our stakeholders by: continuing to develop the Group's assessment of the interdependencies of risks; further building on scenario planning to quantify risk impact under different assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the business in response to the pace of the transformation agenda. This allows the Board and management to assess and respond quickly to changes across the Group's principal and other key risks.

In the year, improvements to further develop the framework have been considered and discussed with management and the Board, including an assessment of how the risk appetite framework aligns to the business and risk landscape following the COVID-19 pandemic impacts. New guidance from regulators and investors is reviewed on an ongoing basis and best practice sought from other risk management sources. Where appropriate, enhancements and adaptions are then implemented across the Group.

### Emerging risks and longer-term threats

As part of the risk management framework, potential emerging risks and longer-term threats are considered to identify new trends and risks that have increased in speed of potential impact. These include competitor actions, regulations, governments' interventions, customer trends and sentiment to travel, sustainability concerns and stakeholder considerations or business disruptors that could impact the Group's business strategy and plans.

IAG considers risks to the Strategic Business Plan ("the plan") over the short term up to two years, medium term from three to five years and in the longer term beyond five years.

### ERM policy and framework

The Group Enterprise Risk Framework is set out in the Enterprise Risk Management (ERM) policy, which has been approved by the Board. The comprehensive risk management process and methodology ensures a robust identification and assessment of the risks facing the Group, including emerging risks. The risk management framework is embedded across the Group businesses. Enterprise risks are defined as any risk that could impact the plan (above a threshold). They are assessed and plotted on an Enterprise risk map, based on probability and impact. 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 or the risk becomes a principal risk. Other high-impact, low-likelihood risks have been discussed. This process is led by the Management Committee supported by the ERM function.

Risk outcomes are quantified as the potential cash impact to the plan over two years. Non-financial considerations include the Group's sustainability commitments, potential for increased regulatory scrutiny, as well as damage to customer and employee trust impacting the Group's brand and share price.

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.

Risk maps for each operating company and central function are reviewed by each operating company's management committee and function leadership team, 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.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map.

### Risk appetite

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 applies either on a Group-wide basis or for specific programmes, initiatives or activity within the Group. The framework has continued to operate throughout the year, with the Board assessing its appetite across all of the framework statements at the half year and year end against the Group's performance and its anticipated delivery of the Board-approved strategic business plan priorities and initiatives. The Board is satisfied that the Group continued to perform and deliver initiatives throughout 2021 as planned to mitigate risk as set out in its framework statements or necessary additional mitigations to risks have been addressed as they occurred.

The appetite framework has been subject to review in 2021. Adoptions to the framework to set tolerances more dynamically, assess interdependencies of tolerances and link to the future strategic goals and prioritisation of investment will be implemented in 2022.

### Risk assurance

The Group's risk heatmap is used to inform the annual Internal Audit plan. The ERM function also works with other compliance and Group functions, such as Government Affairs, Investor Relations and Sustainability, leveraging their frameworks and assessments where appropriate.

### Viability assessment

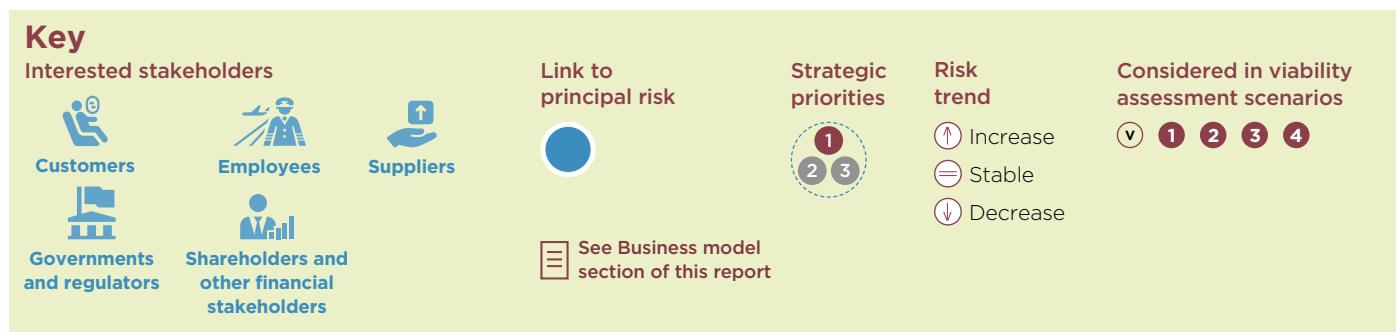
The Board's assessment of the viability of the Group, including the selection of appropriate scenarios to determine the assessment, are directly informed by the outputs of the ERM framework. Full details of our approach, scenarios modelled and the viability assessment are shown at the end of this report.

## Risk management roles and responsibilities



### Enterprise Risk Management function

The Enterprise Risk Management function provides support across the Group to ensure risk management processes are appropriately embedded and applied consistently, as well as working with management to identify risk, challenge assessments and strengthen the risk culture across the Group. The function provides enterprise risk management guidance and shares best practice across the Group and its operating companies, keeping them informed of any risk related regulatory developments. The function is responsible for ensuring that the enterprise risk management framework remains agile and responsive to meet the needs of the business and its stakeholders.

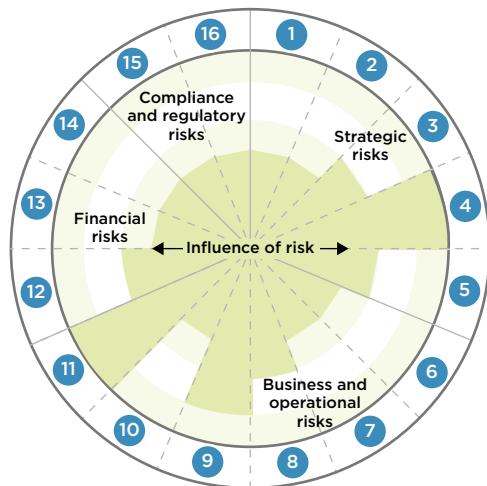


Principal risk	Strategic priorities	Interested stakeholders	Risk trend 2021	2020	Viability scenario
<b>Strategic</b>					
1 <b>Brand and customer trust</b> Chief Strategy Officer	1 2 3	Customers Employees Suppliers Shareholders and other financial stakeholders	↓	=	2
2 <b>Competitive landscape</b> Chief Strategy Officer	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	↑	↑	1 2
3 <b>Critical third parties in the supply chain</b> Chief Transformation Officer	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	↑	↑	
4 <b>Economic, political and regulatory environment</b> Chief Strategy Officer	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	=	↑	1
5 <b>Sustainable aviation</b> Chief People, Corporate Affairs & Sustainability Officer	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	↑	=	4
<b>Business and operational</b>					
6 <b>Cyber attack and data security</b> Group CIO	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	=	↑	3
7 <b>Event causing significant network disruption</b> Chief Strategy Officer/Operating Company CEOs	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	=	↑	1 3
8 <b>IT systems and IT infrastructure</b> Group CIO/Chief Transformation Officer	1 2 3	Customers Employees Suppliers	↑	↑	3
9 <b>People, culture and employee relations</b> Chief People, Corporate Affairs & Sustainability Officer/Operating Company CEOs	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	↑	↑	2
10 <b>Safety or security incident</b> Operating Company CEOs	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	=	=	
11 <b>Transformation and change</b> Chief Transformation Officer	1 2 3	Customers Employees Suppliers Governments and regulators Shareholders and other financial stakeholders	NEW	N/A	2

Principal risk	Strategic priorities	Interested stakeholders	Risk trend 2021	2020	Viability scenario
<b>Financial risk including tax</b>					
<b>12 Debt funding</b> Chief Financial Officer	1 2 3	8 10 11 12 13 14	=	↑	1
<b>13 Financial and treasury-related risk</b> Chief Financial Officer	1 2 3	8	1	↑	1
<b>14 Tax</b> Chief Financial Officer	1 2 3	11 12 13	=	↑	
<b>Compliance and regulatory</b>					
<b>15 Group governance structure</b> General Counsel	1 2 3	8 10 11 12 13	=	=	
<b>16 Non-compliance with key regulation and laws</b> General Counsel	1 2 3	8 10 11 12 13	=	=	

#### Principal risks influence

The relative level of influence each principal risk has on the other principal risks



#### Principal risk radar

The assessed likelihood of risk materialisation for each principal risk



#### Year in review

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks.

The Group's exposure to certain risks outside of its direct control has continued in 2021 as a result of the COVID-19 pandemic's unprecedented impact on the travel and aviation industry. These risks include:

- 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 distortion caused by differing government aviation-specific support schemes

Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature.

The principal risks have been assessed as the Group moves back into recovery of its operations and adapts its model accordingly. One new principal risk of 'Transformation and change' has been identified as part of this exercise. It reflects the significance of the Group's transformation agenda and pace required to deliver the plan.

## Principal risk register

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.

Additional key business responses implemented by management are also set out.

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 to have a potential material impact on the Group.

### Strategic

1 Brand and customer trust	Strategic priorities 1 2 3	Interested stakeholders 	Risk trend 2021 ↓	2020 =	Viability scenario v
Risk description	Strategic relevance	Mitigations			
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.	<ul style="list-style-type: none"> <li>The Group's brands are positioned in their respective markets to meet their customer propositions and deliver commercial value. Any change in engagement or travel preferences could impact the financial performance of the Group.</li> <li>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.</li> <li>The Group is clear on the key levers to improve brand perception and satisfaction for each of its operating company brands.</li> </ul>	<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 plan.</li> <li>Product investment to enhance the customer experience supports the brand propositions and is provided for in the 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>Hygiene and travel protocols have been implemented across the Group's airlines to address regulatory requirements resulting from the COVID-19 pandemic.</li> <li>Enhanced disruption management tools within airlines to allow customers to manage their travel preferences.</li> <li>Enhanced flexibility in airline booking policies.</li> <li>Increased focus on the end-to-end customer journey from flight search through to arrival and baggage reclaim.</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> <li>The Group's CIO and Chief Transformation Officer are members of the IAG Management Committee.</li> </ul>			
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.					
Failure to meet customer expectations on sustainability and the Group's impact on stakeholders and society could impact the Group and its brands.					

## Strategic

### 2 Competitive landscape

Chief Strategy Officer



#### Interested stakeholders



Risk trend  
2021 2020

Viability scenario  
V

**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 continue to impact access to markets. The dynamic nature of the restrictions have required significant agility within our networks to manage the impact on our customers and business. In 2019, the Group announced plans to acquire Air Europa, which is owned by Globalia, subject to regulatory approvals. In December 2021, IAG and Globalia announced the termination of the agreement under which Iberia had agreed to acquire Air Europa, but noted that the parties intended to evaluate alternative structures. Any future deal would be subject to regulatory approval.

The Group continues to lobby over the negative impacts of government policies, such as increases in Air Passenger Duty (APD).

#### Risk description

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

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

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

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

#### Strategic relevance

- The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Some competitors have other competitive advantages such as government support or benefits from insolvency protection.
- Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.

#### Mitigations

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

## Strategic

### 3 Critical third parties in the supply chain

Chief Transformation Officer



#### Interested stakeholders



Risk trend  
2021 ↑ 2020 ↑

**Status** Ongoing governments' restrictions through 2021 have required the Group's airlines to flex their operations and adjust capacity. The operations of the Group's suppliers, including aircraft manufacturers, has increased the risk of significant business interruption, delays or disruptions, including a lack of availability of labour to support supplier operations and/or problems in maintaining supply. This has led to increased costs to secure such services. Additional focus has been placed on key suppliers following the removal of governments' support schemes to ensure that the business and operations are not impacted.

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 the 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 and Madrid Airports are among examples where the Group supports solutions that are efficient, cost effective and of value to our customers.

The Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow. A future aviation package review by the UK Government is expected in 2022.

#### Risk description

IAG is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group sustainability programme.

IAG is dependent on the timely, on-budget delivery of infrastructure changes, particularly at key airports.

IAG is dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.

IAG is dependent on the performance and costs of critical third-party suppliers that provide services to our customers and the Group such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.

IAG is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which the Group operates.

#### Strategic relevance

- 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 and impacting our brand and reputation.
- Infrastructure decisions or changes in policy by governments, regulators or other entities could impact operations but are outside of the Group's control.
- London Heathrow has no spare runway capacity.
- An uncontrolled increase in the planned cost of expansion could result in increased landing charges.
- Airport charges represent a significant operating cost to the airlines and have an impact on operations.
- Inflationary cost pressures within the supply chain may increase the cost of travel.

#### Mitigations

- The Group mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions, to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
- The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.
- The Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
- The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
- The Group procurement function has oversight of all critical contracts across the Group's businesses.
- Alternative suppliers are identified where feasible.

## Strategic

### 4 Economic, political and regulatory environment

Chief Strategy Officer



#### Interested stakeholders



Risk trend  
2021      2020



Viability scenario



**Status** The COVID-19 pandemic has resulted in governments' measures, which led to an unprecedented impact on air travel and has also resulted in economic uncertainty and volatility across markets. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status as the Group's airlines rebuild their operational capabilities and schedules. There can also be no clear certainty as to the level of demand for the Group's services as restrictions are lifted. The stress of the COVID-19 pandemic could have further far-reaching impacts including currency devaluations, inflation, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies. The Group airlines have utilised the slot alleviation waivers granted by regulatory bodies in 2021.

Wider macroeconomic trends are being monitored such as tone of dialogue between the US, Russia, China and the EU and UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to the Group is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered across the Group.

Developments in relevant international relationships and air services agreements throughout the year, including the EU and the UK, are being monitored. Any further macroeconomic trends or potential requirements arising from Brexit are monitored by government affairs specialists across the Group businesses.

#### See the Regulatory environment section

#### Risk description

Economic deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange, fuel price and interest rate movements create volatility.

Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.

Political decisions to respond to the COVID-19 pandemic impact economies across all markets, causing longer-term economic stress.

#### Strategic relevance

- IAG remains sensitive to political and economic conditions in the markets globally.

#### Mitigations

- The Board and the Management Committee review the financial outlook and business performance of the Group through the monthly trading results, financial planning process and the reforecasting process.
- Reviews are used to drive the Group's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.
- External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of business performance monitoring.
- IAG Government Affairs function monitors governments' initiatives, represents the Group's interest and gives the Group and its operating companies early sight of likely changes to laws and regulations e.g. any review of slot alleviation policy in the UK. It also continues to discuss with governments and industry bodies, approaches for the implementation of consistent, customer-centric testing.

## Strategic

### 5 Sustainable aviation

Chief People, Corporate Affairs and Sustainability Officer



**Status** IAG was the first airline group to commit to a target of net zero carbon emissions by 2050. In 2021, the Group committed to extend net zero carbon emissions requirements to the Group's supply chain, with the Global Business Services (GBS) procurement function supporting the Scope 3 commitment. GBS will have a key role to play in ensuring its delivery for the Group with supplier sustainability ratings a key consideration for future contract negotiations and renewals. IAG has also committed to 10% Sustainable Aviation Fuel (SAF) usage on average across its fleet by 2030.

In July 2021, the EU announced its "Fit for 55" package of proposals. This requires an at least 55% emission reduction target set for 2030 and aims to bring the EU climate and energy legislation in line with the 2030 goal. The Group is currently modelling potential impacts and costs based on the published proposals, which includes the removal of aviation jet fuel tax exemption from 2024.

Iberia has agreed deals in Spain for the production of SAF this year. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by the Group in the medium to longer term, where markets may not have such strict eco targets or government set policy.

The Group has completed the retirement of its aged fleet of Boeing 747s and Airbus A340s.

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. The Group continues with 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.

#### See the Sustainability risk and opportunities section

##### Risk description

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

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

The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity. Sustainable fuels mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets the Group's airlines serve.

##### Strategic relevance

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

##### Mitigations

- IAG climate change strategy to meet target of net zero carbon emissions by 2050.
- British Airways offsets all UK domestic flight carbon emissions.
- IAG investment in Sustainable Aviation Fuels (SAF), including British Airways' partnership with Velocys and Iberia's agreement with Repsol and Cepsa to produce SAF.
- Aer Lingus internal SAF working group planning.
- BA customers may choose to offset their flights for carbon emissions or pay for sustainable fuel for their flight or both.
- Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.
- The appointment of EcoVadis to work with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.
- Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.
- Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and the EU-ETS and UK-ETS emission trading schemes.
- Horizon scanning of potential partners and technology.

## Business and operational

### 6 Cyber attack and data security

Group CIO



#### Interested stakeholders



Risk trend  
2021  
2020

Viability scenario  
v

**Status** The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. 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).

Investment in cyber security systems and controls continue as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to a Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the Cloud across the Group's airlines will further help to improve the security controls environment. As the Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.

#### Risk description

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

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

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

#### Strategic relevance

- The cyber threat environment remains challenging for all organisations, including the airline industry. Cyber threat actors, criminals, foreign governments and hacktivists have the capacity and motivation to attack the airline industry for financial gain and other political or social reasons.
- The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

#### Mitigations

- The Group has a Board-approved cyber strategy that drives investment and operational planning.
- A cyber risk management framework ensures the risk is reviewed across all operating companies.
- The Group Cyber Governance board assesses the portfolio of cyber projects quarterly and each operating company reviews their own cyber projects at least quarterly.
- The IAG Chief Information Security Office provides assurance and expertise around strategy, policy, training and security operations for the Group.
- Detection tools and monitoring are in place. The Group-wide security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the Group's defences.
- Threat intelligence is used to analyse cyber risks to the Group.
- 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.
- Data Protection Officers are in place in all operating companies, coordinated through a Group-wide Privacy Steering Group.
- Working practices are reviewed to ensure the integrity of the cyber and data security.
- All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.
- Security architecture team embedded into Datacentre migrations programmes.
- Desktop exercises to test business response plans have been held across the Group's airlines during the year.

## Business and operational

### 7 Event causing significant network disruption

Chief Strategy Officer  
Operating company CEOs



**Status** The outbreak of the COVID-19 pandemic in 2020 resulted in an unprecedented level of disruption to the aviation sector, as well as global economic impacts and this remained the situation in 2021. 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 a terrorist event seen in cities served by the Group's airlines.

Risk description	Strategic relevance	Mitigations
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.	<ul style="list-style-type: none"> <li>The Group's airlines may be disrupted by a number of different events.</li> <li>A single prolonged event, or a series of events in close succession, impact on the Group's airlines' operational capability, financial status and brand strength.</li> <li>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 on demand.</li> </ul>	<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>
The COVID-19 pandemic is likely to continue to have an adverse effect on the Group where governments choose to reimpose restrictions to manage public health concerns, as would any future pandemic outbreak or other material event impacting operations or customers ability to travel.		

## Business and operational

### 8 IT systems and IT infrastructure

Group CIO  
Chief Transformation Officer



#### Interested stakeholders



Risk trend  
2021  
2020

Viability scenario  
v

**Status** The Group recognises the importance of technology and all of its digital and IT resources are managed together in IAG Tech, reporting to the Chief Information Officer (CIO), a member of the IAG Management Committee. 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. The IAG Tech Management Committee governance structure 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 and plans accelerated where required to meet new regulations around travel documentation.

#### Risk description

The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.

The level of transformational change at pace required by the Group's airlines may result in disruption to operations as the legacy environment is addressed.

Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of the Group's transformation, particularly if the Group needs to defer investment to preserve cash.

Technology disruptors may use tools to position themselves between our brands and our customers.

#### Strategic relevance

- 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.
- Competitors and new entrants to the travel market may use digital tools and technology more effectively and disrupt the Group's business model.

#### Mitigations

- IAG Tech works with the Group operating companies to deliver digital and IT change initiatives to enhance security and stability.
- Operating companies' IT boards are in place to review delivery timelines.
- IAG Tech leadership and professional development framework.
- Reversion plans are developed for migrations on critical IT infrastructure.
- System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
- Robust portfolio process to determine the right investments across the Group.
- IAG Tech CIO and MC have strategic relationships with all critical IT suppliers and oversight of all critical IT contracts across the Group's businesses.
- The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.
- IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.

## Business and operational

9 People, culture and employee relations	Strategic priorities	Interested stakeholders	Risk trend	Viability scenario
<b>Chief People, Corporate Affairs and Sustainability Officer</b> Operating company CEOs			2021 	2020 

**Status** The resilience and engagement of our people and leaders has been critical through the COVID-19 pandemic to ensure the Group is best positioned to resume operations and adapt as needed to the uncertain external environment. The duration and scale of the pandemic has required the Group to restructure and employee consultations across the Group's businesses to support restructuring proposals have been undertaken as required. Where possible, job retention and wage support schemes have been utilised to reduce people impacts.

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. The Group businesses are focused on building and maintaining employee relationships and trust to deliver operational readiness and meet changing customer, employee and business demands.

In 2021, the Company implemented a new Remuneration Policy that is closely aligned to the Company's strategy and supports the aim of attracting and retaining exceptional talent across the Group. The Group is focused on staff wellbeing and people morale and motivation, particularly as our people return to their offices and the Group businesses adapt and implement hybrid working models. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. All operating companies recognise the critical role that their employees will play in the recovery and transformation of the Group and they are focusing on improving organisational health and employee engagement.

Risk description	Strategic relevance	Mitigations
Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance and customer perceptions of the airlines.	<ul style="list-style-type: none"> <li>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.</li> <li>The right skillsets and culture are needed to transform our businesses at the pace required.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing information sharing, consultation and collective bargaining with unions across the Group takes place on a regular basis led by operating companies' human resources specialists, who have a strong skillset in industrial relations.</li> <li>Operating companies' people strategies are in place in our businesses.</li> <li>Succession planning within and across operating companies has been reviewed by the IAG Management Committee and Board and a consistent process is being implemented across the Group.</li> <li>Focus on recruiting and developing skills to run and transform our business.</li> <li>Operating companies' engagement and organisational health surveys have been conducted with subsequent action plans developed.</li> <li>Access to support individuals' wellbeing.</li> <li>IAG Code of Conduct is supported by an annual training requirement for all of our staff.</li> </ul>
Our people are not engaged, or they do not display the required leadership behaviours.		
The Group businesses fail to attract, motivate, retain or develop our people to deliver service and brand excellence.		
Critical skillsets are not in place to execute on the required transformation and drive the business forward.		
If the Group's airlines cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.		

## Business and operational

10 Safety or security incident	Strategic priorities 	Interested stakeholders 	Risk trend	
			2021	2020
Operating company CEOs				
<p><b>Status</b> The Group's airlines were focused on a safe return to operations in the year, with additional refresher training as flight crews, cabin crews and ground colleagues returned to service, building back their skills and knowledge.</p> <p>The IAG Safety, Environment and Corporate Responsibility Committee (SECR) of the Board and the Board of each operating company 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. Further detail is provided in the SECR Committee report.</p>				
<p><b>Risk description</b></p> <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><b>Strategic relevance</b></p> <ul style="list-style-type: none"><li>The safety and security of our customers and employees are fundamental values for the Group.</li></ul> <p><b>Mitigations</b></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>The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.</li><li>There is ongoing security engagement with airports, regulators and public authorities across the airlines' networks.</li><li>Incident centres respond in a structured way in the event of a safety or security incident or intelligence.</li></ul>				

## Business and operational

### 11 Transformation and change

Chief Transformation Officer



**Status** The Group has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives across the Group. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board.

#### Risk description

Failure to transform the business to effectively maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions.

The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.

The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.

Further standardisation, simplification and efficiencies of the Group platforms are not delivered.

Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of the Group.

The Group focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.

#### Strategic relevance

- The transformation agenda is critical to the Group's ability to compete in the new competitive marketplace, where distortionary effects of aviation support schemes may have allowed competitors to accelerate their change agendas and invest to improve capabilities and customer propositions.

#### Mitigations

- The Chief Transformation Officer has clear oversight of all programmes.
- Consistent core metrics and dashboard reporting is used to assess performance against plan.
- The dashboard and progress against delivery is assessed by a core group of the IAG Management Committee weekly.
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.
- There is operating company-led communications to our employees on change initiatives and changes that may affect them.
- Consideration is given to the Group's sustainability commitments and agenda for all programmes.
- Any potential changes that could impact the brand are reviewed to mitigate against brand damage.

## Financial risk including tax

### 12 Debt funding

Chief Financial Officer



#### Interested stakeholders



Risk trend  
2021      2020



Viability scenario



**Status** Despite disruption in the financial markets since the spread of the COVID-19 pandemic, the Group has proactively focused on protecting liquidity by raising new non-aircraft debt, agreeing new aircraft leases and entering into new multi-year credit facilities. Aircraft were successfully financed on long-term arrangements during the year.

 See Financial review section.

#### Risk description

Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.

New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform the Group and will influence the timing for IAG to resume paying dividends to its shareholders.

#### Strategic relevance

- 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.

#### Mitigations

- The IAG Board and Management Committee have reviewed the Group's financial position and financing strategy on a very frequent basis throughout the period of the COVID-19 pandemic.
- The Group has maintained clear focus on protecting liquidity.
- Additional funding arrangements entered into, including raising additional equity in 2020.

## Financial risk including tax

### 13 Financial and treasury-related risk

Chief Financial Officer



Interested stakeholders



Risk trend  
2021      2020



Viability scenario



**Status** The financial markets were impacted by the uncertainty derived from the COVID-19 pandemic. 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

Failure to manage the volatility in the price of oil and petroleum products.

Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airlines' local currencies of euro and sterling.

Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.

Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.

#### Strategic relevance

- The volatility in the price of oil and petroleum products can have a material impact on the Group's operating results.
- The volatility in currencies other than the airlines' local currencies can have a material impact on the Group's operating results.
- The volatility in floating interest rates can have a material impact on the Group's operating results.
- The Group is exposed to non-performance of financial contracts that may result in financial losses.

#### Mitigations

- Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with the Group risk appetite.
- All airlines hedge in line with the Group hedging policy under the Group Treasury oversight.
- The Group's fuel hedging policy was revised in early 2021 (and approved by the IAG Audit and Compliance Committee) to better reflect the circumstances caused by the COVID-19 pandemic and future capacity expectations.
- The IAG Audit and Compliance Committee and IAG Management Committee regularly review the Group's fuel and currency positions.
- Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.
- All airlines review routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.
- The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term as well as through derivatives instruments.
- The Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis.
- The IAG Management Committee and the IAG Audit and Compliance Committee regularly review the financial risks and the hedged amounts. Any position outside of policy limits has to be approved by the IAG Audit and Compliance Committee.

## Financial risk including tax

14 Tax	Strategic priorities	Interested stakeholders	Risk trend 2021 2020
Chief Financial Officer			 
<p><b>Status</b> 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 10 of the Group financial statements.</p>			
<b>Risk description</b>	<b>Strategic relevance</b>	<b>Mitigations</b>	
The Group 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.	<ul style="list-style-type: none"><li>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.</li></ul>	<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 function.</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>	
Businesses and consumers may be subject to higher levels of taxation as governments seek to increase environmental taxes, redesign the global tax framework and recover the national debts arising from COVID-19 pandemic support measures.			
The Group's stakeholders' expectations of the tax behaviours of large corporates may lead to reputational risk from the Group's management of tax.			

## Compliance and regulatory

### 15 Group governance structure

General Counsel

Strategic priorities  
1  
2  
3

Interested stakeholders



Risk trend  
2021 2020  
= =

**Status** The aviation industry continues to operate under a range of nationality and other restrictions, some of which are relevant to market access under applicable bi-lateral and multi-lateral air service agreements, while some are relevant to eligibility for applicable operating licences. The Group will continue to encourage stakeholders to normalise ownership of airlines in line with other business sectors.

 See Corporate governance section.

#### Risk description

The governance structures the Group has in place include nationality structures to protect Aer Lingus', British Airways' and Iberia's operating licences and/or route rights.

IAG could face a challenge to its ownership and control structure.

#### Strategic relevance

- 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.

#### Mitigations

- IAG will continue to monitor regulatory developments affecting the ownership and control of airlines in the UK and EU.

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

General Counsel

Strategic priorities  
1  
2  
3

Interested stakeholders



Risk trend  
2021 2020  
= =

**Status** The Group has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year.

#### Risk description

The Group is exposed to the risk of individual employee's or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.

#### Strategic relevance

- 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.

#### Mitigations

- The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance monitored by the IAG Audit and Compliance Committee.
- There are mandatory training programmes in place to educate employees as required for their roles in these matters.
- Compliance professionals specialising in competition law and anti-bribery legislation support and advise the Group's businesses.
- IAG Code of Conduct framework and mandatory training is in place for all Group businesses.
- Data Protection Officers are in place in all operating companies.

# Viability assessment

## Risk assessment across the timeline of the plan

The Directors have assessed key threats and trends faced by the industry, emerging risks and opportunities arising from the COVID-19 pandemic as well as other industry and Group specific risks that could impact the Group's business plan:

- These are considered in light of their impact on our business model and relevance, operations, customers, financial status and include changes in regulations, customer trends and behaviours, macroeconomic predictions on growth, regional market opportunities, technology trends, environmental implications and infrastructure developments that could impact our operations, as well as more existential threats to aviation
- When developing the Group's three-year business plan, longer-term considerations have been assessed by the Management Committee and the Board in conjunction with the priorities faced by the business
- The Board has also conducted its annual strategy session in addition to progress reviews during the year. Following this process, short-, medium- and longer-term priorities, challenges and opportunities have been identified and actions agreed

## Longer-term trends and risk considerations

- The Directors have assessed industry, Group specific and non sector-specific longer-term trends over a timeframe beyond the plan period, such as climate change regulation, infrastructure proposals at hubs, availability and timing of technologies in fleet that will benefit the environment, move to and exploitation of the Cloud and disruptive innovation. This may require the business to consider strategic responses, plans to adapt and require new skillsets to implement ahead of any potential impact to the Group plan
- Other considerations include:
  - Economic trends and shifts in the relative strengths of global economies including market dynamics and changes in customer behaviours or sentiment to travel
  - Supply chains and connectivity, movement of physical goods, inflationary and availability pressures on key suppliers

- Costs of compliance to environmental and climate change regulations and/or lack of availability of infrastructure within countries to meet commitments or government mandates
- Areas of risk or opportunity for the Group, such as ageing populations in Europe, war for talent, diversity and inclusion ambitions, hybrid ways of working and different career expectations from new joiners into workforces and the aviation industry
- The ongoing challenges posed by the COVID-19 pandemic, including structural changes in how customers travel, costs incurred by the Group in safeguarding customers and colleagues and the potential macroeconomic consequences of rising unemployment and inflation
- The potential longer-term economic impact of Brexit
- The Group's resilience to future events impacting aviation or global markets
- Stakeholder expectations over commitment to acting with integrity to protect our planet, particularly climate change and carbon impacts

## Viability scenario development

- The Group has undertaken extensive analysis, forecasting and scenario modelling over the last year. It has refined its forecasting models and depth of analysis to ensure that stresses considered reflect specifics to markets and regions relevant to the Group's airlines as well as the analysis completed at the Group level
- During 2021, the Board regularly reviewed scenarios stressing the financial plans. 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 plan to determine the Group's resilience to such impacts. The results of these scenarios on the plan 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 plan)
- 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, and therefore its sustainability. 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 consider. In assessing and approving the scenarios, the Board considered, amongst other matters, the availability and sufficiency of potential mitigations, 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 capacity and margin reverse stress tests, which demonstrated the level of sustained capacity reductions, with losses capped as experienced through the pandemic and losses followed by margin decline (before mitigations) that would result in the Group using all available liquidity (including cash and currently available undrawn credit facilities) and compared this to the outputs from the scenarios
- The Downside Lockdown scenario was considered to be the most severely impactful but plausible scenario that could threaten the Group, and in excess of any other plausible combination of scenarios. Mitigating actions as described in the Downside Cases were also considered across all of the scenarios modelled
- Management has assessed and the Board considered the longer-term sustainability and climate risks, applying scenario analysis techniques as set out by the TCFD process. Further details can be found in the Sustainability report

## Scenarios modelled

No.	Title	Link to principal risks
1	<b>Downside cases and sensitivities further stressing the plan</b>	2, 4, 7, 12, 13
	<p>Downside cases stressing the plan to model prolonged imposition of restrictions and a more gradual recovery relative to the plan. This could be caused by factors such as new variants emerging and differing governments' appetite for pandemic measures, including vaccine and testing requirements for entry, the availability of treatments in countries and border closures. Two scenarios were modelled and assessed, referred to as the "Downside Case" and "Downside Lockdown Case". Both scenarios reflect a capacity restricted environment, with the second of these having a more significant impact on the status of travel, with heightened restrictions being re-imposed worldwide significantly lowering capacity. The Downside Lockdown case is representative of the environment experienced in Q1 2021, with modelling the impact of national lockdowns and severe restrictions impacting the Group airlines in all regions for a period of two months during 2022, with capacity recovering to the Downside case levels in mid-2023. Both scenarios model a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul, as experienced in 2021.</p> <p>The Group does not need to draw down on its general credit facilities (being the multi operating company Revolving Credit Facility (RCF) of \$1.755m and the BA UKEF £1.0 billion credit facility, both negotiated and executed in 2021) under the Downside scenario. In the Downside Lockdown scenario, it is assumed that these facilities would be fully drawn down.</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 and Downside Lockdown cases. Cost mitigations were considered across all operating cost lines, including 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 scenarios. The scenarios assume that the Group is able to continue to secure financing for future aircraft deliveries, having successfully financed all aircraft purchases during 2020 and 2021, and, in addition, has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience.</p> <p>The period to June 2023 of this Downside Lockdown 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>	
2	<b>Business transformation delays and gaps in critical skillsets</b>	1, 2, 9, 11
	Potential for lost revenue impact arising from delays in delivering and realising the benefits of business transformation initiatives. Increased costs from critical skills not being in place to deliver the transformation as a result of continuing uncertainty surrounding aviation industry, staff engagement and pace of required change.	
3	<b>Ransomware attack</b>	6, 7, 8
	A stress to model the impact of a ransomware attack on an IAG airline. The scenario assumes a disruption period of 1-2 weeks resulting from the attack before full connectivity is restored, impacting customers and operations of the affected airline. It also assumes lost revenue due to disruption of operations at the affected airline with knock-on impact to other IAG airlines due to need to isolate and switch off connectivity of Group shared credentials platforms. There are also further lost revenues due to reputational impact and increased EU 261 costs. Associated costs of recovering from the incident include the disruption through the investigation period including increased IT costs as well as brand impacts, and the potential for regulatory scrutiny and fines.	
4	<b>Increasing awareness of sustainability agenda impacting the Group</b>	5
	<p>A revenue stress on shorthaul operations across the Group in years 2 and 3 to reflect changes in customer behaviours towards shorthaul travel where other travel options exist, with the additional imposition of costs from sustainable fuel usage (with no/limited ability to pass this on to the customer). The scenario also includes an assumption where there is a slower than anticipated return of corporate travel business (both long and shorthaul) versus plan expectations.</p> <p>This scenario allows the Board to understand the potential impacts of the Sustainability agenda on the Group's future financial performance over the life of the plan to 2024. Longer-term consideration of the impacts of climate change and carbon and regulatory initiatives to address this within the aviation sector, such as the EU Fit for 55 proposals, the cost and availability of sustainable aviation fuel are also subject to assessment and modelling by the Group.</p>	

# Viability statement

The Directors have assessed the viability of the Group over three years to December 2024 considering the ongoing impact of the COVID-19 pandemic on the external environment and aviation industry, the assumptions of the plan, 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 plan) and the external uncertainties facing the aviation sector more widely are significantly beyond any experience to date and continue to drive change in the external risk environment. 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 2024. However, this is subject to a number of significant factors that are outside of the control of the Group. In reaching this assessment the Directors have made the following assumptions when considering both the plan and the Downside Lockdown scenario case (the most severe and plausible of the downside scenarios considered):

- 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;
- future COVID-19 pandemic impacts do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;
- and any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

Due to the uncertainty created by the COVID-19 pandemic, the potential for future waves of the COVID-19 pandemic and the consequential 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 24, 2022. 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.

# Making the case for positive policies



The political and regulatory environment in 2021 continued to provide IAG with significant challenges as states around the world maintained, and in many cases tightened, restrictions on international travel as part of their ongoing responses to the COVID-19 pandemic. While always seeking to maintain the safety of its customers and colleagues, IAG worked to influence common sense approaches to rule-making and the safe lifting of restrictions as vaccination programmes expanded.

The effects of the pandemic had additional knock-on impacts in a variety of areas as policy makers and regulators reacted to the reduction in traffic, leading to temporary changes in policy. Specifically, there were restrictions that impacted IAG carriers via the limitation of frequencies and allocation of capacity between competitor airlines in several international markets that the Group worked to reduce or remove.

Alongside the pandemic, sustainability continued to be the most important area of regulatory policy development affecting the industry. Interest around the world in the management of carbon emissions grew in the run-up to COP26 in November with ongoing scrutiny of the contribution of air transport to emissions. This is a challenge to which IAG is leading the aviation industry's response.

## COVID-19

Regulatory reaction to address the threat of COVID-19 required IAG and its operating companies to monitor and manage very many developments in the regulatory field throughout 2021.

In order to encourage the adoption of practical and reasonable rules, as well as to mitigate their impacts on the business, IAG and its operating companies took every opportunity to engage with the authorities in the countries in which its airlines are established and in other major markets directly and through trade associations. Understanding restrictions, implementing, and complying with associated regulations, as well as keeping customers informed of requirements, was unfortunately made ever more difficult by the very considerable variations between jurisdictions and further by constant changes to regulations, often implemented with little or no notice.

Swift development of digital applications by the Group, such as British Airways' in-house Right To Fly or Iberia's and Vueling's AirCheck system, as well as collaboration with independent apps such as VeriFLY, were essential in helping verify customers' travel documents and managing demand as passenger volumes began to return in the second half of the year.

As well as the unprecedented level of engagement with governments over this period, IAG established internal working groups, both cross department within operating companies and across Group

companies, to manage the process of implementing rule changes, thus benefitting from the wide range of experience and expertise across the Group.

IAG's engagement included highlighting the benefits and value of aviation, especially that of transatlantic traffic, at the highest levels. The Group was well prepared to meet the US authorities' requirements for track and trace data when the country opened to vaccinated foreign visitors in November.

The US opening came as part of a gradual removal of restrictions in IAG's key home markets and around the world along with the welcome simplification of the UK's traffic light system and the removal of hotel quarantine requirements in the UK and Ireland.

The unpredictable nature of the pandemic was emphasised when further restrictions on travel to certain countries were imposed by governments in response to the spread of the Omicron variant. IAG continues to argue for such policy action to be proportionate so that future variants of concern should not, for example, result in blanket measures on all travellers, such as the need for onerous and costly testing regardless of origin.

Throughout the pandemic IAG has advocated the establishment of a global approach to imposing restrictions and to rule-making through ICAO to reduce confusion for customers and airlines alike. The Group continues to urge governments to come together to develop a joint approach to crisis management that applies a consistent set of requirements whether for future pandemics (including moving to a traveller-based approach to risk rather than bans by country, allowing fully vaccinated passengers to travel without restriction, and setting standard architectures for digital health certificates) or for other upheavals that could impact the operation of this global industry.

## Sustainability – Brussels

IAG has continued to champion the cause of sustainable aviation and to share its plans for reducing carbon emissions as the industry recovers.

To explain and promote its sustainability position, the Group has engaged with representatives of the institutions of the European Union over the European Commission's Fit for 55 package. This commits the EU to reducing net

greenhouse gas emissions by at least 55% by 2030 (compared with 1990) and to reaching climate neutrality by 2050.

IAG welcomes Fit for 55, and its objectives with which the Group is aligned, as a powerful package for change. However, IAG continues to argue that the design of some elements may reduce the EU's capacity to invest in sustainability and make it less competitive compared with other non-EU aviation markets.

IAG does not support the imposition of the jet fuel tax that Fit for 55 proposes. This is not a solution for decarbonisation but will reduce the sector's ability to invest in more effective measures. Instead, we are firmly of the view that policy should focus on increasing the use of Sustainable Aviation Fuels (SAF) and market-based measures such as the EU Emissions Trading System (ETS) and ICAO's Carbon Offsetting and Reduction Scheme (CORSIA).

IAG contends that increasing the use of SAF, which reduce lifecycle CO<sub>2</sub> emissions by up to 85 per cent, provides the primary near-term opportunity to drive down industry emissions. In April, IAG became the first European airline group to commit to powering 10 per cent of its flights with SAF by 2030. We encourage the EU to include a package of investment incentives to enable scaled-up production of SAF alongside the blending mandate requirement that Fit for 55 introduces.

British Airways launched its BA Better World sustainability strategy in September and also procured the use of sufficient SAF to power all flights between London and Glasgow during COP26.

IAG has long been an advocate for and contributor to the design of CORSIA. The Group believes the Fit for 55 package must work alongside global measures, not duplicate them, and that the EU ETS should apply to intra-EU flights and CORSIA to extra-EU flights. Applying both systems to flights between EU Member States risks undermining support for CORSIA outside Europe.

#### **Other policy issues**

##### **Slot allocation**

A key impact of the pandemic, given the dramatic reduction in demand, was the need for a waiver from regulators to the slot allocation rules that would otherwise risk breaking up long-established airline networks. IAG worked with its trade association, the International Air Transport Association (IATA) to advocate the adoption of a system agreed with airports and slot coordinators that would recognise the value to consumers to allow temporary alleviation from "the use it or lose it" rules so as to maintain networks of airlines who have built them up over the years. The UK and others sensibly adopted full waivers of the "use it or lose it" rules but the patchwork of approaches adopted, including the different position of the EU

from that of the US and other key markets, was disappointing. IAG continues to support the use of the proven, effective global rules of the IATA Worldwide Airport Slots Guidelines.

##### **Competition**

Another feature of the impacts of the pandemic in 2021 was that in some markets, governments imposed peremptory or arbitrary restrictions on capacity to protect their home carriers on the pretext of safeguarding public health. IAG and its operating companies continue to work through the governments of its home countries and in the markets in question to promote the benefit of competition to consumers and the health of the aviation industry and to encourage a full return to normal operations in 2022.

##### **Airport charges**

Working with the trade association Airlines for Europe (A4E), IAG continued to promote the need for changes to airport charges legislation in Europe to make the industry fit for a more competitive future. The Group continues to monitor developments and engage with regulators around the world as airports seek to increase charges to pass on their losses over the last two years to their airline customers. A key focus during 2021 was on Heathrow's regulatory price review. The airport sought to double charges when other hubs (e.g. all airports in Spain) are keeping rates flat or seeing only small increases (e.g. Frankfurt). It was disappointing to see the Civil Aviation Authority (CAA) announce, in December, that it would allow Heathrow to increase charges by 50 per cent in 2022 (the interim price cap). British Airways and IAG are fully engaged in the CAA's review process that continues through the first half of 2022. We seek to demonstrate that charges should in fact more reasonably be reduced at Heathrow over the remainder of the regulatory period to 2026 in the interests of preserving the competitiveness of UK aviation and providing a better

outcome for both IAG's airlines and for consumers.

##### **Market access**

During the pandemic, regulatory approval was secured for a range of flights for Aer Lingus, British Airways and Iberia to new destinations or for new purposes including cargo and passenger charter services. As restrictions began to be lifted attention turned to strategic actions to expand markets.

The start of Aer Lingus's operations from Manchester to the Caribbean demonstrated the Group's flexible business model, including IAG's central Government Relations team helping to secure regulatory permission from both UK and US authorities for the new UK-based operation. Further regulatory engagement with several countries in the Caribbean, Africa and Asia has also helped secure the significant expansion of code share networks, in particular with Kenya Airways and Qatar Airways.

IAG monitored, as usual, developments in relevant international relationships and air services agreements throughout the year, including the discussions in the Autumn between the EU and the UK on the Northern Ireland protocol (since the UK-EU Trade and Cooperation Agreement includes provisions on aviation). Any potential changes to the status of the protocol are not expected to have an impact on the air services arrangements between the EU and the UK.

In 2021 overall, the Group took every opportunity to emphasise the economic and social value of aviation in facilitating trade, tourism and in reuniting families separated by the pandemic, and also to demonstrate that this is being done in a responsible and environmentally sustainable manner.



# Committed to leading with purpose and integrity



**Javier Ferrán**  
Chairman

**“Both our purpose and our vision are clearly reflected in the Board and management’s commitment to create long-term sustainable value for our people, customers, shareholders and our society.”**

It is my pleasure to present this Corporate Governance report which provides an overview of the way in which our Group is governed and the most relevant matters we have encountered during 2021.

My first year as IAG Chairman has seen unprecedented circumstances and significant change at Board and management level. I am pleased to be supported by such an experienced and committed team as we continue to navigate the impacts of the pandemic.

Both our purpose and our vision are clearly reflected in the Board and management’s commitment to create and deliver long-term sustainable value for our people, customers, shareholders and our society. Firstly, by weathering this crisis and making the most of the recovery. Secondly, by transforming our business and preparing it for a post-COVID future.

In the last year, the Board met 19 times including two dedicated sessions on our strategy and long-term transformation aspirations. The September meeting in Madrid was particularly rewarding as we met face-to-face for the first time since February 2020. It was pleasing to corroborate first-hand that, as productive as online working proved to be, it cannot replace the benefits of being together in person, which is central to our purpose and business.

Our unique model proved resilient and has served us well during the pandemic. The strength of our empowered operating companies has enabled them to respond effectively to a fast-changing environment in the different markets in which they operate. Being part of the Group also enabled us to share strategies and best practices to improve our response to the crisis and coordinate actions accordingly.

Sustainability remains a key priority. As announced last year, the Board is supported in this work by the newly established Safety, Environment and Corporate Responsibility Committee. In parallel, the Management Committee has been bolstered with the appointment of a Chief People, Corporate Affairs and Sustainability Officer to ensure sustainability remains at the core of our strategy.

## **Board composition**

As anticipated, Antonio Vázquez retired as IAG Chairman on January 7, 2021. Moreover, we started the year with three new non-executive directors, Peggy Bruzelius, Eva Castillo and Heather Ann McSharry, who joined the Board on December 31, 2020. In addition, Maurice Lam joined our Board as a non-executive director, at our Shareholders Meeting in June 2021. All of these new appointees have completed their induction programmes during the year as further detailed in the Nominations Committee Report.

## **Our people**

I would like to highlight our renewed focus on our people who are at the centre of everything we do and achieve. The Board has direct oversight over culture, and together with management is redoubling efforts to nurture our talent and align our culture, purpose and strategy. In addition to Nicola Shaw and Alberto Terol, the Board has appointed Eva Castillo as a designated director supporting the workforce engagement initiatives detailed later in this report.

The Board is also prioritising diversity and inclusion. I am pleased that we are leading by example with a significant 42 per cent female representation on the Board, which is 62 per cent of our independent directors, and with women chairing two of the Board committees. We also comply with the Parker Review target for ethnic diversity on FTSE 100 boards. Despite this progress, there is still more to be done across the business and IAG management is committed to do so. To this end, a cross-Group Diversity Panel was created to share best practice and to lead the co-design of new diversity and inclusion initiatives. Additionally, we have set a new target of having at least 40 per cent of senior roles held by women and we will continue to review our policies to ensure we are a diverse and inclusive organisation.

## **Management changes**

I was pleased to welcome two new members of the Management Committee during the year. Firstly, as reported last year, David Podolsky, who was previously at Bain & Co, joined the Group in January 2021 as Chief Strategy Officer, he also became Chief Executive Officer of IAG Cargo from April 2021. Secondly, we appointed Carolina Martinoli as Chief People, Corporate Affairs and Sustainability Officer from April 2021. Carolina has extensive experience in the Group having worked at both British Airways and Iberia for more than 10 years including leadership roles in brand and customer experience, as well as successful business transformation.

Within the Management Committee, Lynne Embleton was appointed Chairman and Chief Executive Officer of Aer Lingus from April 2021. From 2017, she led IAG Cargo and was responsible for setting the business on a digital transformation journey. Prior to this, Lynne held a number of leadership roles at British Airways.

As announced in October 2021, Steve Gunning has decided to stand down as Chief Financial Officer and leave the Group following the release of our full year 2021 results. After a rigorous search process, I am pleased to welcome Nicholas Cadbury who will join us in March 2022. He is a well-respected and experienced CFO with an excellent track record at Whitbread, Premier Farnell and Dixons Carphone, including valuable board experience as non-executive director and Chair of the Audit Committee for Land Securities.

On behalf of the Board, I would like to thank Steve for his significant contribution in helping us build resilience and a solid financial position from which the Group will be able to continue to navigate the challenges ahead.

## **Board evaluation**

Reflecting our commitment to good governance, the Nominations Committee oversaw the evaluation of the Board and all committees' performance. The outcome of this review and details of the process are provided later in this report.

Our robust and efficient governance processes underpin our ability to live our values and deliver our strategy. The Board is committed to ensuring that we continue to adhere to high standards of corporate governance so that we can create long-term sustainable value for our shareholders and perform in the interests of all our stakeholders.

As I have said before, our people are at the heart of our business and I would like to express once again our deep appreciation for the efforts and commitment shown during this difficult year. I would also like to thank my Board colleagues for their continued support and dedication throughout this period.

## **Javier Ferrán**

Chairman

# Our board of directors

**Javier Ferrán** N**Key areas of experience:**

Consumer, finance, sales/marketing, governance

**Current external appointments:**

Chairman, Diageo Plc. Senior advisor to BlackRock Long Term Private Capital and director of investee company.

**Previous relevant experience:**

Non-executive director, Coca Cola European Partners Plc 2016-2020. Chairman of Supervisory Board, Picard Surgelés 2010-2020. Member, International Advisory Board ESADE 2005-2019. Non-executive director, Associated British Foods plc 2005-2018. Non-executive director, Desigual SA, 2014-2017. Non-executive director, SABMiller plc 2015-2016. Vice Chairman, William Grants & Sons Limited 2005-2014. Non-executive director, Louis Dreyfus Holdings BV 2013-2014. Non-executive director, Abbott Group 2005-2008. Non-executive director, Chupa Chups SA 2000-2003. Partner, Lion Capital LLC 2005-2018. President EMEA, President and CEO, Bacardi Group 1992-2004.

**Alberto Terol** R N**Key areas of experience:**

Finance, professional services, information technology, hospitality industry

**Current external appointments:**

Vice Chairman, Lead Independent Director and Chair of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas. Non-executive Director, Chairman of the Audit Committee, GMP Property SOCIMI, S.A. Non-executive Director, Broseta Abogados. Non-executive director, Schindler España. Independent Director Varma, S.A. Vice Chairman and non-executive Director of Ontime Corporate Union. Patron of Fundación Telefónica. Vice Chairman Círculo de Empresarios. Executive Chairman of various family owned companies.

**Previous relevant experience:**

International Senior Advisor, Centerbridge 2014-2021. Chairman of the Supervisory Board, Senvion GmbH 2017-2019. Non-executive director, OHL 2010-2016. Non-executive director, Aktua 2013-2016. Non-executive director, N+1 2014-2015. International Senior Advisor, BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009 previously from 2003, Member Global Management Committee. Managing Partner, EMEA Deloitte and Global Tax & Legal 2007-2009. Managing Partner, Latin America Deloitte 2003-2007, Integration Andersen Deloitte 2002-2003, Managing Partner EMEA, Arthur Andersen 2001-2002, Managing Partner Global Tax & Legal, Arthur Andersen 1997-2001, Managing Partner, Garrigues-Andersen 1997-2000.

**Peggy Bruzelius** A**Key areas of experience:**

Financial services, corporate finance

**Current external appointments:**

Chair, Lancelot Holding AB. Non-executive director and Chair of the Audit Committee, Lundin Energy AB. Non-executive director and Chair of the Investment Committee, Skandia Mutual Life Insurance. Member, the Royal Academy of Engineering Sciences.

**Previous relevant experience:**

Chair, Swedish National Agency for Higher Education 2008-2011. Member Board of Trustees, Stockholm School of Economics 2000-2011. Various Corporate Boards, Trygg Hansa Liv AB, Celsius AB, AB Ratos, Scania AB, The Body Shop Plc, Axel Johnson AB, Axfod AB Husqvarna AB 1992-2019. Senior Independent Director, AB Electrolux 1996-2012. Non-executive director, Syngenta AG 2001-2014. Non-executive director, Diageo plc 2009-2018. Non-executive director, Akzo Nobel nv 2007-2019. Executive Vice President, Head of Asset Management Skandinaviska Enskilda Banken 1997-1998. CEO, ABB Financial Services AB 1991-1997.

**Luis Gallego****Key areas of experience:**

Airline industry, general management

**Current external appointments:**

Member of the Board of Governors and Member of the Chair Committee, IATA.

**Previous relevant experience:**

Chairman and CEO, Iberia 2013-2020. CEO, Iberia Express 2012-2013. Chief Operating Officer, Vueling 2009-2012. Founder of Clickair 2006-2009.

**Giles Agutter** N S**Key areas of experience:**

Airline industry

**Current external appointments:**

CEO, Southern Sky Ltd. Director, JSX Airlines.

**Previous relevant experience:**

Non-executive director, LATAM Airlines Group 2017-2020. Non-executive director, Air Italy 2017-2020.

**Eva Castillo** A R**Key areas of experience:**

Financial sector, telecoms sector

**Current external appointments:**

Non-executive director, Caixabank. Non-executive director, Zardoya Otis. Trustee of the Council for Economy of the Holy See (Vatican), Trustee of the Board of the Comillas ICAI Foundation. Member of Entreculturas Foundation. Member of Advantere School of Management.

**Previous relevant experience:**

Non-executive director, Bankia 2012-2021. Chair Telefónica Deutschland AG. 2012-2018. Non-executive director, Telefónica, S.A. 2008-2018. Non-executive director VISA Europe Plc 2014-2017. President and CEO, Telefónica Europe 2012-2014. Non-executive director, Old Mutual Plc 2011-2013. President and CEO Merrill Lynch Capital Markets, Spain 1999-2006. President and CEO, Merrill Lynch, Wealth Management EMEA 2006-2009.

## Key

 Committee Chair

 Audit and Compliance Committee

 N Nominations Committee

 S Safety, Environment and Corporate Responsibility Committee

 R Remuneration Committee



**Margaret Ewing**  

**Key areas of experience:**

Professional services, financial accounting, corporate finance, strategic and capital planning, corporate governance, risk management

**Current external appointments:**

Senior Independent Director and Chair of the Audit and Risk Committee, ConvaTec Group Plc. Non-executive director and Chair of the Audit and Risk Committee, ITV Plc.

**Previous relevant experience:**

Trustee and Chairman of the Finance and Audit Committee, Great Ormond Street Hospital Children's Charity 2015-2020. Non-executive director, Standard Chartered Plc 2012-2014. Independent external member of the Audit and Risk Committee, John Lewis Partnership Plc 2012-2014. Non-executive director, Whitbread Plc 2005-2007. Vice Chairman, Managing Partner, Public Policy, Quality and Risk and London Practice Senior Partner, Deloitte LLP 2007-2012. Director, Finance, BAA Ltd 2006 and Chief Financial Officer, BAA PLC 2002-2006. Group Finance Director, Trinity Mirror PLC 2000-2002. Partner, Corporate Finance, Deloitte & Touche LLP 1987-1999.



**Maurice Lam**  

**Key areas of experience:**

Professional services, financial accounting, audit and compliance in the banking industry

**Current external appointments:**

Independent Director, Chairman of the Audit Committee and Member of the Board Risk Committee, Bank of China (Europe) S.A. Independent director and Chairman of the Audit & Compliance Committee of Banque Internationale à Luxembourg S.A.

**Previous relevant experience:**

Independent Director, Chairman of the Audit Committee and Member of the Board Risk Committee of Quintet Private Bank (Europe) S.A. 2015-2020. Member of the Board of Directors of LuxConnect S.A., a Luxembourg State owned Company, acting as a business enabler in the ICT market 2013-2016. Independent Director, Generali Fund Management S.A. 2013. Deloitte Luxembourg, Managing Partner and CEO, 2000-2010, Head of Audit 1993-2000, Audit Partner, Financial services 1988-1993 ; Deloitte & Touche UK 1979-1985.



**Emilio Saracho**  

**Key areas of experience:**

Banking, corporate finance, investment management

**Current external appointments:**

Senior Advisor, Altamar Capital Partners. Non-executive director, Inditex.

**Previous relevant experience:**

Chairman, Banco Popular Español 2017. Vice Chairman and Member Investment Banking Management Committee, JP Morgan 2015-2016. Deputy CEO EMEA 2012-2015, Co-CEO Investment Banking for EMEA 2009-2014, JP Morgan. CEO, JP Morgan Private Banking for EMEA 2006-2008. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain & Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Head Corporate Finance Iberia, Goldman Sachs International 1990-1995.



**Heather Ann McSharry**  

**Key areas of experience:**

General management, pharmaceuticals/health care, financial services, consumer products, food and construction industry sectors, governance

**Current external appointments:**

Non-executive director, Chair of Nominations and Governance Committee, Jazz Pharmaceuticals Plc.

**Previous relevant experience:**

Non-executive director, CRH plc 2012-2021. Non-executive director, Greencore plc 2013-2021. Non-executive director, Unipharm Plc 2019-2020. Non-executive director, Bank of Ireland Plc 2007-2011. Chairman, Bank of Ireland Pension Fund Trustee Board 2011-2017. Managing Director, Reckitt Benckiser Ireland 2004-2009. Managing Director, Boots Healthcare Ireland 1998-2004.



**Nicola Shaw**  

**Key areas of experience:**

Transport sector, public policy and regulatory affairs, consumer, safety and environment operational management

**Previous relevant experience:**

Executive Director, National Grid plc 2016-2021. Non-Executive Director Ellevio AB 2015-2017. CEO, HSI Ltd 2011-2016. Non-Executive Director, Aer Lingus Plc 2010-2015. Director and previously other senior positions FirstGroup plc 2005-2010. Director of Operations and other management positions at the Strategic Rail Authority 2002-2005. Deputy Director and Deputy Chief Economist, Office of the Rail Regulator (ORR) 1999-2002.

**Robin Phillips** 

**Key areas of experience:**

Finance, airline industry and transportation

**Current external appointments:**

Chairman, Development Funding Board, Pancreatic Cancer UK. Senior Advisor, Circadence Corporation (US). Board member, IR - Scientific (Canada).

**Previous relevant experience:**

Global Head/Co-Head of Corporate and Investment Banking, Head of Global Banking and Markets (Hong Kong), Group Head Climate committee, Head of Global Industries Group, Head of Transport, Services and Infrastructure, HSBC 2003-2019. Global Co-Head of Transport & Infrastructure Group, Citigroup 1999-2003. Executive Director, Transportation and Aviation Investment Banking, UBS Warburg 1992-1999. Assistant Director, Capital Markets, Kleinwort Benson 1985-1991.

## Statement of compliance with applicable corporate governance codes

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and associated corporate governance framework. In accordance with this, this Corporate Governance Report details its compliance with the Spanish Good Governance Code of Listed Companies, last updated and published by the Spanish Comisión Nacional del Mercado de Valores ("CNMV") in June 2020, and available on its website ([www.cnmv.es](http://www.cnmv.es)).

At the same time, as IAG has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council ("FRC") as amended from time to time. A copy of the current version of the UK Corporate Governance Code applicable to this reporting period (updated and published

in July 2018) is available at the website of the FRC ([www.frc.org.uk](http://www.frc.org.uk)).

IAG has prepared a consolidated Corporate Governance Report responding to both Spanish and UK reporting requirements, which is available on the Company's website ([www.iairgroup.com](http://www.iairgroup.com)), as well as on the CNMV website ([www.cnmv.es](http://www.cnmv.es)). Pursuant to the CNMV regulations, this report has been filed with the CNMV accompanied by a statistical annex covering some legally required data. This Corporate Governance Report is part of the IAG Management Report for the year 2021.

In addition, and as required by the LSE Listing Rules, this Report includes an explanation regarding the Company's application of the principles of the UK Corporate Governance Code and how it has complied with its supporting provisions during the year. Details of where key information can be found is provided below.

During 2021, IAG fully complied with most of the applicable recommendations of the Spanish Corporate Governance Code. Notwithstanding this, the Company

acknowledges that due to applicable legal and regulatory requirements of the aviation sector, the Company's bylaws contain certain share ownership restrictions which are contrary to the provisions of the first recommendation of the Spanish Code. In addition to this, during 2021 the Company partially complied with recommendation number 4 of the Spanish Code, as revised in 2020, because, throughout the year, its policy regarding communication and contact with shareholders, institutional investors and proxy advisors required updating to better address the requirements of the revised recommendation. The policy was revised and approved by the Board on February 24, 2022.

As far as the 2018 UK Corporate Governance Code is concerned, the Company confirms that it applied the principles and complied with all the provisions of the Code in the reporting period.

### Applying the principles of the UK Governance Code

#### Board leadership and company purpose

Chair's introductory statement	
Company purpose and values	
Corporate culture	
Board activities	
Investment in the workforce	
How the Board considers stakeholders interests	
Board decisions, corporate interest and stakeholders	135-137
Workforce engagement	137
Whistleblowing	151
Conflicts of interests	141

#### Division of responsibilities

Governance framework and division of responsibilities	
Board of Directors: division of responsibilities	
Board and committee meetings	
Directors' independence	
Board and committee attendance during 2021	

#### Composition, succession and evaluation

124-125	Board biographies	126-127
133	Board composition	131-132
133	Nominations Committee report	144-147
139	Board succession	146
133	Board evaluation	140-141
134		
135-137		
137		
151		
141		

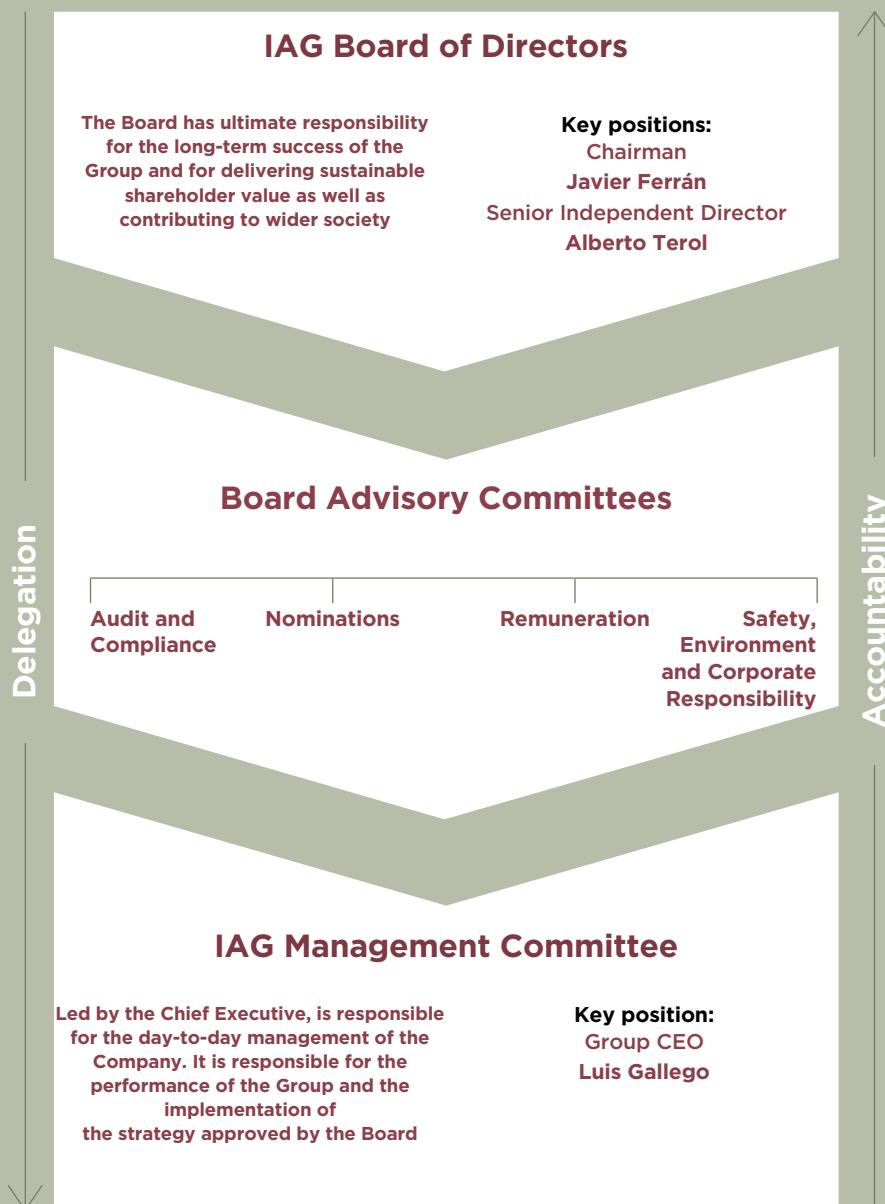
#### Audit, risk and internal controls

129	Audit and Compliance Committee report	152-161
130	Fair, balance and understandable confirmation	154-155
138	Confirmation that the Board carried out a robust assessment of emerging and principal risks	100-101
131 and 146		
139	Risk management and internal control	100-121
	Principal risks and uncertainties	100-121

#### Remuneration

Remuneration Committee Chair Statement	162-164
Directors' Remuneration Report	166-189
Alignment with Provision 40	165

# IAG governance framework and division of responsibilities



Updated to the corporate governance framework approved by the Board on February 25, 2021

## Key matters reserved to the Board are:

- submission of proposals to the shareholders' meetings
- approval of the Group's strategy, business and financial plans
- approval of the Group's general policies
- appointment and removal of senior executives
- determination of the policy on shareholders' remuneration
- approval of significant investment or divestment decisions
- approval of the risk management and control policy
- ensures effectiveness of the corporate governance system

## The Chairman:

- chairs shareholders' meetings
- leads the Board's work
- sets the Board's agenda and directs its discussions and deliberations
- acts as main link with the Group CEO and management
- seeks regular engagement with major shareholders
- promotes and ensures highest standards of corporate governance

## The Senior Independent Director:

- acts as a sounding board for the Chairman and appraises his performance
- serves as intermediary for other directors when necessary
- is available to shareholders, if concerns not resolved through normal channels

## The Group CEO:

- is responsible and accountable to the Board for the management and operation of the Company
- leads the Company's management team
- oversees the preparation of operational and commercial plans
- develops an effective management strategy
- puts in place effective controls
- coordinates Group activities

## Group structure

IAG, as the Group's parent company, is responsible for defining the Group's long-term strategy, as well as setting performance targets, monitoring their progress and allocating capital within the Group. With a light structure, IAG oversees intra-Group coordination and manages central functions, including the development of its common integrated platform.

Each operating company has an individual brand and cultural identity and is responsible for executing its strategy and accountable for its results. Each company has its own board of directors and its own management committee, led by the top executive of each company.

Further details on the Group structure can be found on the Business Model section within the Strategic Report.

### Board of Directors: division of responsibilities

The IAG Board is collectively responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing the business and its performance, as well as for the Group's long-term sustainable success. As stated in its Regulations, the Board endeavours to reconcile the corporate interest with the legitimate interests, as applicable, of the employees, suppliers, customers and other stakeholders that might be affected, also taking into consideration the impact of its activities on the community as a whole and on the environment. Examples of this long-term focus and consideration of stakeholders' interest are discussed further on in this report and in the stakeholder section.

Consistent with its governance role, the Board of Directors retains a schedule of matters reserved for its decision, as detailed in article 3.4 of the Board Regulations. This schedule of reserved matters was reviewed at the Board meeting held on February 25, 2021 and is available on the Company's corporate website ([www.iairgroup.com](http://www.iairgroup.com)).

The Board has four advisory committees that provide dedicated focus on a number of areas. Each Board committee comprises non-executive directors only and has an experienced non-executive independent chair. Copies of the minutes of all committees' meetings as well as the documents distributed ahead of each committee meeting are made available to all Board members.

The different Board positions and their respective responsibilities are detailed in the Board Regulations as amended on February 25, 2021 (available on the corporate website). The Board also approved new and separate regulations for each one of the Board committees as part of the governance review completed in February 2021. These regulations are available on the corporate website. The roles, memberships and activities of these committees during 2021 are described in their individual reports within this Corporate Governance Report.

There is a clear separation of the roles of the Chairman and the Group Chief Executive and their main responsibilities are established in articles 5 and 6 of the Board Regulations. The Chairman is responsible for the operation of the Board and for its overall effectiveness in directing the Company. The Group Chief Executive and the management team are responsible for the day-to-day management and performance of the Group and for the implementation of the strategy approved by the Board. All the powers of the Board have been permanently delegated to the Group Chief Executive save for those which cannot be delegated pursuant to applicable legislation, the Company Bylaws or the Board Regulations.

# Board composition

The IAG Board comprises nine independent non-executive directors, one of which is the Chairman, two proprietary non-executive directors and one executive director, IAG's Chief Executive. The biographies of each member of the Board are set out in the Board of Directors section.

Following the significant number of changes in 2020, only one new non-executive director was appointed in 2021, filling the vacancy that arose following the retirement of the former Chairman, Antonio Vázquez, which took place on January 7, 2021. Accordingly, Maurice Lam was appointed a non-executive director at the Shareholders' Meeting held on June 17, 2021. Details of his recruitment process can be found in the Nominations Committee report.

As set out in the Company's Bylaws, the Board shall comprise a minimum of nine and a maximum of fourteen members. As of December 31, 2021, the Board composition was:

Name of Board Member	Position/Category	First appointed
Javier Ferran <sup>1</sup>	Chairman	June 20, 2019
Luis Gallego	Chief Executive	September 8, 2020
Alberto Terol	Senior Independent Director	June 20, 2013
Giles Agutter <sup>2</sup>	Director (Proprietary)	September 8, 2020
Peggy Bruzelius	Director (Independent)	December 31, 2020
Eva Castillo	Director (Independent)	December 31, 2020
Margaret Ewing	Director (Independent)	June 20, 2019
Maurice Lam	Director (Independent)	June 17, 2021
Heather Ann McSharry	Director (Independent)	December 31, 2020
Robin Phillips <sup>2</sup>	Director (Proprietary)	September 8, 2020
Emilio Saracho	Director (Independent)	June 16, 2016
Nicola Shaw <sup>3</sup>	Director (Independent)	January 1, 2018

1. Became Chairman on January 7, 2021 following the retirement of Antonio Vázquez.

2. Appointed on proposal from Qatar Airways (Q.C.S.C), a significant shareholder of IAG.

3. The appointment of Nicola Shaw as a non-executive director was approved by the Shareholders' Meeting on June 15, 2017 but did not become effective until January 1, 2018.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P, and the Deputy Secretary is Lucila Rodríguez. The Group Chief Financial Officer, Steve Gunning, and the Group General Counsel, Chris Haynes, attend all Board meetings.

## Directors' independence

The Board, as reported by the Nominations Committee, reviewed directors' independence at its meeting held on January 20, 2022. It is satisfied that those directors classified as independent are free from any business or other relationship that could materially interfere with exercising an independent judgement, both as a question of character and judgement. Further details are provided on conflicts of interests and independence of directors later in this report and the Nomination Committee Report.

The Chairman was considered to be independent on appointment and neither he nor any of the non-executive directors has exceeded the maximum nine-year recommended term of service set out in the UK Corporate Governance Code, with our longest serving director, Alberto Terol, having served on the Board since 2013.

## Appointment, re-election, resignation and removal of directors

The selection and appointment process is described in detail in the Nominations Committee report.

IAG directors are appointed for a period of one year, as set out in the Company's Bylaws. At the end of their mandate, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws. In this way, the Company complies with the UK Code recommendation that directors should be subject to annual re-election.

Re-election proposals are subject to a formal process, based on the Nominations Committee proposal in the case of independent directors, or its recommendation report for all other categories of directors. This proposal or report is prepared having due regard to the performance, commitment, capacity, ability and availability of the director to continue to contribute to the Board with the knowledge, skills and experience required.

Directors cease to hold office when the term of office for which they were appointed expires.

Notwithstanding the above, a director must resign in the cases established in article 17.2 of the Board Regulations, among other things when the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company or when his or her remaining on the Board might affect the Company's credibility or reputation or otherwise jeopardises its interests.

According to article 24.2 of the Board Regulations, directors have a number of disclosure obligations, including the duty to inform the Company of any situation in which they are involved and that may seriously affect the reputation of the Company, in particular if they are involved in any investigation in a criminal proceeding. In such circumstances, the Board would consider the case as soon as practicable and adopt the decisions it deems fit, taking into account the corporate interest, following a report by the Nominations Committee.

## CORPORATE GOVERNANCE CONTINUED

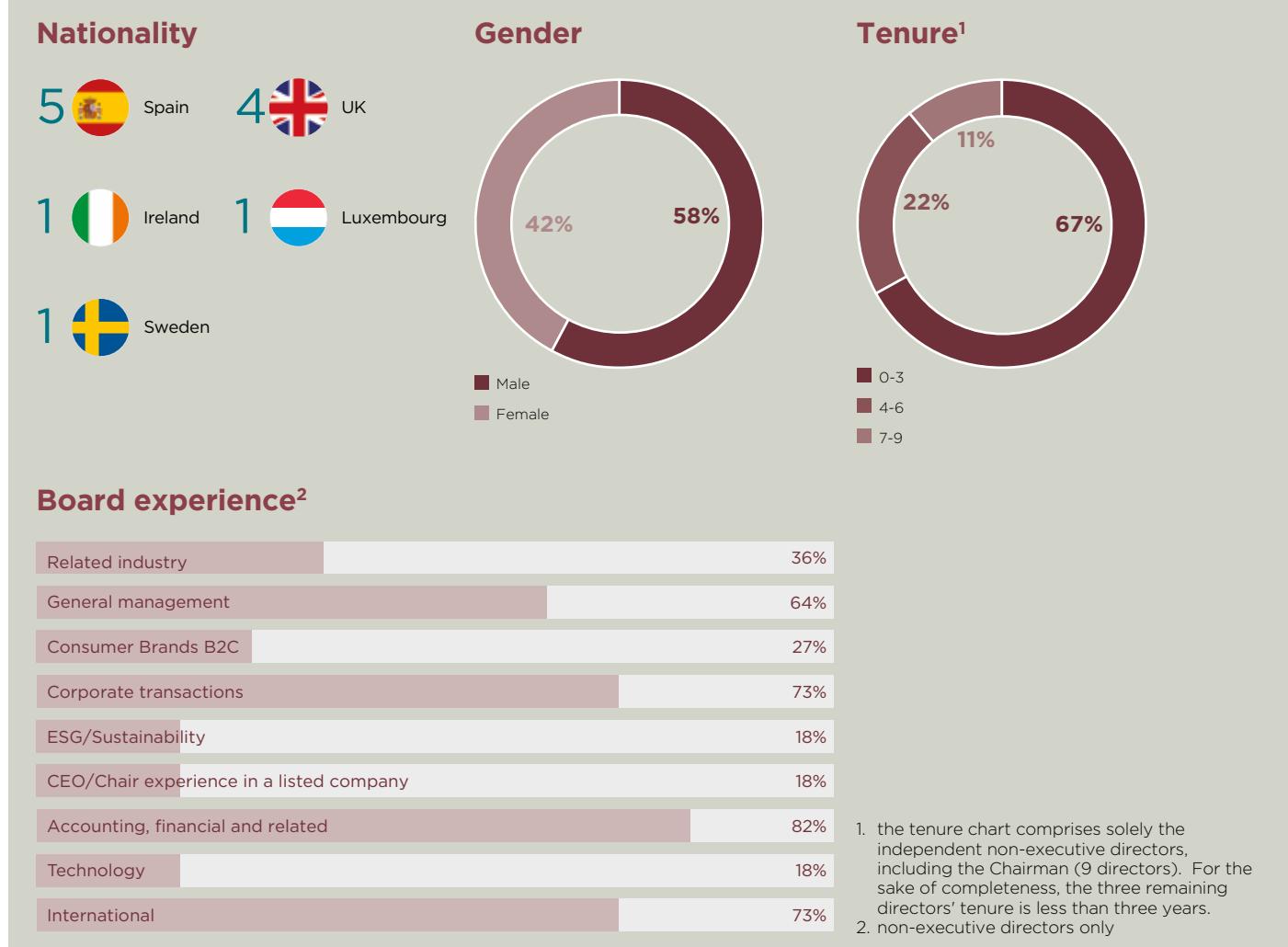
The Board may only propose the removal of a non-executive director before the end of the mandate when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause is deemed to exist when the director takes up new positions or enters into new obligations that prevent them from dedicating the necessary time to the performance of his or her duties as a director, otherwise breaches his or her duties as a director or unexpectedly becomes subject to any of the circumstances provided for in article 17.2 of the Board Regulations.

The removal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that determine a material change of control.

A director who stands down before the end of their term of office must adequately explain the reasons for this decision, or in the case of a non-executive director, their opinion on the reasons for the Shareholders' Meeting resolution, in a letter to be sent to all the directors. In addition, these explanations need to be included in the Company's Annual Corporate Governance Report and if relevant for shareholders, the Company should publish an announcement of the departure as soon as possible, with sufficient reference to the reasons or circumstances provided by the director.

The rules above have been updated in accordance with the Spanish Corporate Governance Code Recommendations approved in June 2020 and are

incorporated in the Board Regulations approved in February 2021, which are available on the Company's website ([www.iairgroup.com](http://www.iairgroup.com)), and on the website of the Spanish CNMV ([www.cnmv.es](http://www.cnmv.es)).



# Board leadership and company purpose

2021 continued to be a difficult year for the airline industry. A year in which IAG's management team had to focus on the immediate challenges, while also laying the foundations for the transformation of the Group so that it can emerge more competitive in the future. This includes ensuring our corporate culture is aligned with the Group strategy and reflects the values across the Group.

IAG's purpose - 'To connect people, businesses and countries' - underpins the Group's vision to be the world's leading airline group, maximising sustainable value creation for its stakeholders. IAG will continue to use its unique business model to pursue this purpose and vision and always aims to deliver sustainable value for its customers, its people, its shareholders and the communities it serves.

By connecting people, businesses and countries, the Group is able to provide the jobs, prosperity and cultural benefits that travel has always created. While a number of important new initiatives and projects have been launched during the year, there is more to be done to achieve the aspirations the Group has set for itself.

The Board believes that IAG can achieve its purpose and vision by promoting the Group's key values, which are ambition, teamwork, innovation, pragmatism, efficiency and responsibility. In 2022, the Board will review how these values are further embedded in the organisation and how this links to the work on corporate culture and on people that started in the last quarter of 2020, ensuring that the complete exercise takes root with the strategy and the transformation of the Group.

Further detail on IAG's purpose and values can be found throughout this annual report, and in particular on the first pages of the Strategic Report and the introductory letters of the Chairman and the Group Chief Executive.

## Corporate culture

IAG's Code of Conduct, approved by the Board in 2019, remains our guide to the core behaviours that we seek to encourage and instil throughout the Group. This Code applies to all directors and employees and establishes our principles of integrity, as well as outlining where compliance is required.

To help strengthen the work on culture, in April 2021, Carolina Martinoli joined IAG's Management Committee as Chief People, Corporate Affairs and Sustainability Officer, with the remit to place a special focus on people, culture and sustainability.

At the annual strategy meeting held in September 2021, the Board devoted a special session on our people and how best to develop the Group's corporate culture. Consistent with IAG's model, the individual operating companies remain responsible for the design and implementation of their respective plans under the Group common framework. IAG plays an important role to set minimum principles and standards, to enable the sharing of best practices and the design of Group-wide projects where appropriate.

As reported last year, in the last quarter of 2020, a Group-wide Organisation Health Index (OHI) exercise facilitated by an external firm was completed. The objective is to have a unified Group metric which brings together organisational health and culture under a common framework.

The results and initial conclusions from the first survey were shared with the Board during the two-day strategy meeting held in December 2020 in a session devoted to culture and talent. Following this meeting, organisation-wide priorities and action plans were defined and launched in the first half of 2021. With that backdrop, going forward a full OHI survey will be undertaken once a year, with a follow-up pulse survey after six months. All this information will be regularly reported and discussed with the Board.

The Audit and Compliance Committee has also reviewed and reported to the Board the effectiveness and functioning of the Speak Up channels available throughout the Group provided by independent third-party providers, whereby employees are able to raise concerns on a confidential basis. The Committee discussed this report, including the number and nature of issues reported to the Speak Up channels during 2021. Further details can be found in the 'Ethics and integrity' section of the sustainability report.

## Investment in the workforce

In general terms, all Group companies invest in their employees through training and development programmes, as well as through healthcare and wellbeing programmes. Terms and conditions are set and managed within each operating company, enabling them to put in place appropriate rewards to reflect their specific operating model and local market conditions. Across the Group we look to ensure that all rewards and benefits are simple, clear, competitive, and fair. Across the UK, Spain and Ireland approximately 90% of IAG's workforce are part of collective bargaining agreements with varying levels in other countries the Group operates in. We work closely with employee representatives to consult on reward matters. For those outside of collective agreements, we benchmark roles and rewards against local markets to ensure they remain attractive and competitive.

## CORPORATE GOVERNANCE CONTINUED

### How the Board considers stakeholders interests

Day-to-day stewardship of all stakeholder relationships is delegated to management, with the Board having a supervisory role based on the information provided and discussions held with management teams. In addition to this, the Board has direct engagement with the Company's shareholders and with the workforce as recommended by the UK Corporate Governance Code.

The Company's governance framework was reviewed in February 2021 and, in accordance with the recommendation of the Spanish Governance Code, one of the Board advisory committees, the Safety, Environment and Corporate Responsibility Committee, was assigned the responsibility to oversee and evaluate the Company's interaction with its stakeholder groups, including the workforce.

Considering the exceptional circumstances in which the Group is currently operating due to the COVID-19 pandemic, the identification of the Group's key stakeholders has been reviewed and updated.

More information on our stakeholders, how they fit in our strategy and business model, their main interests, and our engagement with them can be found in the stakeholder section of this annual report.

Information on the Board's engagement with the workforce is provided in the Workforce engagement section of this Governance report. As far as shareholders are concerned, and as already described in the Stakeholder section, the Chairman has maintained regular engagement with major shareholders in order to understand their views on governance and performance of the Group against the strategy. In addition to this, the Senior Independent Director and Chairman of the Remuneration Committee had significant contact with key shareholders and proxy advisors in relation to IAG's directors' remuneration policy.

The Board has been regularly informed about shareholders' considerations and concerns. The Head of Investor Relations reports regularly to the IAG Board and one of the Company brokers was invited to the annual strategy meeting to discuss investor insights.

### Section 172 Statement (and compliance with article 3.6 of IAG's Board of Directors Regulations)

In their discussions and decisions during the reporting period, the directors of IAG have acted in good faith, with unity of purpose and independent judgement, guided by the corporate interest to promote the success of the company as a profitable and sustainable business in the long term and giving the same treatment to all shareholders in the same position. In doing so the Board had regard and tried to reconcile the corporate interest with the legitimate interests of employees, suppliers, customers and other stakeholders, also taking into consideration the impact of its activities on the community as a whole and on the environment.

Information on how the directors discharged their duties under these principles during the year, including how they had regard to the matters set out above in their discussions and decision making, is included in this section. Further details can also be found throughout the Strategic and Governance reports. Feedback from stakeholders is received at a number of different levels and helps inform numerous decisions directly or indirectly overseen by the Board. In many circumstances, the views of stakeholders are considered and embedded in the proposals shared with the Board or submitted for its decision.

## **Board decisions, corporate interest and stakeholders**

As explained before, the IAG Board has delegated the day-to-day management of the Company to the Group Chief Executive and the Group's management team but it has reserved for itself the authority on a number of matters including three main areas:

- Approval of the Group strategy and the supervision of its implementation, which entails the approval of the business plan, management objectives and annual financial plan, monitoring of the internal information and control systems, and of risk management framework and processes.
- Approval and compliance oversight of the Group general policies including: the investment and financing policy; the enterprise risk management policy; the corporate responsibility or sustainability policy.
- According to certain quantitative thresholds, the approval of contractual commitments, asset acquisition or

disposals, capital expenditures, borrowings or equity investments.

The Group's decision-making process is regulated by an internal instruction covering the IAG Board, the IAG Management Committee as well as the Boards of the main subsidiaries. In addition, another instruction regulates the Group investment process. This framework and the dedication and expert support provided by the different Board advisory committees ensures the existence of an adequate governance system.

The impact on our different stakeholders as well as the consequences of any decision in the long term are usually considered and discussed by the Board. It is not always possible to provide positive outcomes for all stakeholders and on occasions the Board has to make decisions based on the competing priorities of stakeholders. The principles set out in article 3.6 of our Board Regulations, which coincide with those reflected in section 172 of the UK Companies Act, are not exclusively a matter for the Board, they are

embedded throughout the Group's decision-making processes.

This has been a second unprecedented year for IAG, as such the Board has continued to adjust its ways of working to the business pace. Until August, the Board had biweekly meetings to adequately monitor the business developments, support management during this difficult period and continue to make critical decisions in response to the COVID-19 pandemic.

## **Adjusting, adapting and restarting operations according to the situation created by the COVID-19 pandemic**

The Board oversaw the Company's management of the crisis and the coordination of the Group's response, in particular the actions adopted to secure the business in the short-term -reducing costs, strengthening liquidity and preserving cash-. At the same time, the Board maintained focus on the design and actions for the transformation of the Group to ensure it comes out from the crisis competitive and sustainable. Although decisions in relation to employees and customers are taken by the operating companies, the IAG Board exercises oversight and coordination at a Group level.

### **Decision**

During this crisis, decisions on costs, regarding employee restructuring or salary reductions and even capital allocation have been difficult and challenging. They illustrate how decisions are taken for the long-term interest of the business, considering our shareholders, but also bearing in mind and trying to reconcile the interests of our employees and customers as far as possible. Significant short-term measures were needed to reinforce the Company's resilience in the face of a very difficult environment so that the delivery of our long-term strategy and the ongoing creation of value for our shareholders could be ensured.

The effort and focus devoted by management and the Board to work on the restructure and rebuild of the business to ensure operational readiness to be prepared to return to operations at short notice once restrictions were eased is another example of decisions taken considering our employees, considering our customers and with an enormous effort deployed to engaging with Governments and regulators.

The Board was kept informed by the different airline companies on the impact that the pandemic was having on their customers and employees, and about the measures they had to put in place to support them, including the deployment of COVID-19 health and safety procedures,

### **S.172 considerations**

Corporate interest
LT
Employees
Shareholders
Other stakeholders
Sustainability

## CORPORATE GOVERNANCE CONTINUED

**COVID-19 Corporate Financing initiatives**

During this difficult period, the Group has raised substantial funds from the debt capital markets. The Board received regular funding and liquidity updates, as well as updates on the Group trading performance. In the first half of 2021, IAG issued a €1.2bn senior unsecured bond and a €825m convertible bond. As far as our airlines are concerned, the Board approved the agreement with the UK Export Finance (UKEF) and a syndicate of banks for a 5-year £1.0 billion UKEF guaranteed facility of £1.0 billion for British Airways, which remains undrawn, in addition to a £2.0 billion UKEF guaranteed facility that was announced in December 2020 and fully drawn in early 2021. In March 2021, British Airways, Iberia and Aer Lingus secured \$1,755m of committed funding in the form of a Secured Revolving Credit Facility provided by the Groups relationship banks.

<b>Decision</b>	<b>S.172 considerations</b>
The Board when considering these transactions had to bear in mind a detailed assessment of funding requirements, forecast and modelling scenarios, as well as the relevant transaction terms and conditions, all in order to adopt the decision in the best corporate interest. In addition, the Board had to consider the requirements for security over certain assets and other requirements, including restrictions imposed regarding dividends or executives' remuneration. The Board had to balance the short and long-term interests of the Group to enter into these transactions, the loss of flexibility for the Group on certain matters, as well as the restrictions imposed on other stakeholders, particularly on shareholders.	Corporate interest LT Employees Shareholders Other stakeholders

**Remuneration Policy**

In 2021, the Company implemented a new remuneration framework for executive directors and senior management. This new remuneration framework is designed to closely align incentives to the Company's strategy and to support the aim of attracting and retaining talent across the Group.

<b>Decision</b>	<b>S.172 considerations</b>
Extensive internal and external engagement had taken place to support the design and implementation of this new remuneration policy. The feedback received internally, from colleagues, and externally, from shareholders and proxy advisors, directly informed its design.	Corporate interest LT Shareholders
The new Restricted Share Plan (RSP) approved by the Board and by shareholders will improve the Group's ability to attract, motivate and retain key management in what is an increasingly competitive global market for leadership talent. Following shareholder feedback, the Board decided to provide greater detail around the RSP performance underpin and to give greater reassurance that any RSP value delivered will be fair and appropriate in the context of sustainable business performance and the experience of stakeholders. The Board's main objective in the implementation of this new remuneration framework is to drive the behaviours that support the delivery of the Group's strategy and business objectives. The new policy also contains the necessary flexibility and discretion to adapt to commercial and market circumstances, as well as to recoup incentives where any performance is subsequently understood to be unfounded.	Employees Sustainability Values and corporate reputation
Understanding and balancing the interests of all stakeholders in executive pay decisions ensures outcomes are objective, fair and proportionate. The simplification of our remuneration framework and the focus on long-term performance, supports the Group's management to continue to deliver our strategy and sustainable shareholder returns.	

## Purpose, values and sustainability matters

Our role in the world is to connect people, businesses and countries. We do this and create value through a unique model that enables Group airlines to perform in the long-term interests of customers, people, shareholders and society. We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose.

Decision	S.172 considerations
The Board believes that our purpose should drive our strategy, guide our culture and provide a framework for consistent decision making which benefits all stakeholders. During 2021, the Board, through its Safety, Environment and Corporate Responsibility Committee, reviewed the materiality assessment completed by an independent third party to assess which business activities have a material impact on the environment and people and what is most important to key stakeholders. IAG's sustainability strategy, initiatives and reporting are based on the feedback received. IAG has a vision to be the world's leading airline group on sustainability, which entails not only transforming its own business, but working to create a truly sustainable aviation industry. IAG is committed to delivering best practices in sustainability programmes, processes and impacts. The IAG Board is convinced that sustainability is fundamental to long-term growth. In line with this, at the annual strategy meeting, the Board considered the People and ESG strategic principles for the Group. In January 2022, the Board considered in detail the Company's approach and ambition regarding diversity and inclusion.	Corporate interest LT Shareholders Employees Customers Sustainability Values and corporate reputation
The Board considers all these matters as they are key for the long-term sustainability of our business, because ESG factors have become increasingly more material for shareholders, investors and debt providers, and also because they are more and more relevant for our own employees and customers.	

## Workforce engagement

The COVID-19 pandemic significantly curtailed the Board's usual programme of site visits and face-to-face engagement with management and employees which could only be resumed during the last quarter of 2021. The Board has been regularly informed about initiatives at each operating company with respect to their workforce during the pandemic. A session at the annual strategy meeting was devoted to the analysis and discussion of the results and initial conclusions from the employee survey

completed in the Group, as well as to discuss the Group's approach and ambition on employee matters.

Eva Castillo, Nicola Shaw and Alberto Terol have been designated as the directors responsible for workforce engagement. Recent Board engagement sessions have been held with British Airways, Iberia, IAG Loyalty, IAG Cargo, IAG Tech, Vueling and Aer Lingus. The sessions have been very constructive with an opportunity to hear from different employee groups and see latest

innovations. Key themes have been the impact of changes to terms and conditions, the company's plans regarding resourcing as we emerge from the pandemic, the effectiveness of communications channels, the approach to flexibility as more teams return to offices, and the Group's focus on development and careers. Each visit included a debrief for senior teams on emerging issues to ensure appropriate actions are taken forward.

## CORPORATE GOVERNANCE CONTINUED

**Board and committee meetings**

The Board was scheduled to meet eight times during the year, including its annual two-day strategy meeting scheduled for September 2021.

Since the start of the year, the Board moved from weekly to holding bi-weekly meetings to continue monitoring the impact of the pandemic and the Group's response. Since the end of July 2021, the Board returned to its normal meeting schedule as travel restrictions started to be lifted and the Group's business started to approach its recovery path. The total number of Board meetings held during the reporting period was 19. Details of attendance at Board and committee meetings are shown further on in this report.

In addition, there were two board meetings held by written procedure without a meeting, with all board members agreeing to adopt certain resolutions by such procedure.

The Board Secretariat together with the General Counsel maintains an annual agenda schedule for Board meetings that sets out strategic, standard and operational matters to be considered. The

Chairman sets a carefully structured agenda for each meeting in consultation with the Chief Executive Officer, with the support from the General Counsel and the Board Secretariat. During 2021, as was the case in 2020, the Board's main focus was conditioned by the COVID pandemic, supporting management and exercising oversight over the Group's businesses and stakeholders' interests and the Group's continued response to the pandemic. The key activities of the Board in 2021 are detailed in the Board activities table further on in this report.

After the review and approval of the minutes of the prior Board meeting, each Board meeting continues with a report from each of the committees' chairs. The reports focus on the key discussions and decisions considered by the respective committees, providing an opportunity for directors to comment or ask questions on the matters dealt with by each committee. This is followed by a general update from the Group Chief Executive and subsequently, from the Chief Financial Officer.

All scheduled Board meetings include a private session for non-executive directors

to meet with the Chairman to discuss any matters arising. In addition to this, at least once a year there is a private meeting with the Chairman that includes independent non-executive directors only. The Senior Independent Director also met with the non-executive directors, without the Chairman, as part of the chair annual evaluation process.

As stated in the Board Regulations, directors shall make their best efforts to attend Board meetings. If this is not possible, they may grant a proxy to another director, although non-executive directors may only grant their proxy to another non-executive director. These proxies need to be in writing and specifically granted for each meeting. No director may hold more than three proxies, except for the Chairman, although he cannot represent more than half of the Board members. As far as possible, proxies should be granted including voting instructions.

Due to the extensive number of additional Board meetings held during the year due to the COVID pandemic, and sometimes called at short notice, some directors were not able to attend all meetings.

**Board and committee attendance during 2021**

Board member <sup>1</sup>	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety, Environment and Corporate Responsibility Committee
Javier Ferrán <sup>2</sup>	19/19		7/7		1/1
Luis Gallego	19/19				
Giles Agutter	18/19		6/7		3/3
Peggy Bruzelius	18/19	10/10			
Eva Castillo	17/19	8/10		8/10	
Margaret Ewing <sup>3</sup>	19/19	10/10	6/6		
Maurice Lam <sup>4</sup>	8/8	4/4			2/2
Heather Ann McSharry	19/19		7/7	10/10	
Robin Phillips	19/19				3/3
Emilio Saracho	19/19			9/10	3/3
Nicola Shaw	19/19			8/10	3/3
Alberto Terol <sup>5</sup>	18/19	6/6	7/7	10/10	

1. Antonio Vázquez Romero did not attend any Board or committee meetings during 2021 as he retired from the Board on January 7, 2021.

2. Appointed Chairman of the Board on January 7, 2021. Stepped down from the Safety, Environment and Corporate Responsibility Committee on June 17, 2021.

3. Appointed member of the Nominations Committee on January 28, 2021.

4. Joined the Board and respective Board committees on June 17, 2021.

5. Stepped down from the Audit and Compliance Committee on June 17, 2021.

## Board activities

2021 continued to be an unprecedent year for the Group, as it continued to face the biggest challenge the airline industry has ever encountered. The Board activity clearly reflects these circumstances. The key areas of Board activity during 2021 are outlined herein:

### Strategy and planning

Joint Board/Management Committee two-day strategy session, including:

- Strategic Context
- Role of the Centre
- IAG Loyalty full potential
- Cargo Update
- Technology Excellence
- IAG fleet transformation and strategy
- London Gatwick/Paris Orly updates
- People and ESG update
- Partnerships and M&A Scan
- Transformation plans and indicative Financials
- Strategy follow-up items

### Performance and monitoring

- Operating companies regular reporting
- Quarterly and full year financial reporting
- Monthly financial report (reviewed at the relevant meeting or distributed to all Board members)
- Group capital allocation principles review
- Review of different joint business arrangements
- Update on the UK Information Commissioner's Office proceedings against British Airways and related litigation

### COVID-19 crisis

- Updates on liquidity status and forecasting, and passenger revenue information
- Follow up on travel restrictions and updates on capacity

### Significant transactions, investments and expenditures

- Air Europa acquisition follow up
- Financing arrangements
- Fleet updates
- Technology investments
- Financing arrangement for the acquisition or lease of aircrafts
- Disposals/write-off of aircraft and deferral agreements

### Risk management and internal controls

- Review risk map and risk appetite performance and statements
- Assessment of viability and going concern
- Effectiveness review of the internal control and risk management systems
- External auditor yearly report to the Board

### Shareholders, stakeholders and governance

- Transactions with related parties
- Sustainability update
- Modern Slavery statement review
- Review feedback from institutional shareholders, roadshows as well as analyst reports
- Board and management succession
- Remuneration matters, including new directors' remuneration policy
- Shareholders' meeting call notice and proposed resolutions
- Review of the Board committee's composition
- Board and committees evaluation and improvement priorities
- Update on the D&O insurance programme
- Corporate governance updates

## CORPORATE GOVERNANCE CONTINUED

**Board information and training**

In general all Board and committee meeting documents are available to all directors, including the minutes of each meeting, through an online platform which facilitates an efficient and secure access to all materials. All directors have access to the advice of the Board Secretary and the Group General Counsel. Directors may take independent legal, accounting, technical, financial, commercial or other expert advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in the 2021 financial year.

In 2021 the Board received specific briefings on corporate governance and key legal and regulatory developments. In addition to this, most directors attended two deep-dive briefings organised by the Audit and Compliance Committee regarding the BEIS open consultation in relation to the UK Government's white paper "Restoring trust in audit and corporate governance: proposals on reforms", and in relation to the BA defined benefit pension obligations. Furthermore, two sessions of two hours each were held, with the support from an external firm and co-chaired by the Audit and Compliance Committee and the Safety, Environment and Corporate Responsibility Committee chairs, regarding governance of climate-related risks and opportunities and non-financial reporting requirements.

Directors are offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Directors are consulted about their training and development needs and given the opportunity to discuss training and development matters as part of the Board annual performance evaluation.

**Induction of directors**

According to the induction guidelines, approved by the Nominations Committee, on joining the Board every newly appointed director has a thorough and appropriate induction. Each programme is based on the individual director's needs and includes meetings with other directors, senior management and key external advisers as appropriate. The induction is designed to provide a wide overview of the industry and the sector, including particulars of each of the markets in which the Group operates, as well as an understanding of the Group business model and its different businesses. The programme is also a useful tool to introduce the new director to the IAG Management Committee as well as to the different operating companies' teams.

In January 2021, an induction programme for the three newly appointed directors was initiated following the IAG induction guidelines. On this occasion, meetings with management were arranged to prioritise a rapid introduction to the Group and briefings on main current matters, with a second phase of customary meetings with all Management Committee members and other key positions within IAG. Additionally, an induction programme was launched for Maurice Lam following his appointment in June 2021. Further detail are provided in the Nominations Committee report

Due to COVID-19 related constraints, practically all meetings were held virtually, and directors' visits to the Group's key sites and meetings with each operating company's leadership team had to be delayed. As will be mentioned later in the context of the Board evaluation, these site visits will be resumed in 2022 as far as possible.

As explained next as part of the Board evaluation section, the feedback received from new directors on the IAG induction programme is very positive. Directors consider that the programme of meetings is very thorough, providing very complete information on the Group and the industry. In the present circumstances, an important effort was made to share insights into issues currently impacting the Group, particularly given the extremely difficult and uncertain conditions arising from the pandemic.

**Board and committee evaluation**

The effectiveness of the Board and its committees is reviewed annually, with an independent, externally facilitated review being conducted every three years. The last external review was conducted in 2019, therefore an internal evaluation was completed for 2021.

The internal evaluation was led by the Chairman and conducted by the Board Secretariat using a self-assessment questionnaire, complemented by a general discussion of the full Board on the outcome from the survey and proposed actions at the Board meeting held on December 16, 2021.

The overall conclusions of the review were positive, confirming that the Board and the committees continue to adequately fulfil their responsibilities. Directors considered that there has been an outstanding commitment and engagement from all Board members during the year while the business continues to face the challenges of the COVID-19 crisis. The continued management of the Board's agenda and the frequency of meetings have ensured that the Board remained briefed and able to support management throughout the year as circumstances changed. In relation to the areas for focus agreed for 2021, the Board considered that good progress had been made in all of them considering the complexity of the situation. In particular, induction programmes were reinforced to facilitate the rapid introduction and adaptation of the new directors and the new Safety, Environment and Corporate Responsibility Committee was established and meetings commenced in May as per its agreed plan of activities.

Actions agreed for 2022 include:

- to consider how best to reinforce the Board's competencies on IT and digital matters
- as long as travel restrictions allow, to organise Board meetings in Barcelona and Dublin, including meetings with Vueling and Aer Lingus management teams
- review of the annual calendar to ensure adequate coverage of key areas agreed
- improvements to the follow up of matters arising and reporting back to the Board

- continue to increase the level of engagement between the Board and senior executives, facilitating managers below Management Committee to present at Board meetings
- monitoring and building on the work done following the setting up of the Safety, Environment and Corporate Responsibility Committee

## Other Statutory Information

### Directors' disclosure duties, conflicts of interests, and related party transactions

Directors must inform the Company of any participation or interest they may hold or acquire in any company that is a competitor of the Group, or any activities that could place them in conflict with the corporate interest.

According to article 21 of the Board Regulations, directors have an obligation to adopt the measures necessary to avoid conflict of interest situations. These include any situation where the interest of the director, either directly or through third parties, may conflict with the corporate interest or with their duties to the Company. In the event of conflict, the affected director must inform the Company and abstain from participating in the discussion of the transaction referred to by the conflict. For the purposes of calculating the quorum and voting majorities, the affected director would be excluded from the number of members in attendance.

The shareholders' meeting held on June 17, 2021, approved the re-election of Giles Agutter and Robin Phillips as non-executive proprietary directors as proposed by IAG's significant shareholder Qatar Airways Group (Q.C.S.C.) ('Qatar Airways'). Qatar Airways, a Middle East air carrier headquartered in Doha, has been the single largest shareholder of IAG since 2016, owning, as of the date of this report, 25.143% of the share capital of the Company. Throughout this period there has been a long-standing business and commercial relationship between Qatar Airways and the airlines of the IAG Group. This close relationship of commercial cooperation, which has always been undertaken on an arms'-length basis and on market terms, which significantly reduces the potential existence of permanent conflicts of interest between Qatar Airways and the Group's airlines.

As far as the relationship of the proprietary directors with the significant shareholder who proposed their appointments is concerned, it should be noted that Giles Agutter is the owner and Chief Executive of the consultancy services firm Southern Sky Limited, one of whose material clients is Qatar Airways, and that Robin Phillips has no relevant connection with Qatar Airways

Any potential conflict of interest that might affect such proprietary directors is managed by applying the duty of abstention in accordance with the procedure for managing conflicts of interest described below. In addition, the Spanish and the United Kingdom regimes on related parties' transactions are also applicable as detailed below.

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions with directors or shareholders that have a significant holding or that are represented on the Board or with any persons related to them, on the terms established in the law and the Board Regulations and this will require a prior report from the Audit and Compliance Committee.

The execution of these type of transactions needs to be reported to the Audit and Compliance Committee to ensure that they are carried out at arm's length and with due observance of the principle of equal treatment of shareholders. This year IAG's internal regulations on related party transactions were revised to bring them into line with the changes introduced in the Spanish Companies Act regarding the regime for related party transactions in listed companies. According to this new requirement, the Audit and Compliance Committee needs to issue a report to the Board assessing whether the transaction is fair and reasonable from the standpoint of the Company and, where applicable, of the shareholders other than the related party, and report on this assessment, including the assumptions and methods used. The directors related to the transaction shall not participate in the preparation of such report.

Depending on the amount or value of the proposed related party transaction, different corporate governance and disclosure requirements may apply under both the Spanish and UK legal frameworks.

In accordance with IAG procedures on related party transactions, prior to the Audit and Compliance Committee consideration, shareholder related party transactions are also reviewed by the IAG Management Committee and are reported to the IAG Head of Group Audit.

### Share issues, buy-backs and treasury shares

The Annual General Meeting held on June 17, 2021 authorised the Board, with the express power of substitution, for a term ending at the 2022 Annual General Meeting (or, if earlier, 15 months from June 17, 2021), to:

- increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by up to fifty per cent of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation), through the issuance and placement into circulation of new shares (with or without a premium) the consideration for which shall be cash contributions;
- issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,500,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than fifty per cent of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation);
- exclude pre-emptive rights in connection with the capital increases and the issuance of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances subject to an aggregate maximum nominal amount of the shares so allotted or that may be

## CORPORATE GOVERNANCE CONTINUED

- allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued share capital as at June 17, 2021;
- carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions:
    - the maximum aggregate number of shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued share capital on June 17, 2021, the date of passing the resolution;
    - the minimum price which may be paid for an ordinary share is zero;
    - the maximum price which may be paid for an ordinary share is the highest of:
    - an amount equal to five per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which the transaction is performed; and

- the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the transaction is carried out at the relevant time; in each case, exclusive of expenses.

The shares acquired pursuant to this authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby. For further details see note 29 to the Group financial statements.

The IAG Securities Code of Conduct regulates the Company's dealings in its treasury shares. This can be accessed on the Company's website.

#### **Capital structure and shareholder rights**

As of December 31, 2021, the share capital of the Company amounted to 497,147,601 euros (2020: 497,147,601 euros), divided into 4,971,476,010 shares (2020: 4,971,476,010 shares) of the same class and series and with a nominal value of €0.10 each (2020: €0.10 each), fully subscribed and paid.

As of December 31, 2021, the Company owned 10,153,335 shares as treasury shares.

Each share in the Company confers on its legitimate holder the status of shareholder and the rights recognised by applicable law and the Company's Bylaws which can be accessed on the Company's website.

The Company has a Sponsored Level 1 American Depository Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depository, Deutsche Bank, is the registered holder. As at December 31, 2021 the equivalent of 55,871,936 shares was held in ADR form (2020: 40 million shares).

#### **Company's share capital**

During the year there were no changes to the share capital.

The significant shareholders of the Company at December 31, 2021, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:

Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	Percentage of capital
Qatar Airways (Q.C.S.C)	1,249,999,997	-		1,249,999,997	25.14%
Lansdowne Partners International Limited	-	80,876,691	Funds and accounts managed by Lansdowne Partners (UK) LLP	80,876,691	1.627%

### **Shareholders' meeting**

The quorum required for the constitution of the shareholder's meeting, the system of adopting corporate resolutions, the procedure for amending the Bylaws and the applicable rules for protecting shareholders' rights when changing the Bylaws are governed by the provisions established in the Spanish Companies Law.

Considering the COVID pandemic circumstances as well as the recommendation of the Spanish Corporate Governance Code, the Company facilitated virtual attendance and participation to the 2021 Annual Shareholders' Meeting using an online platform. Further detail on the 2021 Annual Shareholders' Meeting is provided in the Stakeholder engagement section.

The Shareholder's Meeting Regulations, which establishes the operating rules of the shareholder meeting, are available in the Corporate Governance section of the Company's website.

### **Disclosure obligations**

The Company's Bylaws establish a series of special obligations concerning disclosure of share ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the UK.

In accordance with article 7.2 b) of the Bylaws, shareholders must notify the Company of any acquisition or disposal of shares or of any interest in the shares of the Company that directly or indirectly entails the acquisition or disposal of a stake of over 0.25 per cent of the Company's share capital, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, as well as the creation of any charges on shares (or interests in shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, pursuant to article 10 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the

knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its subsidiaries.

In the event of a breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's share capital in nominal value, the Board may also direct that no transfer of any such shares shall be registered.

### **Limitations on ownership of shares**

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-qualifying shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital. If such a determination is made and notified to the stock market, no further acquisitions of shares by non-qualifying persons can be made.

In such circumstances, if non-qualifying persons acquire shares in breach of such restriction, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-qualifying person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of

the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-qualifying person.

### **Impact of change of control**

The following significant agreements contain provisions entitling the counterparties to exercise termination in the event of a change of control of the Company:

- Certain significant IAG financing arrangements allow for prepayment, redemption or early termination in certain circumstances if there is a change of control of the Company.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

### **Directors' and Officers' liability insurance**

The Company has purchased insurance against Directors' and Officers' liability for the benefit of the directors and officers of the Company and its subsidiaries.

# Report of the Nominations Committee



**Javier Ferrán**  
Nominations Committee Chair

Committee members	Date appointed
Javier Ferrán (Chair)	September 8, 2020
Giles Agutter	September 24, 2020
Margaret Ewing	January 28, 2021
Heather Ann McSharry	December 31, 2020
Alberto Terol	June 20, 2019

## Dear Shareholder

On behalf of the Nominations Committee, I am pleased to introduce my first full year report as its Chair.

Beyond the regular issues, the Committee's work in 2021 has focused on reviewing the appointments to, and changes within the IAG Management Committee as the Group Chief Executive has continued to strengthen his senior team. During the year, the Committee considered changes to three Management Committee positions, the appointment of a new Director of Strategy, that of the new Chief People, Corporate Affairs and Sustainability Officer, and the move of Lynne Embleton as new Chief Executive of Aer Lingus.

In addition, the Committee oversaw the process for the appointment of Nicholas Cadbury as our new Chief Financial Officer, who will be joining the Group on March 21, 2022 following the departure of Steve Gunning.

Further details of these management changes is provided in this report.

Another important area of focus for the Committee has been management succession planning and talent development, including diversity requirements. In fact, in September, the Committee undertook a detailed review of the new plans and initiatives in line with the Group's people strategy. In 2022, we will continue to focus on this important area, overseeing the development of the plans that have been presented.

In June 2021, we welcomed a new non-executive director, Maurice Lam, whose appointment process was managed by the Committee during the first half of the year.

Following the recent non-executive directors appointments, the Committee oversaw their extensive induction programmes. Due to existing COVID-related restrictions, the induction meetings were held virtually. Despite the existing challenges, thanks to IAG's management commitment support, the feedback received from directors has been very positive. We hope to complete the induction with site visits to the Group's operations during 2022.

We close the year satisfied that we have a Board with the right skills and experience to continue providing the highest standards of leadership and oversight in the years ahead. We are also satisfied that the Board composition meets the target for the proportion of women on boards set out in the Hampton-Alexander Review as well as the recommendation on ethnic diversity on boards in the Parker Review. We hope to further consolidate and improve this progress, and trust that the Board's leadership will serve as an anchor for the management team's own plans on diversity and inclusion.

**Javier Ferrán**  
Nominations Committee Chair

### **The Nominations Committee**

The composition, competencies and operating rules of the Nominations Committee are regulated by article 31 of the Board Regulations and by the Nominations Committee Regulations as approved by the Board on February 25, 2021. A copy of the Board and the Nominations Committee Regulations can be found on the Company's website.

The Nominations Committee has overall responsibility for leading the process for appointments to the Board and to ensure that these appointments bring the necessary skills, experience and competencies to the Board, aligning its composition to the business strategy and needs. The Committee also reports to the Board on the proposed appointment of senior executives of the Company. It oversees Board and senior management succession planning and in general the development of a diverse pipeline for succession.

The Nominations Committee shall be made up of no less than three non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. A majority of the members must be independent directors that are EU nationals.

As mentioned in the 2020 Nominations Committee report, the only new appointment to the Committee was that of Margaret Ewing on January 28, 2021.

### **The Committee's responsibilities**

The Nominations Committee's responsibilities can be summarised as:

- evaluating the mix of competencies, knowledge and experience necessary in the Board's membership and reviewing the criteria for the Board composition and the selection of candidates
- submitting the recommendation for appointment of directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairs
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner
- reporting to the Board on the appointment and removal of senior executives (which includes all IAG Management Committee members)

### **New Board appointment**



**Maurice Lam**

Non-executive director

Soon after joining the Board in June 2021, I attended IAG's induction programme which introduced me to the Group, its management and business. Given the pandemic situation and the fact that I was the only newly appointed member at that time, this induction consisted in a number of one to one virtual meetings with key members of management.

I have a financial services background and am relatively new to the airline industry. The quality of the thorough and open exchange together with the level and completeness of the information provided, helped me significantly to better understand the industry dynamics and its business logic.

We had the opportunity to share insights into issues impacting the Group, particularly in the context of the uncertain conditions prevailing from COVID-19 and its unpredictable developments. We also had interesting discussions on challenging subjects like climate change, cybersecurity and other emerging risks and their potential impacts.

Although the induction meetings were held virtually, the time commitment and the quality of the interactions provided me with a good start to building a relationship with key people in the

Group; indeed this proved to be very useful when we finally met physically last September for the 'Strategic meetings'. I felt encouraged to exchange at any time, an extremely important enabler to successfully fulfil my independent director role.

Currently, planned site visits to the different locations of IAG entities are still outstanding and I am looking forward to participating in these as soon as conditions allow.

As a new member of the Board, its Audit and Compliance Committee and its Safety, Environment and Corporate Responsibility Committee, I feel well integrated so far, and from the start felt motivated to be actively engaged in all issues affecting the Group.

The complexity and diversity of the Group implies quite a lot of information to read and digest ahead of meetings. I feel the diversity and experience of the different board and committee members, under strong leadership and guidance, facilitate probing questions and challenging discussions; this is particular important in an environment where forecasting in current volatile and uncertain times, leading to the need to consider a variety of options, has to be continuously performed by management and overseen by the Board.

I am proud to be a Board Member of IAG and look forward to contributing in this recent role.

## REPORT OF THE NOMINATIONS COMMITTEE CONTINUED

- ensuring that non-executive directors receive appropriate induction programmes
- setting diversity targets (gender, ethnicity and other criteria) both within the senior management and the succession pipeline
- ensuring that plans are in place for orderly succession of senior management positions whilst safeguarding the achievement of agreed diversity targets
- establishing a target for female and ethnicity representation on the Board which should adhere to the Company's Directors Selection and Diversity Policy
- coordinating the annual evaluation of the performance of the Board and its committees

**The Committee's activities in 2021**

The Committee met seven times during 2021, including four scheduled and three ad hoc meetings. Directors' attendance at these meetings can be found in the Corporate Governance section. The Group Chief Executive is invited to attend the Committee's meetings as and when necessary.

The Committee focused on the following activities during the year:

- review of the composition of the Board and search process for a new non-executive independent director
- review of the Board committees' membership, including that of the new Safety, Environment and Corporate Responsibility Committee
- Board succession planning
- review of the directors' independence
- review of compliance with the Directors' Selection and Diversity Policy
- management succession plans
- launching of the Board annual evaluation process, as well as that of the Nominations Committee
- changes to Group company boards
- review of investor feedback from the 2021 Annual General Meeting
- update on regulatory developments on diversity matters.

Throughout the year, Spencer Stuart provided recruitment consultancy services to the Committee. Spencer Stuart does not have any other connection with the Company or individual directors and is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms.

**Non-executive directors appointment process**

As already anticipated, the Nominations Committee and the Board were keen to improve ethnic diversity, and this was taken into consideration when a new search was started following the retirement of Antonio Vázquez in January 2021. Spencer Stuart was appointed to conduct this search on January 7, 2021. In May 2021, the Committee was pleased to recommend the appointment of Maurice Lam, who joined the Board at IAG's Annual Shareholders' Meeting on June 17, 2021.

Maurice brings extensive financial audit, and risk-related experience to further reinforce the composition of the Audit and Compliance Committee.

This search process was completed pursuant to the IAG Directors Selection and Diversity Policy as confirmed by the Nominations Committee in the review completed in January 2022. The process was carried out in accordance with the following principles:

- an executive search firm was engaged to conduct this search, which is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms.
- the search criteria were formulated following the evaluation of the balance of skills, experience, independence, diversity and knowledge on the Board, alongside the then existing succession plans for directors, and taking into consideration the conclusions from the annual review of the Board performance.
- based on these considerations, the role and capabilities required for this particular appointment were established. As the Committee is keen to ensure a broad diversity in the Board, it was also agreed to put a special focus on diversity, in particular on minority ethnic diversity. These specifications were included in the search firm's engagement letter.
- a long-list of candidates were reviewed during February and March 2021 and, following a detailed analysis of the profiles of the candidates included, a shortlist of potential candidates was agreed.
- the final shortlist was reviewed and discussed by the Chair of the Nominations Committee and Chairman of the Board with the Committee members, and according to the conclusions reached and after hearing the feedback from a compliance perspective from the Group General Counsel, it was reported to the Nominations Committee.
- following the interview process of the shortlisted candidates, a final candidate was then agreed, and submitted for final approval at the Nominations Committee held on May 5, 2021. A final report was presented to the Board endorsing the nomination.

**Board succession**

The Committee regularly reviews the formal succession plan for the Board, including analysis of non-executive directors' length of tenure, skills and experience, and planning for succession of any areas that could require strengthening from a skills and succession perspective. The conclusions of this exercise helped to inform new directors' searches and the profile and skills required.

In September 2021, the Committee reviewed in detail the Board succession planning, including the Board refreshment timeline, the Board skills matrix, as well as the identification of potential successors for the different positions.

**Board positions and committee memberships**

On February 24, 2021 the Nominations Committee considered the composition of the new Safety, Environment and Corporate Responsibility Committee which was subsequently approved by the Board. This committee is chaired by an independent non-executive director, Nicola Shaw, and is composed of non-executive directors with a majority of independent directors.

Following the Annual Shareholders' Meeting in June, the Committee reviewed the Committees' composition, and proposed the appointment of Maurice Lam as a member of the Audit and Compliance Committee and of the Safety, Environment and Corporate Responsibility Committee, replacing Alberto Terol on the former, and Javier Ferrán on the latter.

**Directors' independence, performance and re-election**

The Nominations Committee, having considered the matter carefully, is of the opinion that all of the current non-executive directors, with the exception of the two proprietary directors, are independent, both in line with the definition set out by the Spanish Companies Act and with that of the UK Corporate Governance Code, and are free from any relationship or circumstances that could affect, or appear to affect, their independent judgement.

All proposals for the appointment or re-election of directors presented to the 2021 Shareholders' Meeting were accompanied by an explanatory report issued by the Board of Directors with the support of the Nominations Committee assessing the competence, experience and merits of each candidate. The Committee also reviews the time commitment and availability of each non-executive director, which during 2021 was again remarkable. Following this review, the Committee was of the opinion that each non-executive director submitting themselves for re-election continued to demonstrate commitment to the role as a member of the Board and its committees, discharged

their duties effectively and that each was making a valuable contribution to the leadership of the Company for the benefit of all shareholders.

Each director is required to advise the Committee and seek its authorisation before accepting any external directorship or other significant appointment that might affect the time they are able to devote to the role as a director Company.

#### **Management appointments and succession planning**

As mentioned in the Committee report for 2020, in January 2021, the Committee endorsed the appointment of David Podolsky as new Director of Strategy.

In February 2021, the Committee considered and reported to the Board on the appointment of Lynne Embleton as the new Chair and Chief Executive of Aer Lingus with effect from April 6, 2021. At the same meeting, the Committee also considered and endorsed the appointment of Carolina Martinoli in a new role as Group Head of Culture, Talent and Sustainability Officer with her becoming Chief People, Corporate Affairs and Sustainability Officer in May 2021.

Although this was not a position on the IAG Management Committee, the Committee also reviewed the appointment of David Shepherd, Chief Commercial Officer of Aer Lingus, as managing director and member of the board of IAG Cargo, reporting to David Podolsky who leads IAG Cargo as a Management Committee member and chairs the IAG Cargo board of directors.

Finally, the Committee reviewed the search and selection process for the position of Chief Financial Officer of the Company. The search was conducted with the assistance of Egon Zehnder. This process culminated in October 2021 with the announcement of the appointment of Nicholas Cadbury, Chief Financial Officer of Whitbread, to replace Steve Gunning, who will be leaving in March 2022.

In the September meeting, the main principles and objectives of the Group management succession planning process were presented to the Committee. The process is currently being reviewed to better align it to IAG's broader people strategy. Several matters were discussed at this meeting, including: how to keep the right balance between succession and external recruitment and the different implications this could have from a cultural perspective; the relevance of structured processes and methodology for talent development and promotion; the focus on diversity standards; the role of the Group and that of the different operating companies. The Committee was also updated on the Group key roles, including an analysis of leadership changes since 2019, highlighting the high churn suffered

in the leadership teams and across the Group critical roles in the same period.

It was agreed that the Committee will be kept updated on the initiatives and developments of this plan, as this is an area on which it was agreed to put a special focus following the Committee's performance evaluation last year.

#### **Diversity**

The Nominations Committee remit was reviewed in 2021 and its responsibility for diversity was confirmed from three different perspectives as far the Board and senior management are concerned. The Committee is responsible for developing measurable objectives, for monitoring progress towards their achievement and compliance with IAG's diversity policies, and to oversee the development of a diverse pipeline for Board and senior management succession.

The IAG Directors Selection and Diversity Policy, which is available on IAG's website, sets out the principles that govern the directors selection process and the approach to diversity on the Board of Directors and on the Management Committee. This policy reflects IAG's commitment to promote equality and diversity.

The IAG Board recognises the value of having a variety of opinions, perspectives, skills, experiences, backgrounds and orientations to enrich discussions and to have better decision-making processes.

Considering the ongoing work on people and culture in the Group, it has been deemed appropriate to delay the review of the Group's diversity and inclusion policies to this year, in order to ensure adequate consistency in these initiatives.

The procedure for the appointment of directors follows the principles established in the Directors Selection and Diversity Policy. As recommended by the Spanish Good Governance Code, the Nominations Committee reviews compliance with this policy on an annual basis. This review was completed in January 2022.

When considering director appointments, the Committee follows a formal, rigorous and transparent procedure, designed to preserve this diversity value in its broader sense, while ensuring that any appointment is made on merit, and taking into account the specific skills and experience needed at any point in time to ensure continuing Board balance and relevant knowledge. Gender diversity principles are followed throughout the process, while preserving the general diversity and merit-based appointment principles established in the policy. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

This selection process is described in detail in the preceding section on 'Non-executive directors' appointment process'.

Female directors currently represent 42% of the Board of Directors and 62% of the independent non-executive directors. In addition to this, two of the four Board advisory committees are chaired by women. From an ethnic diversity perspective, the IAG Board has met the UK Parker Review objective, having appointed in 2021 one director from a minority ethnic group.

The Board and the Nominations Committee are committed to improving diversity, and gender diversity across the Group, and encourages and supports management actions in this regard. As explained below, the Committee has agreed to maintain its focus on diversity and inclusion as a priority for 2022.

Given its relevance, the Board reviewed the Group's diversity and inclusion strategy during its annual strategy session in September 2021. In addition, in January this year, the Group's gender diversity initiatives and ambitions within this new diversity framework were shared again with the full Board.

Further explanations of the steps that IAG is taking to promote diversity and inclusion across the Group is set out in the 'Diversity, inclusion and equality' section of the sustainability report.

#### **The Committee annual evaluation**

The annual performance evaluation of the Board and its committees was internally facilitated, having been carried out by an independent external facilitator in 2019. The evaluation concluded that the Committee operated effectively during the year. Although significant progress has been made, the Committee will continue prioritising its focus on the two areas identified in the prior evaluation, that is management succession planning, including talent retention and talent development, and diversity and inclusion initiatives at management level.

# Report of the Safety, Environment and Corporate Responsibility Committee

**Nicola Shaw**

Safety, Environment and Corporate Responsibility Committee Chair

**Committee members**

	<b>Date appointed</b>
Nicola Shaw (Chair)	February 25, 2021
Giles Agutter	February 25, 2021
Emilio Saracho	February 25, 2021
Robin Phillips	February 25, 2021
Maurice Lam	June 17, 2021

## Dear Shareholder

I am pleased to share with you my first report as Chair of the IAG Safety, Environment and Corporate Responsibility Committee (SECR Committee), which details the work of this Committee and our ambitions and achievements during 2021.

At IAG, we believe in the huge social and economic benefits our business creates by bringing people together. In line with our Group's purpose, we're committed to ensuring aviation remains a force for good in the world. That means ensuring every business decision is rooted in the values that we hold and the desire to do the right thing for all our stakeholders. Only then can we create a resilient business that will grow sustainably for the long-term. This inspires the work of this new Committee

which has a key role in supporting the Board by providing guidance and direction on IAG's sustainability and corporate responsibility ambitions.

The Committee was incorporated in February 2021 with new membership, expanding the remit of the former Safety Committee, to oversee environmental matters and corporate responsibility and met for the first time in May. In June 2021, Maurice Lam joined us following his appointment as non-executive director at the Annual Shareholders' Meeting, replacing Javier Ferrán.

The SECR Committee has oversight over safety matters. Although this responsibility lies with each airline in accordance with its applicable standards, its own culture and the circumstances and particularities of

each business, the Committee carries out a high-level overview of safety activities and informs the Board as appropriate. More importantly, we aim at promoting the discussion of common issues and sharing best practice. This has proved to be a very valuable tool in facing the unprecedented impact of the COVID pandemic.

Sustainability takes many forms. From stewardship of the environment to social matters. We seek to actively manage our impact on the world by setting ambitious targets, measuring our progress, and transparently reporting on the steps we are taking. In 2021, the Committee oversaw and discussed the Group's initiatives in this area, from how we approach carbon emissions, to the new diversity targets we have established, the improvement in our reporting and the partnerships that we have joined to drive positive change.

On the environmental front, tackling climate change remains the most material issue, as validated by the stakeholder materiality exercise completed this year. In 2021, we became the first airline group in Europe to commit to deploying 10 per cent sustainable aviation fuel (SAF) by 2030, equating to 1 million tons of SAF per year. We have also continued to embed our net zero transition pathway within our business and remain focused on the delivery of our ambitious targets.

Listening to our stakeholders is crucial to inform our priorities and plans to deliver a fully sustainable business. In line with the feedback received, and going beyond environmental issues, the Committee will, along with our climate change commitments, continue to focus on social and corporate responsibility matters in the coming year.

It is fundamental to our ambition that we do business in the right way which is why sustainability is at the heart of our strategy. We are committed to building a truly sustainable, responsible and inclusive business to deliver long term value for our people, customers, shareholders and the communities we serve. Together we can make a lasting difference to the world.

**Nicola Shaw**

Safety, Environment and Corporate Responsibility Committee Chair

### **The Safety, Environment, and Corporate Responsibility Committee**

The Committee composition, competencies and operating rules are regulated by article 33 of the Board Regulations as well as the Regulations of the SECR Committee, as approved by the Board on February 25, 2021. A copy of the Board and the SECR Committee Regulations can be found on the Company's website.

The Committee is made up of no fewer than three directors appointed by the Board, with the necessary dedication, capacity and experience. All the members of the Committee shall be non-executive directors and a majority of them shall be independent directors.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Group Chief Executive and the Chief People, Corporate Affairs and Sustainability Officer. Senior managers with responsibility for safety matters and others in charge of different sustainability areas were invited to attend specific agenda items as required and when relevant.

### **The Committee's role and responsibilities**

The Committee's role is to support and advise the Board in matters relating to safety, environment and corporate responsibility. Responsibility for safety matters belongs to the Group's airlines. IAG, through this Committee, has an overall view of each airline's safety performance and of any important issues that may affect the industry. The Committee also has visibility of the Group airlines' resources and procedures.

Responsibility for performing detailed and technical assessments remains with each airline, overseen by their respective safety committees. In the areas of environment and corporate responsibility, the SECR Committee provides a governance forum for non-executive directors to exercise specific oversight, challenge and support to senior management in shaping the Group's sustainability strategy, policies and targets, buttressing IAG's vision to be the world's leading airline group on sustainability.

According to its regulations, the SECR Committee's remit includes:

- to receive significant safety information about IAG's subsidiaries, franchise, codeshare or wet-lease providers used by any member of the Group
- to exercise a high-level overview of safety activities and resources
- to review the Group's strategy and policies on social and environmental sustainability
- to evaluate that the Company's environment and social practices are in accordance with the established strategy and policies
- to evaluate the effectiveness of the Company's environment and social policies, to confirm that they are fulfilling its mission to promote the corporate interest and catering for, as appropriate, the legitimate interests of its stakeholders
- to review the Group's global environment and climate risk mitigation strategy, the implementation of sustainability programmes and any climate related financial disclosure
- to review the content of the non-financial information statement or sustainability report
- to monitor and evaluate the Company's interaction with its stakeholder groups, including the workforce
- to review the principal environmental, social and reputational risks
- to review the general diversity and inclusion policies

### **The Committee's activities during the year**

During 2021, the Committee held three meetings. Directors' attendance at these meetings is detailed in the Corporate Governance report. At its first meeting, the Committee agreed on its plan of activities for 2021 as well as its standard annual plan for the following years.

During 2021, the Committee focused on the following activities during the year:

- safety readiness programmes of the Group airlines
- overview of an airline company safety framework
- safety review report of the Group airlines
- Conclusions from the IAG Investors ESG survey
- key upcoming EU and national ESG consultations
- 2021 stakeholder materiality assessment process and conclusions
- update on sustainable aviation projects and other low carbon initiatives
- review of the 2020 IAG Modern Slavery Statement
- update on emerging trends and benchmark analysis on ESG
- review of ESG ratings and relevant sustainability indexes
- Group sustainability strategy and policies review
- 2021 Non-Financial Information Statement and other sustainability reporting, including review of compliance and key metrics.
- diversity and Inclusion review

In addition to this, two externally provided training sessions were organised together with the IAG Audit and Compliance Committee, focusing on the Board's ESG compliance and reporting responsibilities, with a particular attention to climate change. A follow up discussion was also held at the SECR Committee December meeting.

#### **Safety**

In May 2021, the SECR Committee reviewed the four Group airlines' plans to restart and readiness to fly in the ramp up of the operations for the summer period. The Committee was briefed on the challenge the airlines faced under a dynamic and uncertain cancellation phase, the large-scale parking and storage plan which continued to vary, the extensive staff furlough programme to match a much reduced flying programme, a restart phase with significant uncertainty and including a new operational and customer environment. The different teams presented their respective plans to ensure a safe return into operations but also building on the opportunities that the situation also brings and on the possibility of sharing best practices across the Group benefiting from the safety and security network already established between the Group airlines and the support provided from the centre.

The Committee reviewed the relevant areas of each operating company's performance across the Safety Risk Management activities. In line with the above, in addition to each airline's standard reporting, the Committee devoted special attention to the different challenges posed by the COVID pandemic on the safety management systems and environment.

#### **ESG investors survey and materiality assessment**

Two key exercises on ESG were completed in 2021. The first one was the survey that the IAG Investor Relations team conducted to get input from IAG institutional shareholders and investors on ESG matters. The top 100 shareholders plus ten additional investors were contacted to participate. They were consulted on their approach to ESG when analysing investments, how they saw that evolving, what IAG is lacking, what should be the Group's focus in terms of reporting and the gap between their expectations and what IAG is currently doing. The Committee discussed with the Investor Relations and Sustainability teams the feedback received, including both qualitative and quantitative findings, as well as the conclusions and recommendations to be drawn from this important engagement.

The second exercise was the materiality assessment completed between April and June 2021 to seek the Group stakeholders' perspective regarding sustainability priorities. This was facilitated by a leading sustainability consultancy Simply Sustainable as an independent third party and it included both a medium (two years) and a long-term (ten years) approach. The Committee considered the design, methodology and content of the process, and was also briefed on the main conclusions drawn and actions to be taken to ensure this properly informs IAG's strategy and reporting going forward. A complete description of the materiality assessment can be found in the Sustainability Report.

#### **Market trends and EU and national ESG consultations.**

The Committee has been regularly updated on any upcoming ESG policy consultations at international, EU or national level, including the Group's positioning and actions intended in each of them. This year this included, among others, the UK BEIS consultation on Mandatory Climate Change Reporting, the EU 'Fit for 55' and the UK 'Jet Zero' consultations.

As part of the materiality assessment process, a benchmarking analysis was completed to position IAG versus best practice in the different areas considered.

#### **Sustainable aviation strategy, projects and other low carbon initiatives**

At the December SECR meeting the Committee reviewed and approved the updated IAG sustainability strategy with an increased focus on delivery of carbon mitigation initiatives particularly the commitment to 10% sustainable aviation fuels by 2030.

The Committee also closely follows the Group's various projects on sustainable aviation fuels and hydrogen projects, namely Lanzajet, Velocys/Altalto and ZeroAvia, discussing the relevant pathway, status and next steps. In this respect, the Committee also considered the Group's positioning and the various initiatives management undertakes to ensure appropriate policies support the development of these projects.

## **Human rights and modern slavery**

In July, the Committee was briefed on the steps IAG is taking to ensure that slavery and human trafficking are not taking place in the Group's businesses or in its supply chain, providing an update on the Group's key initiatives. In particular, the Committee reviewed IAG's Modern Slavery Statement and submitted it for approval to the Board of Directors.

IAG's Code of Conduct, which is also applicable to IAG directors, establishes the Group's commitment to respect human rights in the business, underpins IAG's framework in this area, which also includes anti-bribery and anti-fraud policies and control, whistleblowing channels and reporting, and the Group's slavery and human trafficking statement. As far as suppliers are concerned, IAG 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. In addition to IAG's own Modern Slavery statement, IAG asks suppliers to adhere to the third IAG Group Slavery and Human Trafficking Statement.

In 2022, the Committee will focus on the assessment of human rights risks within the business and its supply chain, including environment, labour and human rights, and ethics.

## **Diversity and Inclusion initiatives**

At the December meeting, the Committee assessed and refreshed the Group's diversity and inclusion commitments and oversaw the programme of activities envisaged under the Group's diversity and inclusion plans.

The Committee noted the progress made in the year, including the establishment of the new IAG Diversity Panel and refreshed plans for each operating company to underpin the Group's new targets and ambition, but also noted the adverse impact on workforce composition and gender pay due to the pandemic and restructuring activities over the last year.

## **Review of ESG ratings and relevant sustainability indexes and Group reporting**

At its July meeting, the Committee was updated on the different IAG ESG ratings. The Committee considered the situation of each one of them and the actions proposed to be addressed by management, with particular attention to the Carbon Disclosure Project (CDP), on which relevant disclosures were filed at the end of July.

## **The Committee annual evaluation and priorities for 2022**

As the Committee started to be operative in May 2021, its annual performance evaluation was completed by the Committee Chair based on the conversations held with Committee members and management. The Committee was said to be operating effectively during 2021. Nonetheless, considering the early life of this Committee and the important expectations and business focus in this area, it was considered appropriate to add two additional meetings to the 2022 schedule, and to restructure the Committee plan of activities accordingly.

# Report of the Audit and Compliance Committee



**Margaret Ewing**

Audit and Compliance Committee Chair

Committee members	Date appointed
Margaret Ewing (Chair)	June 20, 2019
Peggy Bruzelius	December 31, 2020
Eva Castillo	December 31, 2020
Maurice Lam	June 17, 2021

## Dear Shareholder

On behalf of the Board, I am pleased to present the Report of the Audit and Compliance Committee, which provides an overview of the role of the Committee and the key matters considered in 2021, including insight into how the Committee has discharged its responsibilities and provided assurance on the integrity of the 2021 Annual Report and Accounts (2021 ARA). It is our responsibility to ensure that financial information published by the Group properly presents its activities to all stakeholders in a way that is transparent, useful and understandable and is aligned with the latest guidance and requirements of regulators. In addition, the Committee's fundamental priorities include ensuring the quality and effectiveness of the external and internal audit processes and

monitoring the management of the principal risks of the business.

The continuation of the COVID-19 pandemic and its impact on governments' policies regarding flying restrictions, the aviation industry and our business has meant that throughout 2021 the Group has continued to face unprecedented and significant challenges. The Committee continued to apply an increased level of focus on the effect of this situation on our people and financial integrity, for example, management's ability to forecast the recovery adds additional complexity to those significant accounting judgements based on future expectations. I would like to take this opportunity, on behalf of the Committee, to acknowledge and express our significant gratitude to management and teams who have continued to adapt so well to the pandemic. We recognise that retaining our best people is more

important than ever as they continue to work with determination as the business hopefully moves into a recovery phase and a progressive return to normal operations, which will bring further challenges for the finance and auditing teams. I would also like to thank Steve Gunning, our Group CFO, who steps down in March this year. Steve has been instrumental in leading the Group through the most challenging of times and has ensured that he is leaving the Group in a strong liquidity position. I welcome Nicholas Cadbury, our new CFO, and look forward to working with him in future.

Alberto Terol stood down from the Committee in June 2021, and I would like to thank him for his significant contribution, playing a key role in advocating strong internal control, risk management and compliance practices across the Group. I welcome Maurice Lam, who joined the Board and the Committee in June. Maurice is an experienced audit committee member with a breadth of finance, audit and accounting knowledge. Upon Maurice's appointment, I met with him to brief him on the key issues and priorities for the Committee this year as well as providing insights into certain industry-specific accounting and risk issues.

Throughout 2021, I have maintained a dialogue with other members of the Committee, management and the internal auditor, including meeting with 'agenda topic owners' prior to Committee meetings, ensuring the Committee would be provided with the necessary information to enable it to guide, challenge and advise and, when required, make informed decisions. I also met regularly with the lead partners of our new external auditor, KPMG, as part of my ongoing review of their effectiveness, particularly in this year of their transition. In addition, other Committee members met with finance team representatives, management and internal and external auditors, as part of their induction.

The Committee held ten formal meetings during 2021 (compared to twelve in 2020) and several ad hoc meetings on topics such as fuel hedging strategy and policy. The key items discussed by the Committee in discharging its oversight responsibilities and its areas of focus are set out in further detail in this report. The Committee has had clear oversight over the continuing impact of COVID-19 on the business,

particularly in respect of the significant operational, compliance and financial risks that could materially impact the Group's financial position and ability to execute and deliver its strategy. A critical area of focus for the Committee has been the smooth transition to KPMG as our external auditor. KPMG presented an update of their transition at each Committee meeting, providing the Committee with their observations and plans. This included presenting their 2021 audit plan and risk assessment in November and plan for their review of the financial statements for the first six months of the year (in May), both of which the Committee discussed in detail and approved.

This report describes how the Committee has monitored and assessed the effectiveness of the external auditor during 2021. KPMG's fresh perspective, challenge and rigour have drawn the Committee's and management's attention to a requirement for renewed consideration of the application of certain accounting policies and judgements. Management have responded positively to KPMG's findings. The Committee has spent considerable time reviewing and scrutinising the Group's financial results, including the areas of challenge by the external auditor, and details of the significant issues we considered can be found in this report.

During the year, several risk deep dives and educational sessions were held for the Committee (particularly given the recent appointment of three of the members) to ensure collective robust knowledge of issues unique to this industry and our businesses, key financial risks and more complex accounting judgements, as well as the impact of emerging regulatory and non-financial information requirements. These sessions covered topics such as fuel hedging, British Airways pensions, loyalty programmes and the associated accounting, ESG and sustainability. In addition, briefing sessions by management and the external auditor have ensured that all Committee members are aware of the rapid evolution of corporate governance proposals and regulatory guidelines in the UK and EU, including the Department for Business, Energy and Industrial Strategy (BEIS) consultations on UK Corporate Governance and Audit Reform, the European Commission's consultation "Corporate reporting – improving its quality and enforcement" and FRC and CNMV thematic reviews.

I believe that, throughout 2021, we have ensured: the key challenges and risks faced by the Group were reflected in the external and internal audit plans; effective controls remained in place; rapidly changing principal and emerging risks were identified and effectively managed; compliance with all regulatory and legal obligations; and sound financial

judgements and estimates continued to be made. The internally facilitated evaluation of the Committee's effectiveness during 2021 supported this conclusion. The evaluation findings, which were shared with the Board, indicated that the Committee continued to perform effectively and had addressed its key priorities and action plan for 2021.

As we look forward to this current year, 2022, further relaxation in travel restrictions and the anticipated increase in business and operations levels of activity and revenues, the Committee will continue to provide robust challenge of management and our external and internal auditors. We will target known and emerging risk areas for deep dives and ensure that the transformation occurring across the Group, as well as challenges posed by the implementation of changes in corporate governance and regulatory requirements, are appropriately reflected in the Group's accounting, internal control, risk and compliance procedures.

I hope that you find this report informative and can continue to take assurance from the work undertaken by the Committee during 2021 and planned for 2022. The Committee seeks to respond to shareholders' and other stakeholders' expectations in our reporting. I welcome feedback on this Committee report or other related issues and an opportunity to meet with investors during 2022.

#### **Margaret Ewing**

Audit and Compliance Committee Chair

## **The Audit and Compliance Committee**

The composition, competencies and operating remit of the Audit and Compliance Committee are regulated by article 29 of the Board Regulations as well as the Regulations of the Audit and Compliance Committee. The Committee and Board approved revisions to the Regulations in February 2021 to reflect the latest guidance and regulatory requirements in Spain and the UK. A copy of these Regulations can be found on IAG's website.

### **The Committee's composition, competencies and attendance**

Detailed biographies of all current Committee members are included in this Annual Report. The Board is satisfied that the Committee has retained competence relevant to its overall responsibilities and a wide range of financial, audit, risk management and relevant sector and business experience amongst its members, providing the right mix of skills and experience to provide constructive challenge and support to management. The Board has determined that Margaret Ewing and Maurice Lam have recent and relevant financial experience. The Board, through the Nominations Committee, will continue to review the Committee's membership to ensure the skills and experience of its members align with the business as it develops.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Head of Group Audit (who reports functionally to the Chair of the Committee) and representatives from the external auditor. Members of the management team, including the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller, were invited to attend specific agenda items as required and when relevant.

A private session of the Committee members was held at the end of each Committee meeting and during the year the Committee met privately with each of the external and internal auditor.

### **The Committee's responsibilities and activities**

The Committee's principal responsibility is to oversee and provide assurance to the Board on the integrity and quality of financial reporting, effectiveness of audit arrangements and robustness and effective operation of internal controls, compliance and risk management processes. The Committee meeting agendas are tailored to ensure emerging topics are included and to allow for ad hoc discussion and reviews. A summary of the Committee's activities during 2021 and until the date of this report is detailed below.

## REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE CONTINUED

Area of Committee focus	Activities
<b>Financial reporting</b>	<ul style="list-style-type: none"> <li>• reviewing the financial statements and announcements of the Group to ensure integrity;</li> <li>• consideration of the process for confirming and recommending to the Board that the 2021 Annual Report and Accounts is fair, balanced and understandable;</li> <li>• reviewing and challenging significant accounting estimates, judgements and accounting policies applied in the financial statements of the Group and related reporting and disclosures; and</li> <li>• reviewing and challenging management's assessment of the going concern and viability of the Group.</li> </ul>
<b>External auditor</b>	<ul style="list-style-type: none"> <li>• oversight of the external auditor focusing on audit quality, effectiveness, independence and objectivity to ensure the rigour and challenge of the audit process is maintained. Specific activities undertaken by the Committee to oversee the relationship with KPMG and the audit process are included in this report.</li> </ul>
<b>Internal auditor</b>	<ul style="list-style-type: none"> <li>• oversight of the internal auditor focusing on the appropriateness of the internal audit skills and resourcing, approving the audit plan, reviewing audit results and ensuring the independence of the internal audit team. Specific activities undertaken by the Committee with regard to internal audit are included in this report.</li> </ul>
<b>Internal Control over Financial Reporting (ICFR)</b>	<ul style="list-style-type: none"> <li>• consideration and challenge of management's analysis of risks in financial reporting, identification of key financial controls and documentation of accounting processes;</li> <li>• monitoring the internal controls procedures adopted by the Company, to verify compliance with them; and</li> <li>• reviewing the results of the internal audits of ICFR, consideration of the external auditor's findings and conclusions on this matter and tracking the progress of implementation of internal and external ICFR audit recommendations.</li> </ul>
<b>Enterprise risk management</b>	<ul style="list-style-type: none"> <li>• reviewing the principal and emerging risks facing the Group, including gaining assurance as to the effectiveness of the internal control system, mitigations, and risk management process;</li> <li>• reviewing the performance of the Group against its existing risk appetite and confirming management's assessment that the Group has applied appropriate mitigations or other effective controls to ensure that an appropriate risk appetite has operated throughout the period;</li> <li>• reviewing the approach adopted by the Board in defining the Group's risk appetite in light of the changing environment in which the Group will operate as it emerges from the destructive effects of the pandemic and executes on its transformation strategy;</li> <li>• reviewing the Group's fraud risk assessment and design of the internal control framework to prevent and detect fraud, including consideration of the key controls and assurance activities provided across the Group in relation to financial and non-financial fraud risk;</li> <li>• overseeing treasury risk management, including reviewing the Group's fuel and foreign exchange hedging policies, positions and financial counterparty exposure, compliance with the Group's treasury and financial risk management policies and consideration of the implications of the approved fuel hedging profile given the unprecedented decline in demand and its continued appropriateness in managing these risks; and</li> <li>• overseeing tax risk management and considering the tax strategy before recommending to the Board for approval and publishing on the IAG website.</li> </ul>
<b>Legal and compliance</b>	<ul style="list-style-type: none"> <li>• reviewing the Group's anti-bribery, sanctions, competition, privacy and Spanish Criminal Code compliance programmes including the latest related risk heat maps, regulatory developments, the key programme activities during 2021 and priorities for 2022;</li> <li>• reviewing, on behalf of the Board, the Group's independent third party-facilitated whistleblowing procedures and the annual report from the Group's General Counsel on: incidents reported via the whistleblowing channels, by category and nature; any emerging themes or trends; timeliness and responsibility for follow-up; and investigations and actions taken to address substantiated reports; and</li> <li>• consideration of litigation status reports from the General Counsel including the status of remaining and potential civil litigation actions. (See note 33 to the financial statements.)</li> </ul>

<b>Area of Committee focus</b>	<b>Activities</b>
<b>IT, cybercrime and GDPR</b>	<ul style="list-style-type: none"> <li>reviewing and monitoring key cyber security and data privacy management improvement projects including visibility of trend analysis and benchmarking external data to better understand the Group's progress.</li> </ul>
<b>Non-Financial Information</b>	<ul style="list-style-type: none"> <li>reviewing the processes and integrity of information provided in the Group's Consolidated Statement of Non-Financial Information in compliance with Law 11/2018, including information on environmental, social, employee, and human rights-related matters and receiving the external auditor's assurance report and conclusions; and</li> <li>reviewing the integrity of the reporting and data in respect of the Group's longer-term sustainability and climate-related risks and opportunities, including the Group's alignment with the provisions of the TCFD process, and the appropriate reflection of the implications of climate change in the financial statements and financial and cashflow forecasts.</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>reviewing the Group's insurance position, including general insurance arrangements and directors' and officers' liability insurance, and reporting to the Board on the adequacy and appropriateness of the cover with regards to the Group's relevant principal and emerging risks (recognising that not all risks are of an insurable nature).</li> </ul>
<b>Investor relations</b>	<ul style="list-style-type: none"> <li>reviewing management's summary and analysis of the Group's investor/analyst views regarding accounting policies, risks and disclosures to ensure that investor views are taken into account where required.</li> </ul>
<b>Governance and other matters</b>	<ul style="list-style-type: none"> <li>reviewing and recommending to the Board the adoption of amendments to relevant policies. In 2021 this included updating the related party transactions policy (incorporating changes to Spanish Law 5/2021 April 12 implementing the European Shareholder Rights Directive II) and revising the internal procedures to ensure compliance with the new requirements; and</li> <li>considering the implications of both the European Commission's consultation "Corporate reporting - improving its quality and enforcement" as well as the UK Government's proposals regarding audit and corporate governance reforms, agreeing with management's initial plans for potential implementation of relevant aspects of the proposals and reviewing and submitting our detailed response to the BEIS consultation.</li> </ul>

## **Significant financial reporting matters considered by the Audit and Compliance Committee**

The Committee takes account of significant issues and risks, including strategic, business and operating, financial, compliance and regulatory, that may materially impact the integrity and accuracy of the quarterly financial results announcements or the 2021 Annual Report and Accounts.

The Committee has also sought to ensure that the Group's reporting is aligned with the latest guidance and requirements from regulators, that it is fair, balanced and understandable and that all matters disclosed and reported upon, including the Company's response to the pandemic and its implications for the future strategy of the Group, meet the rapidly evolving needs of the Group's stakeholders.

The significant accounting judgements, estimates, accounting policies and issues considered by the Committee in relation to the Annual Report and Accounts for the

year to December 31, 2021 (including those considered as significant audit issues by the external auditor and described in the Independent Auditor's Report) are set out in the table below. After robust challenge and debate, there are no topics where the conclusion resulted in significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board.

## REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE CONTINUED

Matter	Action taken by the Committee and outcome/future actions
<b>Viability and going concern assessments</b>	<p>Throughout the year and in finalising the 2021 financial statements and Annual Report, given the ever evolving relaxation and subsequent tightening of government restrictions in relation to travel and the continuation of economic uncertainty arising from the global COVID-19 pandemic, the Committee has considered and robustly challenged management's going concern review and viability assessment, including the supporting analysis.</p> <p>The Committee considered the enhanced level of assessment and rigour applied by management reflecting the volatility in the external environment that directly impacted management's ability to forecast the recovery. This included review of critical estimation assumptions and judgements applied in relation to cash flow forecasts over the short, medium and long term, many of which are based on events outside of the Group's control such as the predictability of the pattern of government restrictions.</p> <p>Management sense-checked the assumptions underlying the Base Case projections and Downside scenarios by comparison to forecasts available from informed external commentators including IATA, analysts and other industry-wide researchers.</p> <p>The Committee provided robust challenge of the assumptions applied in management's Base Case projections (reflecting the continuing impact of the pandemic, progressive relaxation of Government travel restrictions and related recovery forecasting), the selection of the four sensitivity scenarios to be modelled to stress the business plan, the assessment of the severity and plausibility of these events occurring during the viability period and underlying assumptions and reverse stress test scenarios. The Committee also reviewed the external auditor's findings and conclusions on this matter. The Viability statement section of this Annual Report provides details of the Base Case and Downside scenarios applied in assessing the appropriateness of the Board's viability statement and application of the going concern basis of accounting.</p> <p>Following this thorough challenge, the Committee recommended the viability and going concern statements and related disclosures to the Board for inclusion in the 2021 half-year interim results announcement and the 2021 Annual Report and Accounts, including a related 'material uncertainty' statement in respect of going concern and viability and significantly expanded disclosures.</p>
<b>Impairment of non-financial assets</b>	<p>The Committee reviewed management's assessment of potential impairment of cash generating units (which hold the goodwill, intangible and tangible assets of the Group's businesses). The Committee considered the methodology applied, the critical assumptions adopted (including, for each CGU, discount rates, long-term growth rates, weighted average cost of capital and cash flow forecasts as reflected in the operating companies' forecasts consolidated in the Group's three-year Financial Plan). The impairment review, although required to be undertaken only annually unless there is a trigger of impairment, was undertaken at both the half year and year end.</p> <p>The Committee challenged both management and the auditor as to the level of prudence / optimism included in the underlying cash flow forecasts and impairment modelling assumptions. The Committee further challenged both management and the auditor as to whether the cash flow models used in the impairment modelling were consistent with those used for other critical estimates and in particular the going concern modelling. The Committee noted the impairment review was undertaken on a multi-scenario basis and that no impairment was required in either the base case scenario or when applying a weighted combination of the base case and downside scenarios. The Committee agreed that management's assessment of no impairment of CGUs was appropriate, as was the disclosure within the Financial Statements as to the assumptions and sensitivities applied in the assessment of the carrying value of the CGUs.</p> <p>The Committee also discussed management's assessment of the carrying value of specific assets including in 2021 the reversal of impairment recognised originally in 2020 as a result of aircraft being stood down and subsequently brought back into service. The Committee agreed that the reversal was appropriate resulting from the standing up of four leased Airbus A320s.</p>

Matter	Action taken by the Committee and outcome/future actions
<b>Hedge accounting</b>	The Committee considered management's discontinuation of hedge accounting for those transactions not expected to occur over the remaining course of 2021 and the associated gains/losses in the cash flow hedge reserve reclassified to the Income statement. These amounts, which are significantly less than in 2020, have arisen from the substantial deterioration in demand for air travel caused by COVID-19, which resulted in a significant level of hedged fuel purchases in US dollars and hedged passenger revenue transactions in a variety of foreign currencies to no longer be expected to occur, based on the Group's operating forecasts prevailing at the balance sheet date. The Committee agreed with management's approach to continue to derecognise hedge accounting for these transactions.
<b>Exceptional items and alternative performance measures</b>	In response to the FRC's thematic review and letter to the Chairman on alternative performance measures and exceptional items, and challenge from the Committee and external auditor, management tabled a proposed revision to the exceptional items and APM accounting policy. Management also performed analysis to facilitate the response to the FRC's letter from the Committee. Following review of the draft policy revisions, the Committee requested management to reconsider the definition of what should be classified as exceptional, considering the position of industry peers. The outcome of this assessment was subsequently reflected in the revised policy approved by the Committee. The Committee also requested a detailed analysis of items proposed by management for treatment as an exceptional item. The Committee considered all items proposed to be classified as exceptional items in the financial statements with reference to the revised policy and took into account the history of exceptional items and the views of the external auditor.
<b>Loyalty revenue recognition</b>	The Committee is satisfied that the judgements and estimates relating to loyalty revenue recognition are appropriately supported by reasonable management assumptions and those of an independent expert third party. The Committee also considered the conclusions of the external auditor, who had identified loyalty revenue recognition as a Key Audit Matter. The Committee's scrutiny included training and deep-dive risk sessions on loyalty accounting.
<b>Defined benefit pension obligations</b>	The Committee is satisfied that the judgements and estimates relating to defined benefit pension obligations reflect assumptions supported by independent experts including actuarial specialists engaged by the Group. In reaching its conclusion, the Committee also considered KPMG's audit of the defined benefit pension obligations, which they had identified as a Key Audit Matter. The Committee's scrutiny included training and deep-dive risk sessions covering British Airways' defined benefit pension obligations. The Committee observed KPMG's challenge of the Group's accounting policy for administration costs associated with the Group's defined benefit pension schemes. Whilst the Committee supported management's rationale for the original policy (as had the previous external auditor), the Committee observed good debate of the arguments put forward by both management and KPMG in Committee meetings, including discussion of the treatment of similar costs in other organisations. The debate ultimately resulted in management's proposal to change the accounting policy, including an associated prior year adjustment, which was supported by KPMG. The Committee challenged management as to whether such a change in accounting policy provided more relevant and useful information to users of the financial statements and ultimately agreed with management that the revised policy better reflects the underlying management and operation of the Group's defined benefit schemes, while remaining in compliance with IAS 19.

## REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE CONTINUED

## Other significant matters considered

Highlights of other key matters that the Committee considered are explained below.

Matter	Action taken by the Committee and outcome/future actions
<b>Fraud procedures</b>	<p>The fraud risk profile of the Group continued to develop in 2021 as working practices continued to evolve and teams adapted to the changing outlook and level of business operations.</p> <p>The Committee reviewed management's annual fraud risk assessment and noted alignment between the assessment, the assurance map, including lines of defence, and the approved internal audit plan covering key financial reporting anti-fraud controls as well as audits targeted at specific fraud risk across the Group during this period.</p> <p>In addition, the Committee reviewed the design of the internal control framework to prevent and detect fraud. This included consideration of the key controls and assurance activities taking place across the Group in relation to financial and non-financial fraud, whether from internal or external sources.</p> <p>On behalf of the Board, the Committee will continue to monitor fraud and internal controls carefully, including consideration of the views of the external auditor, the results of the annual ICFR audits and the results of a series of focused anti-fraud control internal audits.</p>
<b>Interest rate and foreign exchange hedging policy</b>	<p>The Committee reviewed management's proposals for a revised fuel hedging strategy and policy. The Group's previous risk management strategy was to build up fuel hedges gradually over a three-year period when the level of forecast fuel consumption and passenger revenues were more certain. Due to the current COVID-19 related market volatility and unpredictable nature of government restrictions, management proposed a revision to the fuel hedging strategy and supporting policy. The Committee recommended several enhancements to management's proposals, which were accepted by management and resulted in the Committee approving the current fuel price hedging strategy and policy. The revised strategy includes a reduction in the minimum percentage of hedging coverage as well as the use of alternative financial instruments to increase flexibility.</p> <p>The Committee also considered the Group's review of both the Foreign Exchange Risk and Interest Rate Risk policies. The Committee agreed with management's conclusion that no significant changes are required to either policy. Management's conclusions were supported and informed by both external advice and competitor analysis, including retrospective and forward-looking analysis, peer benchmarking and outside-in analysis by key financial institutions. In agreeing with management's conclusion, the Committee requested management closely monitor the ongoing applicability of the policies.</p>
<b>Fleet maintenance and aircraft refit</b>	<p>The Committee considered management's assessment and application of existing accounting policies. In doing so, KPMG and the Committee challenged management on the appropriateness of the accounting treatment of fleet assets, and in particular accounting for heavy maintenance events and the componentisation of such assets on acquisition. Management presented the existing accounting policies, supplemented with alternative treatments, including the retrospective impact of any change in accounting policy. The Committee further challenged KPMG on the existing accounting policies and the alternatives presented by management.</p> <p>Following discussion with management and the external auditor, the Committee agreed with management that no change in accounting policy was merited.</p>
<b>Corporate governance and audit reform</b>	<p>The Committee considered the European Commission's consultation "Corporate reporting – improving its quality and enforcement" as well as the Group's formal response to the BEIS open consultation in relation to the UK Government's white paper "Restoring trust in audit and corporate governance: proposals on reforms". The Committee and management are broadly supportive of the key objectives and ambition of the proposed reform package.</p> <p>The Committee approved the Group's formal written response to BEIS and awaits the publication of the outcome of the consultation to identify a plan to achieve compliance by the date of required implementation. The response was an opportunity to not only demonstrate support for certain proposals but also to highlight where a few aspects would create challenges, given the unique position of IAG as a Spanish holding company of a Spanish and UK listed multinational group, with a UK subsidiary that is a Public Interest Entity.</p>
<b>Non-financial information and environment</b>	<p>In conjunction with the Safety, Environment and Corporate Responsibility Committee, the Committee plays a key role in the governance of regulatory reporting requirements in respect of non-financial information, particularly those related to workforce data and climate-related risks and opportunities. The Committee focusses on the integrity of the data, effectiveness of relevant controls, and balance of the narrative supporting each data point disclosed. During 2021, management has worked towards improving the process and controls to obtain reliable workforce data and the Committee has requested an Internal Audit to be undertaken in 2022.</p> <p>In ensuring climate change and other matters related to ESG had been considered and disclosed, with supporting evidence and balance, by the Group, the Committee continued to receive regular updates in relation to the statements on non-financial information and diversity (prepared in compliance with the requirements of Law 11/2018) as well as management's demonstration of close alignment with key sustainability frameworks, including TCFD.</p> <p>The Committee considered the financial modelling regarding the Group's various climate change commitments and the resultant incorporation of the modelling assumptions into the financial reporting, and its underlying assumptions and judgements. Such consideration included review and challenge of management regarding the enhanced disclosure note regarding the impact of climate change on financial reporting. The Committee also reviewed the limited assurance report from KPMG on the Group's non-financial information, including TCFD compliance.</p>

The Committee will continue to receive regular updates on all of the above matters in 2022.

#### **Internal Control over Financial Reporting**

The Board of Directors is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board has delegated the responsibility for the development of effective controls to the Chief Executive Officer and the supervision of the effectiveness of these controls to the Audit and Compliance Committee.

The Group's ICFR monitoring and auditing covers processes applied by the Company, Aer Lingus, British Airways, IAG GBS, IAG Loyalty, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Committee reviews and validates the Group's approach to complying with the CNMV's ICFR recommendations.

In 2021, the Committee reviewed the results of the internal audits of ICFR (which included IT general controls) as well as the results of the external audit. Despite the operating conditions of 2021 and the continuation of remote working and ERTE or furlough being applied for much of the year, no material or significant weaknesses that would impact the integrity of the financial statements were identified, and management continued to improve the control environment across the Group. The Committee also tracked the progress of internal audit recommendations to address any weaknesses identified.

#### **Internal audit**

The Committee's activities during 2021 in relation to the Internal Audit function included:

- reviewing and agreeing the internal audit 2021 plan and 2022 first six months plan (including resourcing and budget to appoint appropriate external specialist resource and recruit additional permanent resource when required to ensure the function is appropriately resourced to provide the required level of assurance over the principal risks, processes and controls throughout the Group) and amendments to the 2021 plan (as the internal auditor responded to the pandemic's impact on the Group). This included ensuring the 2021 plan continued to focus on fraud risk while

also ensuring coverage of specific risks, including cyber security, and satisfying ICFR and Spanish Criminal Code requirements;

- reviewing key audit conclusions, discussing the quality and timeliness of management's responses, monitoring the resolution of issues raised and requesting additional audit review of certain weaknesses or concerns identified by internal audit, post management action to remediate;
  - holding regular meetings during the year between the Committee, the Head of Group Audit and the external audit partner as well as ensuring the Head of Group Audit feels able to raise any concerns informally and directly with the Chair of the Committee; and
  - monitoring and protecting internal audit's independence and standing within the Group, ensuring its ability to influence and engage at the most senior levels across IAG and all operating companies and functions and is closely involved in the Group's discussions on risk.
- During 2021, the Committee requested an independent effectiveness review of the Internal Audit function. This review was undertaken by Deloitte UK and concluded that Internal Audit remains a high performing function.
- The Committee is satisfied that delivery of the approved internal audit strategy and plan is providing timely and appropriate assurance on the effectiveness of controls in place to successfully and effectively manage the Group's relevant principal risks (ie those that are capable of being subjected to an audit review).
- External audit**
- The Committee engaged throughout the year with KPMG, with the engagement partners attending all Committee meetings as well as a series of ad hoc meetings. The Committee Chair met frequently with the Group and lead audit partners throughout the year to review Group developments, audit progress and their planned reporting. The Committee's key activities in relation to its interaction with KPMG included:
- review of KPMG's transition and first year audit arrangements and plan and overseeing implementation progress throughout 2021;
  - approval of the 2021 external audit plan and strategy including consideration of scope, approach and methodology (including comparison to prior external auditor approach and reasons for differences), emerging industry and Group-specific audit risks and materiality. Monitoring the audit plan's implementation, including receiving regular reports from KPMG on key judgements, audit matters and any significant weaknesses detected in the internal control environment;
  - discussion, prior to recommendation of the financial statements to the Board for approval, of the audit findings, including audit differences, and observations on internal controls, operations and resources. This included challenging the auditors on their conclusions regarding fleet maintenance and aircraft refit discussed above.
  - performing an assessment of the effectiveness and independence of KPMG, including the quality of the 2021 audit, and reviewing and approving the fees and terms of reference; and
  - reviewing and approving 2021 non-audit services expenditure against policy and previously determined limit guidance. Reviewing and approving non-audit services limit guidance and expectations for 2022.

#### **External audit scope, materiality and execution**

The Committee discussed and agreed the scope of the audit with KPMG in November, prior to the commencement of the year end audit, ensuring that the audit strategy was robust and informed by the auditor's review of the financial statements for the six months to June 30, 2021 and assessment of the Group's key risks, particularly those that are significant to the audit. KPMG explained to the Committee the key tests that they intended performing on the identified higher-risk audit areas that could lead to material misstatement of the financial statements and significantly influenced the audit plan. In addition, KPMG presented a dynamic risk assessment providing the Committee with an enhanced four-dimensional view of risk by evaluating each risk's interconnectivity and how rapidly they can materialise. The auditor and the Committee

## REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE CONTINUED

confirmed a shared understanding of these risks and key audit matters, including going concern and viability, the carrying value of tangible and intangible assets and how these were to be considered in the audit approach.

The auditor confirmed that 96 per cent (2020: 97 per cent) of the Group's revenue and 90 per cent (2020: 91 per cent) of the Group's total assets would be subject to a full scope audit and that specific scope procedures would be performed on IAG Loyalty. The Committee agreed that the approach was appropriate and should provide the Board with a high level of assurance regarding the integrity of the financial statements and subsequently approved the audit plan, recognising that the plan would evolve as the year concluded to reflect any changes in circumstances or outlook.

The Committee agreed with KPMG, in considering the accuracy of financial reporting, the scale of accounting errors of lesser significance that were to be brought to the Committee's attention and the amounts that would need to be adjusted so that the financial statements give a true and fair view. The Committee acknowledged KPMG's challenge in setting materiality given the economic and financial consequences of COVID-19 on the Group's revenues and profitability. The Committee challenged the auditor on the appropriateness of applying one measure of materiality only to the Group's income statement and balance sheet, given the carrying values of categories of assets and liabilities and the anticipated loss before tax for the year. The auditor explained the requirements of the relevant auditing standard and explained that, due to the current volatility, the default benchmark for a group like IAG does not currently provide an appropriate basis for setting materiality. Consequently, the Committee was satisfied with the method used by the auditor to determine materiality and the consequential level of materiality applied during the audit.

#### **External auditor quality and effectiveness**

The Committee is very focused on audit quality and effectiveness, which is reviewed on an ongoing basis to ensure the rigour and challenge of the external audit process is maintained. As 2021 is KPMG's first year as IAG's external auditor, the Committee received an update from KPMG at all Committee meetings, enabling

the Committee to assess and measure the quality of the audit through regularly monitoring the auditor's communications with management and the Committee, compliance with relevant regulatory, ethical and professional guidance and assess, on an ongoing basis, the audit team's qualifications, expertise, resources, partner performance and the effectiveness of the audit process. The Committee's assessment included, in addition to its own independent assessment, a survey as well as detailed discussion with key executives and finance staff, which demonstrated that, while the 2021 external audit was deemed to be effective and of good quality, there were some areas identified for improvement and this has been reported to the Lead Engagement Partner. The Committee's independent assessment considered the overall quality of the audit, including the independence of KPMG and whether the auditor exhibited an appropriate level of challenge and scepticism in their work and dealings with management. However, the Committee also acknowledged management's identified areas for improvement, which KPMG has agreed to action during 2022.

In particular, the Committee assessed the depth of review and level of challenge provided by the external auditor over the significant accounting policies, judgements and estimates made by management. An example of where the Committee observed the external auditor demonstrate both professional scepticism and a challenge of management was in relation to the treatment of administration costs associated with the Group's defined benefit pension schemes. The observations and conclusion of the Committee in respect of this matter are noted in this report above.

In addition to the annual evaluation and regular review of reports to the Committee and the working practices of the KPMG audit team, the Committee undertook an ongoing assessment of external audit quality and effectiveness including, but not limited to, the following:

- the Committee oversaw formal terms of engagement with the auditor and agreed the audit fee. KPMG assured the Committee that despite a significant increase compared to the 2020 fee, the approved 2021 fee was at a level that was appropriate for the scope of the audit, to enable a quality audit to be undertaken and to allow for additional

procedures in relation to the ongoing impact of the COVID-19 pandemic, as well as the impact of UK audit reform.

- reports from the external auditor were reviewed during all scheduled Committee meetings in 2021 and again in January and February 2022 Committee meetings, covering: the conclusions of the review of the Group's results for the half year, audit planning and transition updates, interim audit findings (including those of the review of the relevant key IT general controls), progress update for year end matters, and final report for year end matters.
- KPMG attended all Committee meetings during the year, including ad hoc meetings, to answer any questions the Committee had outside of these formal updates.
- Taking all aspects of the assessment throughout the year into consideration, the Committee concluded that it is satisfied that, despite it being the first year, the KPMG audit was probing, challenging and robust and the approach provided a reliable audit opinion with a reasonable expectation of detecting material errors, irregularities and material fraud. The Committee considered the external audit to have been effective and of a high quality.

#### **External audit tender and transition**

To comply with the Spanish Act 22/2015, the Committee conducted an audit tender process that concluded in January 2020. Since KPMG's appointment as the auditor of the Company for the years 2021, 2022 and 2023, the Committee has reviewed and monitored the implementation of KPMG's transition and audit plans as well as the execution of these plans throughout 2021. The Committee will be required to consider and approve the reappointment of KPMG annually from 2024.

### **External auditor non-audit services and independence**

Non-audit services provided by the external auditor are subject to a Board-approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Company complies voluntarily with the revised UK standards in relation to non-audit services and the Committee concluded that KPMG is independent.

The Committee reviews the nature and volume of projects undertaken by the external auditor on a quarterly basis and all projects are either pre-approved in line with the list of permitted services in the FRC's Revised Ethical Standard 2019 or approved by the Committee Chair for projects over €100,000 or of an unusual nature and then retrospectively approved by the Committee. The overall volume of work is addressed by a target annual maximum of €1.7 million with an additional allowance of up to €1.3 million for large projects where the external auditor is uniquely placed to carry out the work.

Spend in 2021 is within the total target maximum and was €423,000 with an additional €776,000 relating to preparatory work performed on an aborted corporate finance transaction that would have been required under the regulations and most effectively performed by the statutory auditor. Details of the fees paid to the external auditor during the year can be found in note 7 to the Group financial statements.

# Report of the Remuneration Committee



**Alberto Terol**  
Remuneration Committee Chair

Committee members	Date appointed
Alberto Terol (Chair)	December 31, 2020
Nicola Shaw	January 1, 2018
Emilio Saracho	June 20, 2019
Heather Ann McSharry	December 31, 2020
Eva Castillo	December 31, 2020

## Dear Shareholder

On behalf of the Board, I am pleased to present our 2021 Directors' Remuneration Report, my second as chair of the Committee. This report includes both our current Directors' Remuneration Policy, as approved by Shareholders at the 2021 Annual Shareholders' Meeting, and our 2021 Annual Report on Remuneration, detailing how our policy was implemented during 2021. I will also present our proposed policy amendment to the Restricted Share Plan (RSP) for the IAG CEO, which is detailed later in the report.

As set out in more detail elsewhere in this report, COVID-19's continued impact in 2021 has been both more severe and more prolonged in our sector than others. However, the strength, stability and resilience of the IAG platform and focus of our reorganised Management Committee have enabled us to face into this protracted headwind, make improvements

to the business and prepare for growth. This work has positioned the Group to take full advantage of the recovery that we are now beginning to experience in early 2022. We believe that our new Directors' Remuneration Policy, strengthened by the proposed amendment to the IAG CEO RSP opportunity, will support the strategic priorities of the Company as we respond to the unique challenges faced by the airline industry. It will provide the Committee with the necessary flexibility to motivate and retain our key talent at a time when other markets are further progressed in their recoveries. I would like to thank shareholders on behalf of the Committee for supporting us in the transition to this framework.

### Performance delivered in 2021

The proficient stewardship of the Group in 2021 both optimised preparations and opportunities for our recovery and ensured progress continued to be made against our strategy and the creation of long-term,

sustainable value for our shareholders. In particular, the Group was effective in raising and maintaining cash liquidity through banks and public markets and positive levered free cash flows were achieved in 2021 as a result of improved operating cash flows and successful debt capital raising.

The establishment of the new Manchester base for Aer Lingus, Paris-Orly expansion for Vueling, strengthening of IAG Loyalty and relaunch of the BA Gatwick shorthaul network from summer 2022 (with flight sales having begun in December 2021) all showed significant progress against our long-term strategic initiatives, despite the challenges presented by the pandemic.

Similarly, the Group's climate change commitments continued to lead the global aviation sector towards net zero emissions by 2050, evidenced by IAG being the first European airline to commit to 10% sustainable aviation fuel by 2030, alongside multiple other environmental projects and innovations.

### 2021 shareholder consultation and support for new policy

In my report last year, I described how we held a number of highly productive meetings with major shareholders to better understand their expectations on evolving Remuneration Policy design and implementation.

This feedback directly informed the design of our new Policy for 2021 and I was pleased that this collaboration was evident in the strong levels of support received for the new policy at the Annual Shareholders' Meeting in June 2021. I was also pleased to see a strong level of support for the 2020 Annual Report on Directors' Remuneration.

Against the backdrop of the biggest crisis the aviation industry has ever faced, the new Policy proposed a change in remuneration components from the 2018 policy's Performance Share Plan (PSP) to Restricted Shares (RSP) awarded under the Executive Share Plan (ESP) approved in June 2021. The strong level of support received from shareholders for this change enables us to improve simplicity and transparency, as well as strengthen the alignment of interests between our senior leaders and our shareholders. The RSP improves our ability to attract, motivate and retain our Management Committee and other key roles in what is an increasingly competitive market for talent.

### **Principal changes from the previous policy:**

Change to policy	Summary of the change
Long-term incentive	Replacement of the existing Performance Share Plan (PSP) with a Restricted Share Plan (RSP).
Pension contributions	Upon appointment, the pension contribution for the new CEO of IAG was revised down to 12.5% of salary, comparable to the rate applicable to the majority of the UK workforce. In the Remuneration Policy, the Company has formalised the arrangement that pension contributions for executive directors will be aligned with the wider workforce.
Post-cessation shareholding requirements	Introduction of a post-cessation shareholding requirement for executive directors, in line with best practice.
Malus and clawback	Extended the malus and clawback trigger events to include payments based on erroneous or misleading data, serious reputational damage and corporate failure to align with guidance.
Discretion	Additional wording to align to the UK Corporate Governance Code and allow discretion to adjust formulaic outcomes to reflect corporate performance.
Addressing significant falls in share price under long-term incentives	Additional wording to address windfall gains that may occur for long-term incentives.

Following shareholder feedback, we have given greater reassurance that any RSP value delivered will be fair and appropriate in the context of sustainable business performance and the experience of our stakeholders.

It is the Committee's view that these changes have both strengthened the link between remuneration outcomes and delivery of our strategy, and also aligned our remuneration framework with best practice and the 2018 UK Corporate Governance Code. I would like to take this opportunity to thank shareholders for their contribution towards, and support for, these changes in 2021.

#### **Response to COVID-19 during 2021 and remuneration impacts**

At the end of 2020, the decision was taken to continue temporary salary and fee reductions into 2021 at a rate of 10 per cent for the IAG CEO and non-executive directors. Prior to this, the IAG CEO and non-executive directors had taken 20 per cent salary and fee reductions from the beginning of April 2020. The ongoing reduction in fixed pay maintained alignment of interests with the Group's stakeholders.

These lowered salary and fee levels were maintained for executives for the full year, extending beyond the UK Government's Coronavirus Job Retention Scheme, which ceased at September 2021.

#### **Awards made in 2021**

Following the Board's approval of the decision to cancel the 2020 annual incentive plan, no cash or share-based

annual incentive plan awards were made to directors or managers in 2021.

Following shareholder approval of the Executive Share Plan in June 2021, a number of deferred, conditional long-term share awards were made to selected members of the Group's senior management, whose skills and contribution are critical to the delivery of IAG's long-term strategy.

As part of these awards, the IAG CEO received an RSP grant under the Executive Share Plan, consistent with the terms of the new Directors' Remuneration Policy. This award will vest in 2024, contingent on the satisfaction of the performance underpin, following which a two-year holding period will apply.

#### **Summary of 2021 outcomes and senior leadership performance**

The choice of performance measures for the 2021 annual incentive plan reflected the priorities for the Group during the uncertain and changing pandemic environment, namely, the need to protect capital, continue to provide an exceptional customer experience and ensure the Group's management delivered their functional objectives.

The significant volatility and overall reduction in flying schedules, as well as the unpredictability of passenger load factors experienced in 2021, made the implementation of a planned carbon efficiency measure impractical. Senior managers continued to focus on the delivery of the Group's low-carbon transition pathway as part of individual and functional objectives.

The uncertain and changing outlook for 2021, also made it appropriate to set and review targets at six-monthly intervals. This ensured the Group's senior leadership remained focused on the right priorities in light of changing government policies and commercial conditions.

Throughout the ongoing challenges of 2021, the Group's senior leadership demonstrated their ability to respond to changing priorities and deliver strong underlying improvements in the areas where outcomes remained within senior leaders' ability to influence.

This effective management of significant short-term challenges alongside the preparation of the business for the return to flying, has set the foundations for success in 2022 and the longer term.

#### **Variable pay outturns for the IAG CEO in 2021**

Prior to Committee's review of the 2021 Annual Incentive Plan performance measures, the IAG CEO confirmed to the Board that he did not wish to be considered for a 2021 annual incentive award. In explaining his reasons for this, the IAG CEO has reflected on the experience of all the Group's stakeholders during 2021 due to the protracted nature of the pandemic and has sought to ensure his experience is aligned with theirs in a genuinely meaningful way. His decision demonstrates both personal integrity and a long-term commitment to the Group and its stakeholders. This request has been accepted by the Board, mindful of considerations in relation to our key stakeholders, who express their thanks to the IAG CEO for his enormous personal

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

contribution and critical stewardship of the Group in 2021.

This will therefore be the second year in succession that the IAG CEO will not receive an annual incentive award.

Additionally, the 2019 PSP award reached the end of its three-year performance period in December 2021. As a result of the pandemic, all three measures (relative TSR, EPS, and RoIC) fell short of the threshold level at which shares are paid out, resulting in a zero vesting outturn for the IAG CEO.

Neither short- or long-term awards were therefore realised by the IAG CEO in respect of 2021.

### Implementation of the Policy in 2022

With positive signs of recovery now visible in the external market and reductions to all directors' salaries, pension contributions and fees having been in place continuously for 20 months, it was agreed to reinstate full director fixed pay from January 1, 2022. It should be noted that this is the first point at which the full contractual CEO salary of £820,000 per annum, approved for implementation at September 2020, has been paid to the IAG CEO. For non-executive directors, full fees were restored from January 1, 2022.

With the return of more normalised flying schedules and passenger volumes expected in 2022, it was agreed to reintroduce a carbon efficiency annual incentive measure for 2022. The metric used to assess this measure will be grammes of CO<sub>2</sub> per passenger kilometre, an unchanged basis from 2020.

Our objective of continuing to build aligned interests between IAG senior leaders and the Group's shareholders will be supported in 2022 by the second year of RSP grants. However, to ensure the Group is able to offer the IAG CEO a fair and proportionate long-term incentive opportunity, reflective of the complexity of the Group, its strategy, and one that adequately recognises ongoing external challenges, a proposal to amend the IAG CEO's maximum annual RSP opportunity will be presented at the 2022 Annual Shareholder's meeting. I have already engaged with a number of our largest shareholders regarding this change and the reasons for it. This resolution will propose an increase in RSP opportunity from 100 per cent of salary to 150 per cent of salary.

The Committee believes a change to a more commensurate IAG CEO RSP opportunity is essential in light of the growing opportunities for talent in the external market. In the Committee's view, the CEO's existing arrangements are becoming increasingly uncompetitive compared to companies both inside and outside of the aviation industry. The Group competes for talent in a global market and recent evidence suggests that the rate of executive pay growth in mainland Europe

and US has been faster than the UK with the opportunity gap to US packages being a particular retention concern.

Since the start of the pandemic the Group has lost a number of critical senior individuals to competitors in other sectors. Also, over the past year, the Group's own executive recruitment experience has confirmed the rising market for executive pay, reducing the relative positioning of the IAG CEO's total compensation compared to that of his executive team and increasing the compression in pay levels within the executive team. These factors highlight the challenges we face in retaining our top talent essential to the Group's transformation, as well as the important role that fair and competitive remuneration play in this.

We do not feel that it would be in IAG or our shareholders' best interests to compromise our ability to retain the current IAG CEO. The current environment amplifies the need for the IAG CEO's skills, capabilities and deep aviation experience. We therefore have the strong view that it is in IAG and our shareholders' best interests to change the RSP opportunity and place more emphasis in the CEO's remuneration package on sustained long-term performance.

As part of its overall review of the IAG CEO's package, the Committee has decided to defer the annual review of the IAG CEO's salary to the second half of 2022 to better understand the Group's recovery from the pandemic. Whilst the proposed increase to the IAG CEO's RSP opportunity will increase competitiveness of the overall remuneration package and is therefore a step in the right direction, the Committee is acutely aware of the importance of ensuring that the salary level is also competitive in the context of a dynamic talent market in the geographies in which the Group operates and competes for talent.

### Strategy and link to remuneration

IAG was formed to create a new, disruptive industry model based around consolidation, strategic flexibility and financial performance. Our role in the world is to connect people, businesses and countries. We do this and create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society, knowing that success in each reinforces the others. We hold ambition, teamwork, innovation, pragmatism, efficiency and responsibility as key values that enable us to fulfil our purpose. The flexibility in our framework allows us to be agile and respond quickly to changing operating environments.

The Committee's main objective in the implementation of the Directors' Remuneration Policy is to drive the behaviours that support the delivery of our strategy and business objectives. Through

this overarching principle, we embed our pay for performance approach, ensuring both our short- and long-term incentive plans only pay out if sustainable progress and value is delivered to our shareholders. With the proposed amendment, our policy will continue to contain the necessary flexibility and discretion to adapt to commercial and market circumstances, as well as recoup incentives where any performance is subsequently understood to be unfounded. In this way we drive the right culture and maintain alignment of interests between our senior management and our shareholders, which is also reinforced by our minimum shareholding requirements that continue to apply for two years post-employment for executive directors.

Understanding and balancing the interests of all stakeholders in executive pay decisions ensures outcomes are objective, fair and proportionate. The simplification of our remuneration framework and the focus on long-term performance, supports the Group's management to continue to deliver our strategy and sustainable shareholder returns.

### Looking ahead

The Committee believes that the 2021 Policy, supported by the amendment to the current IAG CEO RSP opportunity, will better underpin delivery against multi-year objectives and will further the alignment between our strategy and executive pay decisions.

On behalf of the Committee, I would like to thank shareholders for their engagement and support over the past year and request that this continues into 2022 as we seek to make an important change to the Policy this year.

I hope that our Remuneration Report is clear in explaining how the new Policy has been implemented in 2021 and that it receives your support at our 2022 Shareholders' Meeting.

Approved by the Board and signed on its behalf by

**Alberto Terol**

Remuneration Committee Chairman

## Alignment of IAG remuneration practices to Provision 40 of the UK Corporate Governance Code

### UK Corporate Governance Code – Provision 40

	How we have achieved alignment
<b>Clarity</b>	Changes to the Policy in 2021 were designed to improve both simplicity and transparency. Revisions in the areas of pensions, minimum shareholding and long-term incentive either simplified existing structures, such as the replacement of PSP with RSP, or introduced straightforward rules for new items, such as the post-employment shareholding requirement. This has improved the ability of participants, employees and shareholders to understand executive pay arrangements. Additionally, the Company continues to make more remuneration analysis and information available to both employees and shareholders, via both UK and Spanish disclosures.
<b>Simplicity</b>	
<b>Risk</b>	Our corporate governance structure provides for a cross-over in board committee membership between the Remuneration Committee and the Audit and Compliance Committee. This ensures a joined-up view between emerging or crystallised risks and remuneration outcomes. The design of our policy also ensures independent control over remuneration outcomes, with all executive variable pay being awarded on a discretionary basis and subject to malus and clawback provisions.
<b>Predictability</b>	Our Policy identifies the maximum opportunity for each component of executive remuneration and also illustrates potential total remuneration outcomes in various performance scenarios. These disclosures provide transparency around overall opportunities.
<b>Proportionality</b>	Our executive remuneration performance measures, targets, underpins are transparently disclosed where awards are made, detailing the relationship between the performance achieved and the delivery of our long-term strategy and the creation of sustainable shareholder value. The transparency of this approach, alongside the independent nature of executive remuneration decisions, supports proportionate remuneration outcomes relative to company and individual performance measures, as well as the wider performance environment.
<b>Alignment to culture</b>	The selection and balance of financial and non-financial measures for both short- and long-term incentives is designed to reinforce the values and behaviours that support the delivery of long-term sustainable returns to shareholders. In particular, the new RSP, and high overall proportion of deferred executive pay, enable a focus on transformation and long-term success.

## Introduction

The Remuneration Committee takes responsibility for the preparation of the Report of the Remuneration Committee, which is approved by the Board.

The Company's current policy on directors' remuneration was approved by shareholders at the Shareholders' Meeting on June 17, 2021 following close consultation with major shareholders.

As a Spanish incorporated company, IAG is subject to Spanish corporate law. The Spanish legal regime regarding directors' remuneration is substantially parallel to that of the UK as far as directors' remuneration disclosure and approval requirements are concerned.

The Company welcomes the opportunity provided by the Spanish CNMV allowing companies to prepare free-format reports. Therefore, for the fourth consecutive year, IAG is presenting a consolidated report responding to Spanish and UK disclosure requirements. This report will be accompanied by a duly completed form which is required by the CNMV covering some relevant data. This is prepared in accordance with Spanish legislation and is available on the Company's and the CNMV's respective websites.

It is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2018, The Companies (Miscellaneous Reporting) Regulations (SI 2018/860) and The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and to follow best practice UK standards.

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains the Annual Report on Remuneration, which covers the information on directors' remuneration paid in the reported year.

## Directors' Remuneration Policy

### Key elements of pay

#### Executive directors

The Company's remuneration approach is to provide total remuneration outcomes that reflect the delivery of the business strategy, are competitive, and take into account each individual's performance of their role in the Company's work.

The Committee receives regular updates on pay and conditions of the Group's employees and takes this into account when considering executive directors' remuneration.

### The current Directors' Remuneration Policy

The current Directors' Remuneration Policy was approved at the Shareholders' Meeting on June 17, 2021 and reflects recent regulatory and corporate governance framework changes. We are proposing to make an amendment to the current Directors' Remuneration Policy in respect of the restricted share award opportunity for the IAG CEO, which will be put forward for shareholder approval at the 2022 Annual Shareholders' Meeting. The policy (including the amendment) can be found later in this report.

The Committee maintains an ongoing evaluation of the policy to ensure its components, opportunities and implementation outcomes continue to achieve the Policy's objectives.

## Service contracts and exit payments policy

### Executive directors

The following is a description of the key terms of the service contracts of executive directors.

The contracts of executive directors are for an indefinite period.

There are no express provisions in executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice.

Executive director	Date of contract	Notice period
Luis Gallego	September 8, 2020	6 months - from/12 months - given

The period of notice required from the executive is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first six months' base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second six-month period only becomes payable if, in the Company's opinion, the executive has taken reasonable steps to find alternative paid work and then only in six one-monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive (including salary and benefits) referable to work done in that month.

In the event of an executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office is capped at an amount equal to 12 months' base salary. The Company will honour the contractual entitlements of a terminated director; however, the Company may terminate an executive's service contract with immediate effect and without compensation on a number of grounds including where the executive is incapacitated for 130 days in any 12-month period, becomes bankrupt, fails to perform his or her duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his or her duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a director, refuses to agree to the transfer of his or her service contract where there is a transfer of the business in which he or she is working or ceases to be eligible to work in Spain or the UK (as applicable).

Under any of the Company's share plans, save in respect of deferred annual incentive awards (which will normally vest in full following cessation for any reason), if a director leaves, the Board, after considering the recommendation of the Remuneration Committee, may exercise its discretion (within the rules of the schemes) to grant Good Leaver status. This can be granted in certain circumstances including for example (list not exhaustive) the director leaving for reasons of ill health, injury or disability, redundancy, retirement or death. Executive directors leaving with good leaver status will receive a pro rata amount of their PSP shares subject to the company performance conditions being met, and a pro rata amount of their RSP shares, subject to the underpin being met, in accordance with the plan rules. The proration is normally calculated according to what proportion of the performance period the executive director spent in company service. Normal vesting dates, holding periods, and post-ceSSION shareholding guidelines will normally continue to apply, other than in a limited number of exceptional circumstances in accordance with plan rules and/or at the discretion of the Board. If good leaver status is not granted to an executive director, all outstanding awards made to them will lapse.

Executive directors leaving with good leaver status are eligible to receive a pro rata annual incentive payment for the period of the year actually worked, subject to the regular performance assessment and paid in the normal manner following year end.

In the event of an executive director's termination from the Company, they must not be employed by, or provide services to, a restricted business (i.e. an airline or travel business that competes with the Company) for a period of 12 months.

### Non-executive directors

Non-executive directors (including the Chairman) do not have service contracts. Their appointment is subject to the Board regulations and the Company's Bylaws. They do not have the right to any compensation in the event of termination as directors. Board members shall hold office for a period of one year. The dates of the current Chairman's and non-executive directors' appointments are as follows:

Non-executive director	Date of the first appointment	Date of last re-election
Javier Ferrán	June 20, 2019	June 17, 2021
Alberto Terol	June 20, 2013	June 17, 2021
Giles Agutter	September 8, 2020	June 17, 2021
Peggy Bruzelius <sup>1</sup>	December 31, 2020	June 17, 2021
Eva Castillo <sup>1</sup>	December 31, 2020	June 17, 2021
Margaret Ewing	June 20, 2019	June 17, 2021
Heather Ann McSharry <sup>1</sup>	December 31, 2020	June 17, 2021
Maurice Lam	June 17, 2021	-
Robin Phillips	September 8, 2020	June 17, 2021
Emilio Saracho	June 16, 2016	June 17, 2021
Nicola Shaw	January 1, 2018	June 17, 2021

<sup>1</sup> Ratification of the appointment by co-option and re-election at June 17, 2021.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Annual Remuneration Report**

The Annual Remuneration Report sets out how the Directors' Remuneration Policy (as approved by shareholders at the Shareholders' Meeting on June 17, 2021) was and will be implemented in 2021 and 2022, respectively.

**The Committee's activities during the year**

In 2021, the Committee met ten times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	2020 Directors' Remuneration Report and Non-Financial Information Statements Share ownership update: Review of executive holdings, share awards authority and dilution limits Management Committee pay benchmarking review Approval of remuneration for a new Management Committee member Update on the Remuneration Policy proposal
February	Approval of 2020 Directors' Remuneration Report 2021 Directors' Remuneration Policy development update Vesting outcome of the Performance Share Plan (PSP) 2018 award Capital increase impact on in-flight long-term incentives Approval of remuneration for new Management Committee members
March	Approval of the 2021 Annual Incentive Plan
May	2021 Directors' Remuneration Policy - final proposal 2021 Annual Incentive Plan update Executive Share Plan (ESP) proposal and associated rules Authorisation for the allotment of shares for IAG share plans
June	Approval of grants under ESP following shareholder approval
July	Review of non-executive director fee taxation
September	2021 Annual Incentive Plan measures and performance update
October	Approval of remuneration for a new Management Committee member
November	2021 Annual Incentive Plan measures and performance update Market update presented by external provider 2019 and 2020 PSP outturn forecast
December	IAG executive directors' Remuneration Policy consultation Approval of buy-out share awards to be granted under the ESP rules and delegation of authority

## **Subject to audit**

### **Single total figure of remuneration for the Executive Director**

The table below sets out the single total figure of remuneration breakdown for the IAG CEO, who was the only executive director during 2021. An explanation of how the figures are calculated follows the table.

Director ('000)	Salary		Benefits		Pension		Total Fixed		Annual incentive		Long-term incentive		Total Variable		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Luis Gallego (GBP) <sup>1,2,3,4</sup>	<b>738</b>	206	<b>280</b>	69	<b>92</b>	26	<b>1,110</b>	301	<b>0</b>	-	<b>0</b>	-	<b>0</b>	-	<b>1,110</b>	301
Luis Gallego (€) <sup>2,3,4</sup>	<b>855</b>	232	<b>324</b>	78	<b>107</b>	29	<b>1,286</b>	339	<b>0</b>	-	<b>0</b>	-	<b>0</b>	-	<b>1,286</b>	339

1 Remuneration is paid to the Executive Director in sterling and expressed in euro for information purposes only.

2 2020 values only reflect Luis Gallego's period of service as an executive director from September 8, 2020 to December 31, 2020. The full IAG CEO single figure history is shown later in this report.

3 2020 and 2021 benefits totals include a fixed series of relocation payments to support Luis Gallego's move to the UK in summer 2020. The majority of payments were made in 2020, with payments ceasing at February 2021.

4 Personal tax return benefit is included as a new taxable benefit in 2021. Also from 2021, the Executive Director is eligible for a transitional allowance of £250,000 p.a. (gross), in view of the additional costs associated with living in the UK whilst personally maintaining a base in Madrid, given the Company's significant presence in Spain. This is included in the 2021 benefits value and accounts for £250,000 of the overall value (further details in Taxable benefits section below).

### **Additional explanations in respect of the single total figure table for 2021**

Only the current IAG CEO, Luis Gallego, served as an executive director in 2021. As the sole executive director, the IAG CEO has confirmed in writing that he has not received any other items in the nature of remuneration other than those already disclosed in the table above.

#### **Base salary**

The values shown represent the actual salary paid to the IAG CEO as an executive director for each performance year. For 2020, the significantly reduced values reflect two considerations. Firstly, salary is only reported from appointment as an executive director on September 8, 2020. Secondly, the salary value reflects that a COVID-related reduction of 20 per cent of base salary operated for all directors during 2020. In contrast, for 2021, the IAG CEO served the full performance year as an executive director and the level of COVID-related salary reduction was decreased from 20 per cent to 10 per cent. The IAG CEO's contractual salary was £820,000 on appointment.

#### **Taxable benefits**

Taxable benefits include the provision of a company car, a fuel allowance and private health insurances.

The Executive Director received payments relating to his relocation from Spain in 2020. These relocation payments terminated in February 2021.

From January 2021 the Executive Director became eligible for a transitional allowance to reflect that as a result of his role as IAG CEO he and his family now live in the UK. This allowance provides a two-year fixed period of transitional support and considers that the IAG CEO continues to personally maintain a base in Madrid given the Company's significant operations and business in Spain. The value of the transitional allowance is not included in the calculation of any pension, incentive or other benefit values. Payment of the transitional allowance will terminate in December 2022.

#### **Pension-related benefits**

Employer's contribution to pension scheme and/or cash in lieu of pension contribution.

#### **Annual incentive plan**

The IAG CEO confirmed to the Board that he did not wish to be considered for a 2021 annual incentive award, waiving any 2021 incentive opportunity. The single total figure of remuneration therefore shows that no annual incentives have been awarded to the IAG CEO either for 2020 or 2021.

#### **Long-term incentive vesting**

This relates to the IAG PSP 2019 award based on performance measured to December 31, 2021. The outcomes of the performance conditions resulted in zero vesting for the IAG CEO and are described in detail later in this report.

#### **Share price appreciation and depreciation**

The amount of remuneration attributable to share price appreciation is zero, as there was zero vesting of the IAG PSP 2019 award. The Committee has not exercised any discretion as a result of share price appreciation or depreciation for any of the remuneration in the above table.

#### **Life insurance**

The Company provides life insurance and accidental death cover for all executive directors. For the year ended December 31, 2021 the Company paid life insurance premium contributions of €13,464 (2020: €15,366).

#### **Exchange rate for 2021**

For the year to December 31, 2021, €:£ exchange rate applied is 1.1587 (2020: 1.1273).

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Variable pay outcomes****2021 Annual Incentive Plan**

The IAG Annual Incentive Plan supports the business strategy through incentivising the delivery of identified priorities within the reporting period. The composition of measures selected reflect the most important priorities for Group for the year to deliver long-term sustainable returns. For 2021, in view of the ongoing restrictions to flying, the identified priorities were to focus on protecting capital, improving operating efficiencies, reducing costs, continuing to offer our customers an outstanding experience, whilst exploring and taking advantage of the new opportunities that would present themselves with the return to flying. The planned reintroduction of a carbon efficiency measure in 2021 was deferred until 2022, owing to the significantly reduced flying schedule and passenger volumes expected during the reporting period.

The 2021 performance year was split into two halves, reflecting the highly uncertain and changing external environment and enabling appropriate measures to be adopted for the anticipated change in commercial conditions expected with recovery.

The 2021 Annual incentive plan structure for the IAG CEO was as follows:

- **Financial measures - (60%)**
- **Customer – Net Promoter Score (20%)**
- **Strategic and personal (20%)**

Strategic and personal objectives focussed on:

**Effectively navigating the pandemic:** Responding to changing external factors and ensuring IAG is operational ready to take advantage of opportunities as market restrictions ease.

**Lead sustainable aviation:** Driving IAG's sustainability strategy and progressing towards ambitious carbon targets and building industry momentum towards a net zero world.

**Set strategy and plans to maximise long term value for IAG:** Oversee business transformations at the operating companies to ensure IAG emerges more efficiently from the crisis, and further develop the capability, culture, diversity and talent to underpin Group strategy and transformation plans.

Under the policy, the IAG CEO has a maximum annual incentive opportunity of 200 per cent of contractual salary.

**Decision by IAG CEO not to be considered for 2021 annual incentive**

Prior to the Committee's review of the full year 2021 Annual Incentive Plan measures, the IAG CEO advised the Board that he did not wish to be considered for a 2021 Annual Incentive Plan award. This request reflected a desire to maintain a personal alignment of interests with all the Group's stakeholders, many of whom continued to be negatively impacted by the ongoing pandemic in 2021.

The Board has accepted the IAG's CEO's request and expresses its gratitude to him for his long-term commitment to the Group. The Board also recognises that this is the second year for which no annual incentive or long-term incentive has been realised by the IAG CEO. These being in addition to reductions to his fixed pay over the same performance period.

Irrespective of any decision regarding a financial outcome to the IAG CEO, the Board have evaluated the IAG CEO's performance in 2021 as being 'Exceptional' in managing the pandemic, driving the transformation of the Group and in leading sustainable aviation. This performance assessment is set against the context of an extremely uncertain and challenging external environment.

### IAG PSP award 2019

The IAG PSP award granted on March 8, 2019 was tested at the end of the performance period which began on January 1, 2019 and ended on December 31, 2021. The award for the current IAG CEO, who was not an executive director of the Group at the time of grant, was equivalent to 150 per cent of salary at the time of the award.

One third of the award was subject to a TSR performance condition measured against the TSR performance of the MSCI European Transportation (large and mid-cap) index, one third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one third subject to RoIC. The definition of RoIC used remains consistent with the methodology described in the Company's 2017 Annual Report and Accounts. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year performance period.

The outcomes of the performance conditions were as follows:

Measure	Threshold	Target	Maximum	Outcome	Vesting (as per cent award granted in 2019)
TSR performance compared to the TSR performance of the MSCI European Transportation Index (large and mid-cap) over the full three-year performance period (one-third weighting)	IAG's TSR performance equal to the index (25 per cent vests)	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight line vesting between threshold and maximum)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent vests)	TSR achieved: -56.75 per cent Underperformed the index by per cent 131.44 per cent	0 per cent
Adjusted EPS. Measure is adjusted EPS in final year of the performance period, i.e. 2021 EPS (one-third weighting)	2021 EPS of 150 €cents (10 per cent vests)	2021 EPS between 150 €cents and 190 €cents (straight line vesting between threshold and maximum)	2021 EPS of 190 €cents (100 per cent vests)	-59.1 €cents per share	0 per cent
RoIC. Measure is RoIC in final year of the performance period, i.e. 2021 RoIC (one-third weighting)	2021 RoIC of 14 per cent (10 per cent vests)	2021 RoIC between 14 per cent and 16 per cent (straight line vesting between threshold and maximum)	2021 RoIC of 16 per cent (100 per cent vests)	-16.4 per cent	0 per cent
Details of any discretion exercised	No discretion exercised by the Remuneration Committee/Board				
Overall outcome for executive director (IAG CEO)					

No value was realised by the IAG CEO following the nil vesting of the 2019 PSP award.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**IAG PSP award 2018 (vested at December 31, 2020)**

The outcome of the previous year's PSP vesting outcome (2018 PSP) is included for reference. This award was granted on May 10, 2018 and was tested at the end of the performance period which began on January 1, 2018 and ended on December 31, 2020. The plan participants who were serving executive directors during the year of vesting (2020), were Willie Walsh, who was Chief Executive Officer of IAG at the time of award and received a grant equivalent to 200 per cent of salary and Enrique Dupuy de Lôme, who was Chief Financial Officer of IAG at the time of the award and received a grant equivalent to 150 per cent of salary. Luis Gallego and Steve Gunning, who were not executive directors at the time of the award in 2018, received awards of 150 per cent and 120 per cent of salary respectively.

One third of the award was subject to a TSR performance condition measured against the TSR performance of the MSCI European Transportation (large and mid-cap) index, one third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one third subject to RoIC. The definition of RoIC used was the methodology as described in the Company's 2017 Annual Report and Accounts. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcomes of the performance conditions were as follows:

Measure	Threshold	Target	Maximum	Outcome	Vesting (as per cent award granted in 2018)
TSR performance compared to the TSR performance of the MSCI European Transportation Index (large and mid-cap) over the full three-year performance period (one-third weighting)	IAG's TSR performance equal to the index (25 per cent vests)	IAG's TSR performance between index return and 8 per cent p.a. (straight-line vesting between threshold and maximum)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent vests)	Underperformed the index by 20.7 per cent	0 per cent
Adjusted earnings per share (EPS) measured in final year of the performance period (one-third weighting)	2020 EPS of 130 €cents (10 per cent vests)	2020 EPS between 130 €cents and 170 €cents (straight-line vesting between threshold and maximum)	2020 EPS of 170 €cents (100 per cent vests)	-122.6 €cents	0 per cent
Return on Invested Capital (RoIC) measured in final year of the performance period (one-third weighting)	2020 RoIC of 13 per cent (10 per cent vests)	2020 RoIC between 12 per cent and 16 per cent (straight-line vesting between threshold and maximum)	2020 RoIC of 16 per cent (100 per cent vests)	-22.4 per cent	0 per cent
Details of any discretion exercised	No discretion exercised by the Remuneration Committee/Board				
Overall outcome for executive directors					

No value was realised by any executive director following the nil vesting of the 2018 PSP award.

**Subject to audit****Scheme interests awarded during the financial year****2021 Restricted Share Plan (RSP)**

During 2021, the Group revised its approach to long-term incentives, replacing the existing Performance Share Plan (PSP) with a Restricted Share Plan under the new Executive Share Plan, approved by shareholders in June 2021.

The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Company. The simplified structure and transparency of the RSP in comparison to the Performance Share Plan, also provided a better basis to attract and retain senior management talent.

A three-year vesting period and further two-year holding period applies to RSP awards for executive directors, with vesting being dependent upon a satisfactory review of the discretionary underpin by the Remuneration Committee. This assessment focuses on the Company's overall performance during the vesting period, including financial and non-financial performance measures, as well as any material risk or regulatory failures identified and ensures any value delivered to executive directors is fair and appropriate in the context of business performance and shareholder experience. Malus and clawback provisions apply to RSP awards enabling the reduction of awards so far as nil value to further ensure that corporate or individual failure is not rewarded under the plan.

For 2021, the face value of the IAG CEO's award was reduced from 200 per cent of salary to 100 per cent of salary in association with the change from a PSP to an RSP opportunity.

### **Details of 2021 RSP executive director award**

Type of award	Company shares
Basis of determination of the size of award	Awards only made to consistently high-performing executives within key roles who have the potential to take on greater organisational responsibility and whom the Company wishes to retain for the long term.
Executive director award face value (per cent of base salary)	IAG CEO (Luis Gallego) - 100 per cent
Date of Grant	June 23, 2021
Grant price	£1.97
Vesting period	Three years: June 23, 2021 to June 22, 2024
Holding period	Two years: June 23, 2024 to June 22, 2026
Discretionary underpin description	No performance measures are associated with the awards. Vesting will be contingent on the satisfaction of a discretionary underpin, assessed three years after grant. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance may include elements such as revenue, profitability, cash generation, return on capital and benchmarked with comparable airlines. Non-financial performance may include a range of operational and strategic measures critical to the Company's long-term sustainable success. This assessment will ensure any value delivered to executive directors is fair and appropriate in the context of the performance of the business and experience of our stakeholders and that corporate or individual failure is not rewarded. In the case of significant failure on the part of the Company or the individual, vesting may be reduced, including to nil. Full disclosure of the Remuneration Committee's considerations in assessing the underpin will be disclosed in the relevant Directors' Remuneration Report at the point of vesting.

### **Total pension entitlements**

Luis Gallego is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions in his time as an executive director during the reporting period (January 1, 2021 to December 31, 2021). He received cash in lieu of contributions of £92,251. This value is equivalent to 12.5% of base salary paid during the performance period and is comparable to the rate for the majority of the UK workforce.

### **Payments for loss of office**

Antonio Vázquez, who stood down from the Board on January 7, 2021, has received the following payments during 2021: a Chairman's fee for the part month only of €11,288, taxable benefits of €6,848, and a lump sum retirement benefit relating to his historical Iberia service contract, valued at €2,800,000 plus accrued interest, administered via an external insurance provider. The information regarding his retirement benefit was fully disclosed in the 2020 Annual Report and Accounts.

No other loss of office payments were made to current or past directors during 2021.

### **Payments to past directors**

Patrick Cescau received travel benefits worth €10,249 during 2021.

Maria Fernanda Mejia received travel benefits worth €13,451 during 2021.

Deborah Kerr received travel benefits worth €2,392 during 2021.

Baroness Kingsmill received travel benefits worth €6,113 during 2021.

James Lawrence received travel benefits worth €2,337 during 2021.

Keiran Poynter received travel benefits worth €604 during 2021.

Dame Marjorie Scardino received travel benefits worth €7,436 during 2021.

Willie Walsh received travel benefits worth £159 during 2021.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Subject to audit****Statement of directors' shareholding and share interests**

In order that their interests are aligned with those of shareholders, executive directors are required to build up and maintain a minimum personal shareholding in the Company.

Under the Group's shareholding guidelines, the IAG CEO is required to build up and maintain a shareholding of 350 per cent of salary and other executive directors are required to build up and maintain a shareholding of 200 per cent of basic salary.

In addition, executive directors are required to retain all shares received via incentive plans until 100 per cent of their shareholding requirement is attained.

The Committee has reviewed the IAG CEO's progress against the requirement and notes that he is compliant with the policy requirement.

Shares which qualify towards the policy include shares already held by the executive, vested and exercised shares, vested and unexercised shares including those in the performance share plan holding period, vested shares in the restricted share plan holding period and unvested deferred annual incentive shares.

The table below summarises current executive directors' interests as of December 31, 2021:

Executive director	Shareholding requirement	Shares owned	Shares already vested, or in the holding period, from performance share plans	Shares already vested from deferred annual incentive plans	Vested shares from restricted share plan	Unvested shares from deferred annual incentive plans	Total qualifying shares held <sup>1</sup>
Luis Gallego	350 per cent of salary	403,834	513,747	169,545	0	82,731	1,169,856 (491 per cent of salary)

<sup>1</sup> In accordance with the Policy, the share price used to calculate the percentage of salary guideline is either the share price on the date of award or on the date of vesting/exercise.

On departure, executive directors will be required to hold the number of shares in line with their in-employment shareholding requirement (or the number of shares that they own at departure if lower) for two years from their date of termination from the Group. Shares will normally be retained in the nominee account administered by the Company to ensure this.

**External non-executive directorship**

The Company's consent is required before an executive director can accept an external non-executive appointment and permission is only given in appropriate circumstances. The current executive director has no external non-executive appointments.

**Non-executive directors**

Non-executive directors are paid a flat fee each year, as per the following table. The fees in the table are the contractual rates and do not reflect the pandemic-related reductions that were applied to non-executive director fees in 2020 and 2021.

Role	Fee
Non-executive Chairman	€645,000
Non-executive directors	€120,000
Additional fee for holding a Committee chairmanship	€20,000
Additional fee for Senior Independent Director	€30,000

### **Single total figure of remuneration for each non-executive director**

The fees shown in the following table reflect that all non-executive directors agreed to a reduction in all types of fees received in order to preserve cash and maintain the Group's competitive positioning during the pandemic. Between April 1, 2020 to December 31, 2020, a 20 per cent reduction applied to all fee types. Thereafter in 2021, the reduction was decreased to 10 per cent and applied for the full year.

Director (€'000)	2021 fees	2021 taxable benefits	Total for year to December 31, 2021	2020 fees	2020 taxable benefits	Total for year to December 31, 2020
Antonio Vázquez <sup>1,2</sup>	11	7	18	548	0	548
Javier Ferrán <sup>3</sup>	573	4	577	107	4	111
Alberto Terol	153	9	162	128	10	138
Giles Agutter	108	4	112	30	0	30
Marc Bolland <sup>6</sup>	-	-	-	84	3	87
Peggy Bruzelius <sup>4</sup>	108	0	108	-	-	-
Eva Castillo <sup>4</sup>	108	0	108	-	-	-
Margaret Ewing	126	0	126	107	4	111
Deborah Kerr <sup>6</sup>	-	-	-	107	-	107
Maurice Lam <sup>5</sup>	58	2	60	-	-	-
Heather Ann McSharry <sup>4</sup>	108	0	108	-	-	-
Maria Fernanda Mejía <sup>6</sup>	-	-	-	102	15	117
Robin Phillips	108	0	108	30	0	30
Kieran Poynter <sup>6</sup>	-	-	-	84	2	86
Emilio Saracho	108	7	115	102	6	108
Nicola Shaw	123	0	123	102	1	103
<b>Total (€'000)</b>	<b>1,692</b>	<b>34</b>	<b>1,725</b>	<b>1,531</b>	<b>45</b>	<b>1,576</b>

1 Antonio Vázquez retired from the Board on January 7, 2021, receiving a Chairman's fee for that part month only.

2 Antonio Vázquez's lump sum retirement benefit relating to his historical Iberia service contract, valued at €2,800,000 and accrued interest, and administered via an external insurance provider, was delivered to him at point of retirement, as fully disclosed in the 2020 Annual Report and Accounts.

3 Javier Ferrán was appointed Chairman on Antonio Vázquez's retirement on January 7, 2021 and his January 2021 fees reflect a blend of non-executive director and chair fees.

4 Peggy Bruzelius, Eva Castillo Sanz and Heather Ann McSharry joined the Board on December 31, 2020, but received no remuneration for 2020.

5 Maurice Lam joined the Board on June 17, 2021 and his fees and taxable benefits reflect a part year of service.

6 Marc Bolland, Deborah Kerr, Maria Fernanda Mejía and Kieran Poynter all stepped down from the Board during 2020 and received no fees in 2021.

### **Additional explanations in respect of the single total figure table for each non-executive director**

Each non-executive director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

#### **Taxable benefits**

Taxable benefits for non-executive directors relate to personal travel benefits.

#### **Exchange rates**

For the year to December 31, 2021, €:£ exchange rate applied is 1.1587 (2020: 1.1273).

#### **Directors' interests in shares**

	Total shares and voting rights	Percentage of capital
Javier Ferrán	774,750	0.016
Luis Gallego	829,544	0.017
Alberto Terol	102,341	0.002
Giles Agutter	625	0.000
Peggy Bruzelius	0	0.000
Eva Castillo	0	0.000
Margaret Ewing	18,750	0.000
Maurice Lam	0	0.000
Heather Ann McSharry	55,000	0.001
Robin Phillips	0	0.000
Emilio Saracho	0	0.000
Nicola Shaw	4,285	0.000
<b>Total</b>	<b>1,785,295</b>	<b>0.036</b>

There have been no changes to the shareholdings set out above between December 31, 2021 and the date of this report.

#### **Share scheme dilution limits**

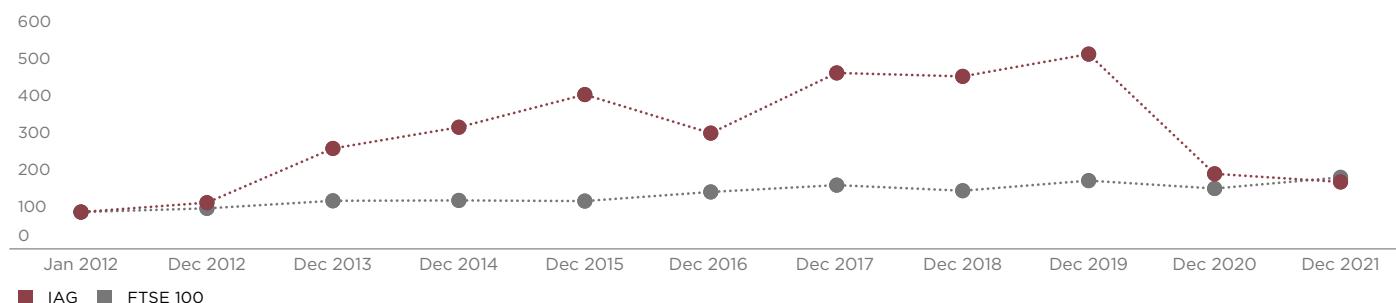
The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the Annual Shareholders' Meeting on June 17, 2021 the Company was given authority to allocate up to 100,000,000 shares (2.01 per cent of the share capital at that time) under the Executive Share Plan in 2021, 2022, 2023 and 2024 financial years. Of this a maximum of 5,000,000 shares could be allocated to executive directors under the Executive Share Plan for awards made during 2021, 2022, 2023 and 2024 financial years. Should some or all of these above-mentioned shares not be allocated to the executive directors, they may be allocated to the remaining participants in the Executive Share Plan.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**IAG's total shareholder return (TSR) performance compared to the FTSE 100**

The chart shows the value by December 31, 2021 of a hypothetical £100 invested in IAG shares on listing compared with the value of £100 invested in the FTSE 100 index over the same period. The other points plotted are the values at intervening financial year-ends. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year ends.

The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

**IAG CEO remuneration history**

The table below shows the IAG CEO single total figure of remuneration for the latest ten-year rolling period:

	IAG CEO – total single figure of remuneration	Annual incentive payment as a percentage of the maximum	Long-term incentive vesting as a percentage of the maximum
2012	£1,083,000	No annual incentive payment	Zero vesting of long-term incentives
2013	£4,971,000	78.75 per cent of maximum	100 per cent of maximum
2014	£6,390,000	97.78 per cent of maximum	85 per cent of maximum
2015	£6,455,000	80 per cent of maximum	100 per cent of maximum
2016	£2,462,000	33.33 per cent of maximum	50 per cent of maximum
2017	£3,954,000	92.92 per cent of maximum	66.67 per cent of maximum
2018	£3,030,000	61.85 per cent of maximum	46.19 per cent of maximum
2019	£3,198,000	51.97 per cent of maximum	72.11 per cent of maximum
2020	Willie Walsh Luis Gallego	£662,000 £301,000	No annual incentive payment No annual incentive payment
2021	£1,110,000	No annual incentive payment	Zero vesting of long-term incentives

Single total figure of remuneration includes basic salary, taxable benefits, pension-related benefits, annual incentive award and long-term incentive vesting, and in 2020 and 2021 reflects agreed reductions to salary and pension benefits in light of the pandemic.

**Percentage change in remuneration of the IAG CEO compared to employees**

The table below compares the remuneration outcomes of the IAG CEO against the UK workforce in 2021. The 'all UK employees' comparator group remains unchanged from that used for 2020 on the continued rationale that using the largest comparator group provides the most representative and meaningful comparison for the UK workforce.

Over 90 per cent of UK employees reported are employed by British Airways, with the majority of the remainder employed by either employees of other airlines currently working in the UK, IAG Head Office, the Group's specialist procurement function GBS, IAG Tech, IAG Loyalty or IAG Cargo. The comparison therefore provides a full cross-section of roles, job functions and seniority levels in the UK. The use of the UK population also keeps a broad alignment with the population captured for the IAG CEO pay ratio, providing a more consistent population basis for all senior executive and workforce pay comparisons.

For specific comparisons, such as the award of salary increases, a 'same store' employee population is used focusing only on employees who were present in both 2020 and 2021, to give a more representative comparison against the salary increase eligible population.

IAG CEO	UK employees	
2021 basic salary increases	Reductions to the IAG CEO's salary and pension benefits operated from his appointment in September 2020, through to December 2021.  The IAG CEO was not awarded a salary increase in 2021.	In 2021, due to the focus on preserving cash, salary increases were only approved on an exceptional basis, such as in promotion situations. Of the circa 24,000 employees present in both 2020 and 2021, less than 5 per cent (circa 1,200 employees) received contractual salary increases in 2021. For employees receiving increases, the median salary increase awarded was 6.15 per cent of contractual basic salary. The value of salary and fixed pay actually received by UK employees was primarily driven by the COVID response measures and resource requirements for the role the employee performed.

	<b>IAG CEO</b>	<b>UK employees</b>
2021 annual Incentive awards	The cancellation of 2020 Annual Incentive plan by the Committee and the IAG CEO's request not to be considered for an award under the 2021 Annual Incentive Plan means he received no annual incentive award for 2020 or 2021.	The impact of the pandemic in 2020 and need to preserve cash had the impact of either cancelling the operation of incentive plans (such as the IAG Annual Incentive Plan, for which most UK managers are eligible) or significantly reducing the value of any incentives distributed.  For 2021, incentive plans were in place against objectives designed to focus on protecting cash, supporting customers and ensuring IAG navigates the pandemic and is positioned to take advantage of opportunities as market restrictions ease. Outturns and payments against these plans were managed at a local level.
Taxable benefits	Following his international relocation in 2020, from 2021 the IAG CEO began to receive a tax advisory support benefit, the value for which is expected to be £7,000 for 2021. He also received £8,000 in relocation benefits in 2021 in relation to his relocation to the UK in H2 2020.  In 2021, the IAG CEO became eligible for a two-year, fixed-term £250,000 per annum transitional allowance, enabling him to personally maintain a base in Madrid given the Company's significant operations and business in Spain.	The value and level of taxable benefit offered to employees remained unchanged in 2021.

#### Change in directors' remuneration compared to employees

The table below shows a comparison of the change in year-on-year remuneration for directors of the Group, against the equivalent change for UK employees from 2019 to 2021.

Director (€'000)	2020 to 2021			2019 to 2020		
	Salary or fees value change from 2020 to 2021 <sup>5</sup>	Taxable benefits value change from 2020 to 2021	Annual incentive value change from 2020 to 2021	Salary or fees value change from 2019 to 2020	Taxable benefits value change from 2019 to 2020	Annual incentive value change from 2019 to 2020
Luis Gallego <sup>1</sup>	269%	315%	0%	-	-	-
Antonio Vázquez <sup>2</sup>	(98%)	100%		(15%)	(100%)	
Javier Ferrán <sup>3</sup>	436%	0%		67%	100%	
Alberto Terol	20%	(10%)		(6%)	(62%)	
Giles Agutter <sup>1</sup>	260%	100%		-	-	
Peggy Bruzelius <sup>4</sup>	-	-		-	-	
Eva Castillo <sup>4</sup>	-	-		-	-	
Margaret Ewing	18%	(100%)		67%	300%	
Maurice Lam	-	-		-	-	
Heather Ann McSharry <sup>4</sup>	-	-		-	-	
Robin Phillips <sup>1</sup>	260%	0%		-	-	
Emilio Saracho	6%	17%		(15%)	(67%)	
Nicola Shaw	21%	(100%)		(15%)	(94%)	
<b>All UK employees<sup>6,7</sup></b>	<b>39%</b>	<b>0%</b>	<b>131%</b>	<b>(11%)</b>	<b>-</b>	<b>-</b>

1 The comparison of 2020 vs 2021 remuneration for Luis Gallego, Giles Agutter and Robin Phillips reflects a part year of director service and remuneration in 2020 versus a full year of director service and remuneration in 2021.

2 Antonio Vázquez retired from the Board at January 7, 2021 and his remuneration comparison compares a full year of chairman service in 2020, versus a part month in 2021.

3 The uplift in fees for Javier Ferrán between 2020 and 2021 reflects his role as a non-executive director in 2020 and his assumption of the Chairman role at January 7, 2021, for the rest of the reporting period.

4 Eva Castillo, Heather Ann McSharry, and Peggy Bruzelius were appointed as directors on December 31, 2020, but received no remuneration for 2020.

5 The comparison of fees for all directors in respect of 2020 and 2021, reflects a 20 per cent COVID-related reduction operated between April 1, 2020 and December 1, 2020 and a 10 per cent reduction operated for the full year in 2021.

6 The All UK Employee 2020 and 2021 salary medians underlying the 39% uplift in median salary are taken from UK employee earnings published in the 2021 CEO pay ratio section and reflect the inclusion of company top-up and statutory furlough payments as part of reported employee salaries in 2021, that were not included in 2020.

7 The reported change in the median value of All UK employee annual incentives from 2020 to 2021 (131%) reflects the distribution of considerably reduced award values in both years.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Relative importance of spend on pay**

The table below shows, for 2021 and 2020, total remuneration costs, adjusted operating profit/(loss) and dividends for the Company.

	2021	2020
Total employee costs, IAG <sup>1</sup>	<b>€ 3,031,000,000</b>	€ 3,247,000,000
Total remuneration, directors (including non-executive directors)	<b>€3,011,000</b>	€ 3,339,000
IAG operating profit/(loss), excluding exceptional items	<b>€ (2,970,000,000)</b>	€ (4,365,000,000)
Dividend declared	-	-
Dividend proposed	-	-

1 Total employee costs are before exceptional items and include furlough grants received.

**CEO Pay Ratio**

The following table sets out IAG's CEO pay ratio figures in respect of 2021, 2020 and 2019.

Year	CEO single figure (£'000)	Method	25 <sup>th</sup> percentile pay ratio	Median pay ratio	75 <sup>th</sup> percentile pay ratio
<b>2021</b>	<b>1,110</b>	<b>Option A</b>	<b>29:1</b>	<b>21:1</b>	<b>14:1</b>
2020	963	Option A	34:1	23:1	15:1
2019	3,198	Option A	109:1	72:1	49:1

The pay ratio figures in the above table are calculated using the following UK employee remuneration information:

Year	UK employee pay	25 <sup>th</sup> percentile pay ratio	Median pay ratio	75 <sup>th</sup> percentile pay ratio
<b>2021</b>	<b>Basic salary (£'000)</b>	<b>26.9</b>	<b>39.7</b>	<b>60.6</b>
	<b>Total remuneration (£'000)</b>	<b>38.6</b>	<b>53.4</b>	<b>80.7</b>
2020	Basic salary (£'000)	17.2	28.6	45.2
	Total remuneration (£'000)	28.4	42.8	63.9
2019	Basic salary (£'000)	20.1	32.3	46.5
	Total remuneration (£'000)	29.4	44.2	64.7

The ratio continues to be calculated on the most statistically accurate basis, Option A. UK employee pay is based on the payroll records of 29,774 employees who were in the Group for the whole of or some of 2021. To provide a fair and representative view to all remuneration received by UK employees, the 2021 basic salary and total remuneration figures include statutory and company top-up furlough payments. The 2020 UK employee remuneration figures excluded all types of furlough payment and were representative of earnings for time worked, but were not representative of the full level of pay received by employees and their actual remuneration experience. With the UK furlough scheme having ended in September 2021, this consideration should not be relevant for future years reporting.

To ensure the accuracy of these calculations, earnings data was collected directly from the UK payroll on a month-by-month basis. Any variable incentive elements in respect of 2021, payable to employees later in 2022, are modelled on an employee-by-employee basis against agreed frameworks. This approach enables fair and accurate comparison to the IAG CEO 2021 single total figure of remuneration.

The continued low ratio for 2021 shows the impact of the ongoing pandemic to the IAG CEO's pay. The increases in remuneration for both the IAG CEO and UK employees in 2021, maintain the ratio in a broad equilibrium, with the ratio reducing slightly by two points from 2020.

The increase in the UK employee remuneration in 2021 reflects:

- The rise in employee pay resulting from the reporting of all amounts paid to employees in 2021 (in 2020, UK Government furlough and company top-up amounts were not reported as part of employee earnings)
- Any payments made to managers under the 2021 annual incentive plan
- Changes to the size and composition of the UK workforce between years, with pay for 37,081 employees being reported for 2020 and 29,744 for 2021

The change in IAG CEO remuneration between 2020 and 2021, is due to balance of changing factors as follows:

- The higher proportion of contractual salary and pension contributions received by the IAG CEO in 2021 vs 2020.
- The increase in the value of the IAG CEO's taxable benefits resulting from his eligibility to a transitional allowance in 2021.
- No short- or long-term incentives being received by the IAG CEO in 2021.

The ratio reported for the second year of the pandemic is the lowest the Group has reported since disclosure of this metric commenced. The reduction in the ratio from 2019 demonstrates the continuing impact of the pandemic and is an accurate reflection of the contraction in IAG CEO pay, with current IAG CEO remuneration being around 35 per cent of 2019 levels. The fall in the ratio at all quartiles from 2019 and 2020 demonstrates that the implementation of the Policy in 2021 has not favoured the IAG CEO at the expense of the wider workforce.

The Committee is aware that the current ratio, whilst temporary, is an outlier amongst similar profile organisations. As the Group continues its recovery from the pandemic and IAG CEO variable incentives again begin to be payable against the generation of sustainable shareholder value, it is expected that the Group's CEO pay ratio will increase to a more representative, pre-pandemic range.

## **Implementation of Remuneration Policy for 2022**

At the outset of 2022, the Directors' Remuneration Policy continues to apply only to the IAG CEO, who is currently the only IAG executive director.

With the Group emerging from the pandemic at end of 2021, and the CEO having voluntarily given up over £150,000 in salary and pension allowances since assuming the IAG CEO role at September 2020, it was agreed to cease the IAG CEO salary reduction from January 1, 2022. This restoration increased the IAG CEO salary to its full contractual rate of £820,000 per annum and also implemented the full value of salary-linked pension benefits. This marked the first point at which the IAG CEO received full contractual pay since appointment, demonstrating the significant length of time pay reductions had been in place.

The review of executive director base salaries normally occurs in January each year. For 2022, the Committee has decided to defer the review of the IAG CEO's salary until the second half of the year. This postponement will enable the Committee to better understand the Group's recovery from the pandemic and make an informed decision in relation to the IAG CEO's base salary level.

Executive director	Basic salary review
IAG CEO	£820,000 (€950,134) (no increase from 2021)

## **2022 annual incentive plan**

For 2022, with the anticipated return of more normalised flight and passenger volumes, we will reinstate an IAG-specific carbon efficiency measure, to further drive progress towards our Flightpath Net Zero 2050 commitment. This will measure the fuel efficiency of our flight operations, taking account of our network, aircraft mix and passenger load factors. The specific metric will be grammes of CO<sub>2</sub> per passenger kilometre and will have a weighting of 10 per cent of overall incentive.

In addition to the carbon-efficiency measure, the existing 2021 measure types; financial, customer and strategic and personal will be carried forward into 2022 and weighted in alignment with the Policy with financial measures accounting for no less than 60 per cent of overall incentive opportunity.

## **2022 long-term incentive plan**

Following the approval of the Executive Share Plan in June 2021, the Group ceased making awards under the Performance Share Plan (PSP) and granted the first schedule of Restricted Share Plan (RSP) to eligible senior leaders. In replacing the PSP with an RSP, a maximum RSP opportunity of 100 per cent of salary was determined for the IAG CEO and was approved in the Policy.

Since the implementation of the Policy in 2021, the Committee has reflected at length on the appropriateness of the IAG CEO RSP opportunity and the extent to which the current opportunity level will be effective in supporting the delivery of the business strategy.

The current opportunity level was set at a modest level relative to the size and complexity of the Group's operations. Since approval, the Committee has undertaken a review of the CEO's remuneration arrangements, in light of the concerns around the competitiveness of the CEO's package, the wish to place more emphasis on sustained long-term alignment, and the need to retain a CEO of outstanding quality at this critical time.

A number of shareholders have been consulted for their views and a resolution will be submitted to the 2022 Annual Shareholders' Meeting to amend the current Policy. This change will reflect an increase in the IAG CEO's maximum RSP opportunity from 100 per cent of salary to 150 per cent of salary.

The proposed RSP opportunity reflects the Committee's careful consideration, taking into account:

- Long-term award opportunities both externally at other relevant businesses and internally within our senior management team
- The cumulative impact that this higher opportunity could have on the CEO's long-term interest in IAG and the associated benefits of that, and
- The wish to place more emphasis in the CEO's remuneration package on sustained long-term alignment at a challenging time for the business when the CEO provides critical stability

Amending the Policy in this area builds long-term alignment of interests with shareholders and affords the Committee greater flexibility in determining the value of any RSP awards, relative to all factors, in 2022 and the future.

## **2022 long-term incentives and wider senior leadership**

The eligibility criteria for 2022 RSP awards remained unchanged from 2021, with grants for senior leaders continuing to be made only to consistently high-performing individuals, whose skills are critical to the delivery of the business strategy and whom the Company has identified as a long-term retention priority. With the exception of the IAG CEO, the maximum value of individual awards scheduled to be made in 2022 will remain consistent with last year and the overall face value of grants will be similar to that distributed in 2021.

Although no value can be realised by plan participants from 2022 awards until 2025, their simplicity and transparency create immediate engagement, attraction and retention benefits amongst the Group's key leaders. This continues to enable the Group to maximise the contribution of its senior leadership throughout the 2022 recovery and remain focused on the delivery of long-term sustainable value to shareholders.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Taxable benefits and pension-related benefits**

Taxable benefits and pension benefits remain unchanged for 2022. The IAG CEO's eligibility to the transitional allowance will cease at the end of 2022.

**Non-executive director fees**

Non-executive director fees were last reviewed in 2017 and remain unchanged for 2022. The fees have remained unchanged since 2011.

In 2021, all non-executive directors including the Chairman, agreed to a 10 per cent reduction in fees for the full year, in view of the need to preserve cash within the business. Recognising the Group's emergence into recovery, and in alignment with the decision taken for the IAG CEO salary reinstatement, it was agreed that all non-executive directors should return to receiving full fees from January 1, 2022.

**The Remuneration Committee**

The Remuneration Committee is regulated by article 32 of the IAG Board Regulations and by its own Regulations approved on February 25, 2021. A copy of these Regulations is available on the company website.

Beyond executive directors, the Committee oversees the general application of the Remuneration Policy for the members of the IAG Management Committee (and also occasionally considering remuneration matters related to managers generally across the Group).

Article 32 of the Board Regulations ensures that the Remuneration Committee shall be made up of no fewer than three independent non-executive directors, with the dedication, capacity and experience necessary to carry out their function. Alberto Terol chairs the Committee and holds Senior Independent Director responsibility. None of the Committee members has any personal financial interest, other than as a shareholder, in the matters to be decided.

In accordance with the 2018 UK Code, the Remuneration Committee also has responsibility to review workforce remuneration and related policies and the alignment of incentives and rewards with culture.

**Advisers to the Committee**

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte reports directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2021 were £56,073 (€64,971), charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, taxation and immigration compliance requirements for IAG's mobile workforce, data governance, business process improvement, financial/fiscal advisory work and tax to the Group in 2021. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

In addition to Deloitte providing the Remuneration Committee with market updates on pay themes, the Group also received market data and insights from other specialist consultants such as Aon, PwC and Willis Towers Watson in 2021.

**Statement of voting**

The table below shows the consultative vote on the 2020 annual Directors' Remuneration Report and the binding vote on the Directors' Remuneration Policy at the 2021 Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2020 Annual Directors'	2,573,169,545	2,383,678,763	189,490,782	1,525,952
Remuneration Report	(99.94 per cent)	(92.58 per cent)	(7.36 per cent)	(0.06 per cent)
	2,574,695,497	2,407,953,176	149,433,203	17,309,118
Directors' Remuneration Policy	(99.33 per cent)	(93.53 per cent)	(5.80 per cent)	(0.67 per cent)

### **Supplementary information — Directors' share options and shares**

The following table details the nil-cost options over ordinary shares of the Company granted to the current IAG CEO under the IAG PSP as at December 31, 2021:

Director	Date of grant	Number of options at January 1, 2021	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2021
Luis Gallego	May 28, 2015	131,242	-	-	-	-	1/1/2020	31/12/2024	131,242
	March 7, 2016	98,001	-	-	-	-	1/1/2021	31/12/2025	98,001
	March 6, 2017	174,504	-	-	-	-	1/1/2022	31/12/2026	174,504
	May 10, 2018	194,269	-	-	194,269	-	Lapsed		0
	March 8, 2019	245,114	-	-	-	-	1/1/2024	31/12/2028	245,114
	March 6, 2020	538,805	-	-	-	-	1/1/2025	1/1/2029	538,805
Total nil cost options over ordinary shares		1,381,935	-	-	194,269	-			1,187,666

The award granted on May 10, 2018 was tested at the end of the performance period. Threshold performance was not achieved for any measure and therefore the award lapsed in full.

The performance conditions for each of the unvested PSP awards listed above will be tested to determine the level of vesting. For each of these awards, one third of the award is subject to TSR performance measured against a comparator index, one third is subject to adjusted EPS performance, and one third is subject to RoIC performance. The performance conditions will be measured over a single three-year performance period. Any vested awards are subject to an additional two-year holding period.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2020 PSP award was 459 pence (2019: 567 pence; 2018: 691 pence; 2017: 546 pence; 2016: 541 pence; and 2015: 550 pence).

The following table details the conditional share awards over ordinary shares granted under the Executive Share Plan (RSP) to Executive Directors:

Director	Date of grant	Number of conditional shares granted	Vesting date	Shares lapsed at vesting due to underpin	Holding period expiry date	Number of unvested conditional shares at December 31, 2021	Number of vested conditional shares at December 31, 2021
Luis Gallego	June 23, 2021	414,954	June 23, 2024	-	June 23, 2026	414,954	-
Total conditional share awards (RSP)		414,954		-		414,954	-

RSP awards are subject to a discretionary underpin prior to vesting. This review, performed by the Remuneration Committee, considers the Company's overall performance, including financial and non-financial performance measures, over the course of the vesting period, as well as any material risk or regulatory failures identified. In the event of a significant failure on the part of the Company or the executive director, malus and clawback provisions are available to the Remuneration Committee to reduce the vesting value, including to nil.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2021 RSP award was 197 pence.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Incentive Award Deferral Plan (IADP)**

Under the current policy, 50 per cent of any annual incentive award for executive directors is made in deferred shares under the Incentive Award Deferral Plan. Under this plan, incentive award shares are deferred for three years from date of grant. The following table details the current Executive Director's holdings of conditional awards over ordinary shares of the Company granted under the IAG IADP. Awards are shown for the performance periods ended December 31, 2017, December 31, 2018 and December 31, 2019.

No award was made in respect of 2020 following the decision to cancel the 2020 IAG Annual Incentive Plan. Additionally, no award will be made to the IAG CEO for 2021. The impact of not making IADP grants to the IAG CEO for two years in succession will be a considerable reduction in unvested IADP shareholdings and the effectiveness of unvested IADP shares as a retention tool.

Executive Director	Performance year award relates to <sup>1</sup>	Date of award	Number of Shares at January 1, 2021	awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of unvested shares at December 31, 2021
Luis Gallego	2017	May 10, 2018	90,253	90,253	March 8, 2021	-	-	-
	2018	March 8, 2019	74,576	-	March 8, 2022	-	-	74,576
	2019	March 6, 2020	81,520	-	March 6, 2023	-	-	81,520
<b>Total</b>			<b>246,349</b>	<b>90,253</b>		-	-	<b>156,096</b>

1 No IADP award was made in March 2021, following the cancellation of the 2020 Annual Incentive Plan.

IADP awards already reflect performance delivered against a completed performance period, therefore awards are not subject to further performance conditions for vesting to occur. The terms and conditions of award for IADP grants do however require executive directors to be in employment with the Company at the time of vesting, or have left as a Good Leaver, to be eligible to receive the award. IADP awards are also subject to the policy's malus and clawback provisions.

The values attributed to the Company's ordinary shares in accordance with the plan rules for IADP awards (relating to the previous year's performance) were 2020 award: 459 pence; 2019 award: 567 pence and 2018 award: 691 pence.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2018 IADP award (relating to the 2017 performance year) was 691 pence. The share price on the date of the vesting of this award (March 8, 2021) was 210 pence. The monetary value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

## **Approval of 2021 Directors' Remuneration Policy**

The new Directors' Remuneration Policy, approved by shareholders on June 17, 2021, brought the policy into line with changing UK and Spanish governance best practice and improved alignment to the Group's strategy through changes in long-term incentive plan design, alignment of executive director pension benefits, introduction of post-employment shareholding requirements, extension of malus and clawback capabilities and extension of discretion afforded to the Remuneration Committee and Board.

The updated policy is published on the IAG external website and presented in detail below.

([https://www.iairgroup.com/~/media/Files/I/IAG/AGM%202021/English/6%20May%20upload/directors\\_remuneration\\_policy\\_2021.pdf](https://www.iairgroup.com/~/media/Files/I/IAG/AGM%202021/English/6%20May%20upload/directors_remuneration_policy_2021.pdf))

## **2021 Directors' Remuneration Policy:**

### **Governance**

This Directors' Remuneration Policy is adapted to the new wording of article 529 novodecies of the Capital Companies Act, as amended by Law 5/2021 of 12 April, and shall apply, in accordance with the provisions of section 1 of said article 529 novodecies, from the date of its approval by the 2021 Shareholders' Meeting and during the following three financial years (i.e. during financial years 2022, 2023 and 2024). Any amendment or replacement thereof during such period shall require the prior approval of the Shareholders' Meeting in accordance with the procedure established for its approval.

As a Spanish-incorporated company, IAG is not subject to the remuneration reporting regulations that apply to UK-incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance and is firmly committed to UK best practice, such that we continue to operate in line with the regulations.

### **IAG Remuneration Principles**

Alignment	Our remuneration policies promote long-term value creation, through transparent alignment with our corporate strategy.
Simplicity and clarity	We will keep our remuneration structures as simple and clear as possible to ensure they are understandable and meaningful to employees and shareholders.
Competitiveness	Total remuneration will be competitive for the role, taking into account scale, sector, complexity of responsibility and geography. When setting senior executive pay, we will consider experience, external pay relativity, and the ability of IAG to compete for global talent.
Pay for performance	We promote a culture where all employees are accountable for delivering performance. We will ensure there is alignment between performance and pay outcomes, with fair outcomes supported by corporate and individual performance and wider stakeholder experience. Depending on the level of the individual in the organisation, we use long-term equity to incentivise performance, shareholder value creation, and retention. Performance measures and targets will seek to balance collective success with a clear line of sight for participants. Remuneration outcomes aim to reflect the sustained long-term underlying performance of IAG.
Judgement	We will use discretion and judgement to review formulaic performance outcomes to arrive at fair and balanced remuneration outcomes for both IAG and employees.
Sustainability	Our remuneration policies incentivise individual and corporate performance, support talent attraction and retention and promote sound risk management to enhance the sustainable long-term financial health of the Group. Individual contribution and values and behaviours will be reflected in remuneration outcomes.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Consideration of shareholder views**

The Company consults regularly with its major investors on all matters relating to executive remuneration. The Company will engage in an extensive investor consultation exercise whenever there are any significant changes to remuneration policy.

Early in 2021, the Board Chair, Remuneration Committee Chair and executives from the Company held meetings with our major investors on our proposed new Remuneration Policy. These discussions were very useful; the Company carefully considered the views stated and modified the policy as appropriate.

The Committee discusses each year the issues and outcomes from the Annual Shareholders' Meeting usually held in June, and determines any appropriate action required as a result.

The policy as shown on the following pages is intended to apply for three years, until 2024, taking effect from the date of approval.

The principal changes from the previous Remuneration Policy (which was approved at the Annual Shareholders' Meeting in 2018) are shown on the following table.

Area of change to policy	Summary of approved change from 2018 to 2021
<b>Long-term incentive</b>	Replacement of the existing Performance Share Plan (PSP) with a Restricted Share Plan (RSP).
<b>Pension contributions</b>	Upon appointment, the pension contributions for the new CEO and CFO of IAG were revised down to 12.5% of salary, comparable to the rate applicable to the majority of the UK workforce. In this Remuneration Policy, the Company will formalise the arrangement that pension contributions for executive directors will be aligned with the wider workforce.
<b>Post-cessation shareholding requirements</b>	Introduction of a post-cessation shareholding requirement for executive directors, in line with best practice.
<b>Malus and clawback</b>	Extend the malus and clawback trigger events to include payments based on erroneous or misleading data, serious reputational damage and corporate failure to align with guidance.
<b>Discretion</b>	Additional wording to align to the Corporate Governance Code and allow discretion to adjust formulaic outcomes to reflect corporate performance.
<b>Addressing significant falls in share price under long-term incentives</b>	Additional wording to address windfall gains that may occur for long-term incentives.

**These changes:**

- Ensure a focus on the long-term performance of the Company, with a primary focus on delivering sustainable shareholder returns.
- Ensure that executives are not discouraged from making timely and difficult strategic decisions that may have short-term impacts, but are in the best interests of the long-term health of the business.
- Support the build-up and maintenance of a long-term shareholding which ensures executives and senior managers focus on recovering and enhancing shareholder value.
- Ensure management have the same ownership experience as shareholders.
- Simplify remuneration for executive directors and senior managers

## Key elements of pay

### Executive directors

The table below summarises the main elements of remuneration packages for the executive directors:

Purpose and link to strategy	Operation of element of policy	Maximum opportunity	Performance metrics
<b>Base salary</b> To attract and retain talent to help achieve our strategic objectives.	Takes account of factors such as role, skills and contribution.  The positioning of base salaries is set with reference to factors such as the external market, as well as the individual's skills and contribution.  Basic salaries are reviewed annually, and normally take effect on January 1 each year.	There is no formal maximum. Basic salaries are reviewed annually by the Remuneration Committee by taking into account factors such as: company affordability, the value and worth of the executive, retention risks, and the size of pay increases generally across the whole group of companies.	Individual and business performance are considered in reviewing and setting base salary.
<b>Annual incentive award</b> Incentivises annual corporate financial and non-financial performance and the delivery of role-specific objectives.  The deferred shares element aligns the interest of executives and shareholders and provides a retention tool.	The Board, on a recommendation from the Remuneration Committee, sets the financial and non-financial targets that apply to the annual incentive award. These are set by reference to a number of factors, including the Business Plan (as approved by the Board), and the Group's strategic focus. For the portion based on personal objectives, the Committee will consider the performance of each executive against their role-specific objectives. All performance evaluations for executive directors will be submitted to the Board for final approval.  The Board, after considering the recommendation of the Committee, retains the discretion to adjust the formulaic outcome of awards in order to, in its opinion, properly reflect overall corporate performance – see below.  50 per cent of the annual incentive award is deferred into shares. This is designed to align the interests of executives with shareholders by providing a proportion of the annual incentive in shares in the form of a bonus deferral award.  On vesting, executives will receive the benefit of any dividends paid over the deferred period in the form of dividend equivalent payments.  Malus and clawback provisions apply – see below.	The maximum opportunity in the incentive plan is 200 per cent of salary. Each performance metric in the incentive plan is independent. For each performance metric in the incentive plan, there will be no payment at all until performance for that particular metric has reached the threshold level of the target range. 50 per cent of the maximum will be awarded for on-target performance, and the maximum for each element will only be awarded once a stretch target has been reached.	At least 60 per cent and no more than 80 per cent of the annual incentive is subject to financial measures. The weighting on role-specific objectives will not exceed 25 per cent, and any remaining portion will be subject to measurable non-financial metrics.  For the bonus deferral award, no other performance conditions apply because it is based on performance already delivered.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Purpose and link to strategy	Operation of element of policy	Maximum opportunity	Performance metrics
<b>Restricted Share Plan (RSP)</b>  Incentivises long-term shareholder value creation, and retention.	<p>The RSP is a discretionary plan targeted at key senior executives and managers of the Group who directly influence shareholder value. The RSP consists of an award of the Company's shares which vests as long as the executive remains employed by the Company at the time of vesting and subject to the assessment of the underpin. On vesting, in line with the rules of the RSP and IAG's philosophy to encourage and facilitate employee shareholding, participants may elect to self-fund any tax due rather than sell a portion of their share award to meet tax liabilities.</p> <p>Malus and clawback provisions apply – see below.</p> <p>Following the assessment of the underpin, there is normally an additional holding period of at least two years.</p>	<p>2021 Policy - The face value of an award will not exceed 100 per cent of salary at the time of the award. An executive will have a maximum of one award in respect of any financial year of the Company.</p> <p><b>Proposed 2022 Policy amendment to replace 2021 maximum opportunity:</b></p> <p>The face value of an award will not exceed 150 per cent of salary at the time of the award. An executive will have a maximum of one award in respect of any financial year of the Company.</p>	No performance measures are associated with the awards. Vesting will be contingent on the satisfaction of a discretionary underpin, assessed three years after grant. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance may include elements such as revenue, profitability, cash generation, return on capital and benchmarked with comparable airlines. Non-financial performance may include a range of operational and strategic measures critical to the Company's long-term sustainable success. Whilst the RSP provides a greater certainty of reward by its very nature, the Committee will ensure any value delivered to executive directors is fair and appropriate in the context of the performance of the business and experience of our stakeholders and that corporate or individual failure is not rewarded. In the case of significant failure on the part of the Company or the individual, vesting may be reduced, including to nil. Full disclosure of the Committee's considerations in assessing the underpin will be disclosed in the relevant Directors' Remuneration Report at the point of vesting.
<b>Benefits</b>  Ensures total package is competitive.	Benefits include, but are not limited to, life insurance, personal travel and, where applicable, a company car, fuel, and private health insurance. Where appropriate, benefits may include relocation and international assignment costs. Executives will also be reimbursed for all reasonable expenses.	There is no formal maximum. In general, the Company expects to maintain benefits at the current level.	
<b>Pension</b>  Provides post-retirement remuneration and ensures total package is competitive.	The Company operates a defined contribution scheme as a percentage of salary, and all executive directors are eligible for membership. Executives can opt instead to receive a salary supplement in lieu of a pension.	The level of employer contribution for executive directors, expressed as a percentage of basic salary, will be in line with the rate applicable to the majority of the workforce in the country in which the executive director is based. For the UK workforce, this is currently 12.5 per cent of basic salary.	
<b>Performance Share Plan</b>	There will be no further awards made under this plan. Legacy awards will continue to vest.		

## Information supporting the policy tables

### Shareholding requirements

In order to increase alignment with shareholders, executive directors are required to build up a minimum personal shareholding equal to a set percentage of base salary. The share price used to calculate the guideline is either the share price on the date of award or on the date of vesting/exercise. Executive directors will be required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained. The CEO of IAG is required to build up and maintain a shareholding of 350 per cent of basic salary, and other executive directors are required to build up and maintain a shareholding of 200 per cent of basic salary.

On departure, executive directors will be required to hold the number of shares in line with their in-employment shareholding requirement (or the number of shares that they own at departure if lower) for two years from their date of termination from the Group. Shares will normally be retained in the nominee account administered by the Company to ensure this.

### Malus and clawback provisions

The Board, following the advice of the Committee, has authority to reduce or cancel awards before they are satisfied (and/or impose additional conditions on awards), and to recover payments, if special circumstances exist. These special circumstances include (but are not limited to) fraud; material breach of any law, regulation or code of practice; an error or a material misstatement of results leading to overpayment or over-allocation; misconduct; failure of risk management; the occurrence of an exceptional event affecting the Company's value or reputation; payments based on results that are subsequently found to be materially financially inaccurate or misleading; serious reputational damage as a result of a participant's behaviour; corporate failure; or any other circumstances in which the Board considers it to be in the interests of shareholders for the award to lapse or be adjusted. This is aligned with the latest version of the UK Corporate Governance Code provisions.

For RSP and PSP awards, clawback provisions apply for two years post vesting (which will usually align with the additional holding period). For the bonus deferral awards, there will be three years from the date of award in which shares can be withheld, i.e. the entire period from the date of the award until vesting. For the cash element of the annual incentive plan, clawback provisions apply for three years from the date of payment. The proportion of an award to be withheld or recovered will be at the discretion of the Board, upon consideration of the Committee, taking into account all relevant matters.

### Discretion to adjust formulaic outcomes

The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to adjust (including preventing them in their entirety and making no payment) the formulaic outcome of incentive award payments in order to, in its opinion, properly reflect overall corporate performance. This includes where the business has had an exceptional event, in particular events that significantly impact stakeholders. This will include analysing the performance of the participant and the underlying financial performance of the Group to check whether they have been satisfactory in the circumstances and whether vesting levels reflect overall corporate performance. The Remuneration Committee can also take other factors as it considers relevant into account. Underlying financial performance is defined as the overall performance of the Company, which may be considered with reference to a range of measures as the Remuneration Committee considers most appropriate at the time. Stakeholders would include shareholders, customers, and the Company's workforce. The Board also has authority to reduce the award levels and/or the vesting outcomes for the former PSP and the RSP where the Company has experienced a significant fall in share price, as a result of which it considers that participants have unduly benefitted from windfall gains.

### Benefits, expenses and taxation

The Board may arrange to settle any taxes and associated expenses payable if it deems such settlement appropriate, including, but not limited to tax on benefits or where, without such settlement, the executive will be subject to double taxation on the same remuneration amount.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Non-executive directors**

The table below summarises the main elements of remuneration for non-executive directors:

Purpose and link to strategy	Operation of element of policy	Maximum opportunity
<b>Basic fees</b> Fees take into account the level of responsibility, experience, abilities and dedication required.	Fees are set with reference to market positioning.  To acknowledge the key role of the Chair of the Board of Directors, fees are set separately for this role. There is also an additional fee for undertaking the role of Senior Independent Director, and also for holding a Committee chair position. There is no additional fee for Committee membership.  Non-executive director fees will take into account external market conditions to ensure it is possible to attract and retain the necessary talent. There is no specific review date set, but it is the Company's intention to review fees from time to time.	The maximum annual aggregate gross remuneration (including annual basic fees and benefits, including travel benefits) payable to directors shall not exceed €3,500,000 as approved by the Shareholders' Meeting on October 19, 2010, in accordance with article 37.3 of the Company's Bylaws.
<b>Benefits</b>	Non-executive directors (including the Board Chair) are entitled to use air tickets of the airlines of the Company or related to the Company in accordance with the terms and conditions established in the Company travel scheme.  As provided for under article 37.8 of the Company's Bylaws this benefit may also be provided to non-executive directors after they have vacated office in accordance with the terms and conditions established in the Company travel scheme.	The maximum total annual gross amount of the personal travel benefit is €500,000 for all non-executive directors taken together (including any former non-executive director who may enjoy this benefit at any given time).

**Remuneration scenarios**

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely executive directors' interests with shareholder interests. The proposed amendment to the policy for 2022 seeks to increase the opportunity level for long-term incentive component, therefore rebalancing the Executive Director's overall package more towards share-based, deferred remuneration and thereby increasing the proportion of overall remuneration opportunity directly aligned to shareholder's interests.

The chart on the following page shows the 2021 remuneration outturn for the Executive Director set against various remuneration outturn scenarios under the proposed 2022 policy opportunity structure. The scenarios illustrated include the minimum remuneration receivable, the remuneration receivable if the director performs in line with the Company's expectations, the maximum remuneration receivable, and the maximum remuneration receivable with 50 per cent share price growth. With the exception of the illustration showing 50 per cent share price growth, no share price variation is taken into consideration in these scenarios.

**IAG CEO - 2022 remuneration scenario assumptions**

Fixed remuneration is basic salary as at January 1, 2022 (£820,000 (€950,134), plus taxable benefits (est. £275,000 (€318,642), plus pension-related benefits (2022 level of £102,500 (€118,766). The value of 2021 taxable benefits includes a fixed-term transitional allowance of £250,000 p.a. (payable only until December 2022), as described on page 169.

The annual incentive amount is zero at the minimum remuneration level, £820,000 (€950,134) at the on-target level (equivalent to 100 per cent of salary), and £1,640,000 (€1,900,268) at maximum (equivalent to 200 per cent of salary).

The long-term incentive (RSP) opportunity is presented on the basis of the proposed 2022 policy amendment which increases the Executive Director's opportunity from 100 per cent of salary to 150 per cent of salary. RSP outturns are shown as zero at the minimum remuneration level, £1,230,000 (€1,425,201) at the on-target level (equivalent to 150 per cent of salary) and £1,845,000 (€2,137,802) at the maximum level, which includes a 50 per cent share price appreciation, solely for the purpose of illustrating a wider range of potential remuneration outcomes.

In contrast to the reporting of executive director remuneration in the 2021 single total figure of remuneration table where RSP value is shown at vesting rather than grant, for illustrative purposes for the scenario modelling opposite, RSP values for 2021 and 2022 are shown at time of grant rather than time of vesting.

Euro amounts are shown at the 2021 exchange rate GBP 1: EUR 1.1587.

## Remuneration scenarios: IAG CEO 2021 remuneration outcome vs proposed 2022 remuneration opportunity

2021 IAG CEO actual remuneration	£1,110,000 (€1,286,157)	£820,000 (€950,134)	£1,930,000 (€2,236,291)		
2022 Minimum (fixed only) <sup>1</sup>	£1,197,500 (€1,387,543)	£1,197,500 (€1,387,543)			
2022 On-target <sup>1</sup>	£1,197,500 (€1,387,543)	£820,000 (€950,134)	£1,230,000 (€1,425,201)	£3,247,500 (€3,762,878)	
2022 Maximum <sup>1</sup>	£1,197,500 (€1,387,543)	£1,640,000 (€1,900,268)	£1,230,000 (€1,425,201)	£4,067,500 (€4,713,012)	
2022 Maximum, plus share price growth <sup>1</sup>	£1,197,500 (€1,387,543)	£1,640,000 (€1,900,268)	£1,845,000 (€2,137,802)	£4,682,500 (€5,425,613)	
O	1,000,000	2,000,000	3,000,000	4,000,000	5,000,000
	■ Fixed Remuneration				
	■ Annual Incentive				
	■ Long-term incentive (RSP)				

1 Fixed remuneration includes a transitional allowance of £250,000 p.a. (payable until the end of 2022 only), as described on page 169.

### Remuneration policy below director level

Managers at the operating companies in the Group participate in their own company annual incentive plans. These all have performance measures specific to their operating company, and are typically financial, operational, and customer service measures.

Selected senior managers participate in RSP under Executive Share Plan rules. Employees below senior manager level do not participate in RSP.

### Notes to the policy tables

The Board may make any remuneration payments and payments for loss of office (and exercise any discretions available to it in connection with such payments) which are not in line with this Remuneration Policy, where the terms of the payment were agreed (i) before this policy came into effect (provided that they were in line with any applicable directors' Remuneration Policy in force at the time they were agreed) or (ii) at a time when the relevant individual was not a director of the Company and such payment was not, in the Board's opinion, in consideration of the individual becoming a director. For these purposes 'payments' include the Board satisfying awards of variable remuneration and, in respect a share award, the terms of the payment are agreed at the time the award is granted. This will also include the vesting of any awards granted under the IAG PSP. The Board may also make remuneration payments and payments for loss of office outside of the policy set out above if such payments are required by law in a relevant country.

### External non-executive directorship

The Company's consent is required before an executive can accept an external non-executive appointment and permission is only given in appropriate circumstances. The Company allows the executive to retain any fee from such appointments.

### Approach to recruitment remuneration

The remuneration for new executive directors will be in line with the policy for current executive directors as far as possible, as expressed in the policy table earlier in this report.

On appointment, new executive directors will have their basic salary set by taking into account the external market, their peers, and their level of experience. New executive directors will participate in the annual and long-term incentives on the same basis as existing directors.

To facilitate recruitment, the Board, after considering the recommendation of the Committee, may make one-off awards to buy out variable pay or contractual rights forfeited on leaving a previous employer. Generally, such buy-out awards will be made on a comparable basis to those forfeited giving due regard to all relevant factors (including value, performance targets, the likelihood of those targets being met and vesting periods). In such circumstances, shareholders will be provided with full details and rationale in the next published Remuneration Report.

Excluding the value of any potential buy-out, the maximum value of variable remuneration offered at recruitment will be no more than that awarded to current directors.

In the case of an internal promotion to executive director, the Company will continue to honour any commitments made before promotion. Other than that, the remuneration arrangements on recruitment will be as above.

Non-executive directors will be recruited in line with the Company's Remuneration Policy principles outlined before.

### Consideration of employment conditions elsewhere in the Group

The Committee is updated on pay and conditions of the employees within the Group and takes this into account when considering executive directors' remuneration.

The pay of employees across all companies in the Group is taken into account when determining the level of any increase in the annual salary review of directors. This takes place each year at the January Committee meeting.

When determining the RSP awards for executive directors, the Committee takes note of the eligibility criteria and the potential size of awards for executives below director level in all companies within the Group.

At the operating company level, the company consults with employee representative bodies, including trade unions and works councils. This will include consultation on company strategy, the competitive environment, and employee terms and conditions. In addition, some of the operating companies run employee opinion surveys in order to take into consideration employee views on a variety of subjects, including leadership, management, and the wider employee experience.

## CONSOLIDATED INCOME STATEMENT

	Note	Year to December 31	
		2021	2020 <sup>1</sup>
€ million			
Passenger revenue		<b>5,835</b>	5,512
Cargo revenue		<b>1,673</b>	1,306
Other revenue		<b>947</b>	988
<b>Total revenue</b>	5	<b>8,455</b>	7,806
Employee costs	8	<b>3,013</b>	3,585
Fuel, oil costs and emissions charges		<b>1,781</b>	3,735
Handling, catering and other operating costs		<b>1,308</b>	1,340
Landing fees and en-route charges		<b>923</b>	918
Engineering and other aircraft costs		<b>1,085</b>	1,456
Property, IT and other costs		<b>758</b>	782
Selling costs		<b>434</b>	405
Depreciation, amortisation and impairment	6	<b>1,932</b>	2,955
Currency differences		<b>(14)</b>	81
Total expenditure on operations		<b>11,220</b>	15,257
<b>Operating loss</b>		<b>(2,765)</b>	(7,451)
Finance costs	9	<b>(830)</b>	(670)
Finance income	9	<b>13</b>	41
Net change in fair value of convertible bond		<b>89</b>	-
Net financing (charge)/credit relating to pensions	9	<b>(2)</b>	12
Net currency retranslation (charges)/credits		<b>(82)</b>	245
Other non-operating credits/(charges)	9	<b>70</b>	(4)
Total net non-operating costs		<b>(742)</b>	(376)
<b>Loss before tax</b>		<b>(3,507)</b>	(7,827)
Tax	10	<b>574</b>	892
<b>Loss after tax for the year</b>		<b>(2,933)</b>	(6,935)
<b>Attributable to:</b>			
Equity holders of the parent		<b>(2,933)</b>	(6,935)
Non-controlling interest		<b>-</b>	-
		<b>(2,933)</b>	(6,935)
<b>Basic loss per share (€ cents)</b>	11	<b>(59.1)</b>	(196.6)
<b>Diluted loss per share (€ cents)</b>	11	<b>(59.1)</b>	(196.6)

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

€ million	Note	Year to December 31	
		<b>2021</b>	<b>2020<sup>1</sup></b>
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity		<b>794</b>	(2,171)
Reclassified and reported in net profit		<b>(81)</b>	1,871
Fair value movements on cost of hedging		<b>10</b>	(16)
Cost of hedging reclassified and reported in net profit		<b>(12)</b>	(19)
Currency translation differences	31	<b>(12)</b>	(213)
<i>Items that will not be reclassified to net profit</i>			
Fair value movements on other equity investments		-	(53)
Fair value movements on cash flow hedges		<b>54</b>	(45)
Fair value movements on cost of hedging		-	26
Fair value movements on liabilities attributable to credit risk changes		<b>(15)</b>	-
Remeasurements of post-employment benefit obligations		<b>1,400</b>	(587)
Remeasurements of long-term employee-related provisions		<b>25</b>	(9)
Total other comprehensive loss for the year, net of tax		<b>2,163</b>	(1,216)
Loss after tax for the year		<b>(2,933)</b>	(6,935)
<b>Total comprehensive loss for the year</b>		<b>(770)</b>	(8,151)
Total comprehensive loss is attributable to:			
Equity holders of the parent		<b>(770)</b>	(8,151)
Non-controlling interest	31	-	-
		<b>(770)</b>	(8,151)

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

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

## CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2021	December 31, 2020 <sup>1</sup>	December 31, 2019 <sup>1</sup>
<b>Non-current assets</b>				
Property, plant and equipment	13	<b>17,161</b>	17,531	19,168
Intangible assets	17	<b>3,239</b>	3,208	3,442
Investments accounted for using the equity method	18	<b>40</b>	29	31
Other equity investments	19	<b>31</b>	29	82
Employee benefit assets	32	<b>1,775</b>	334	531
Derivative financial instruments	28	<b>77</b>	42	268
Deferred tax assets	10	<b>1,282</b>	1,075	546
Other non-current assets	20	<b>250</b>	228	273
		<b>23,855</b>	22,476	24,341
<b>Current assets</b>				
Non-current assets held for sale	16	<b>20</b>	-	-
Inventories		<b>334</b>	351	565
Trade receivables	20	<b>735</b>	557	2,255
Other current assets	20	<b>960</b>	792	1,314
Current tax receivable	10	<b>16</b>	101	186
Derivative financial instruments	28	<b>543</b>	122	324
Current interest-bearing deposits	21	<b>51</b>	143	2,621
Cash and cash equivalents	21	<b>7,892</b>	5,774	4,062
		<b>10,551</b>	7,840	11,327
<b>Total assets</b>		<b>34,406</b>	30,316	35,668
<b>Shareholders' equity</b>				
Issued share capital	29	<b>497</b>	497	996
Share premium	29	<b>7,770</b>	7,770	5,327
Treasury shares		<b>(24)</b>	(40)	(60)
Other reserves		<b>(7,403)</b>	(6,623)	851
<b>Total shareholders' equity</b>		<b>840</b>	1,604	7,114
Non-controlling interest	31	<b>6</b>	6	6
<b>Total equity</b>		<b>846</b>	1,610	7,120
<b>Non-current liabilities</b>				
Borrowings	25	<b>17,084</b>	13,464	12,411
Employee benefit obligations	32	<b>285</b>	477	326
Deferred tax liability	10	<b>-</b>	40	290
Provisions	26	<b>2,267</b>	2,286	2,416
Deferred revenue on ticket sales	23	<b>391</b>	473	-
Derivative financial instruments	28	<b>47</b>	310	286
Other long-term liabilities	24	<b>208</b>	140	71
		<b>20,282</b>	17,190	15,800
<b>Current liabilities</b>				
Borrowings	25	<b>2,526</b>	2,215	1,843
Trade and other payables	22	<b>3,712</b>	2,810	4,344
Deferred revenue on ticket sales	23	<b>6,161</b>	4,657	5,486
Derivative financial instruments	28	<b>126</b>	1,160	252
Current tax payable	10	<b>21</b>	48	192
Provisions	26	<b>732</b>	626	631
		<b>13,278</b>	11,516	12,748
<b>Total liabilities</b>		<b>33,560</b>	28,706	28,548
<b>Total equity and liabilities</b>		<b>34,406</b>	30,316	35,668

<sup>1</sup> The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

**CONSOLIDATED CASH FLOW STATEMENT**

€ million	Note	Year to December 31	
		<b>2021</b>	<b>2020<sup>1,2</sup></b>
<b>Cash flows from operating activities</b>			
Operating loss		<b>(2,765)</b>	(7,451)
Depreciation, amortisation and impairment	6	<b>1,932</b>	2,955
Movement in working capital		<b>1,634</b>	1,161
<i>(Increase)/decrease in trade receivables, inventories and other current assets</i>		(351)	2,281
<i>Increase/(decrease) in trade and other payables and deferred revenue on ticket sales</i>		1,985	(1,120)
Payments related to restructuring	26	<b>(161)</b>	(383)
Employer contributions to pension schemes		<b>(41)</b>	(318)
Pension scheme service costs	32	<b>26</b>	30
Provision and other non-cash movements		<b>305</b>	486
Settlement of derivatives where hedge accounting has been discontinued		<b>(497)</b>	569
Interest paid		<b>(640)</b>	(548)
Interest received		<b>3</b>	22
Tax received		<b>63</b>	45
<b>Net cash flows from operating activities</b>		<b>(141)</b>	(3,432)
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		<b>(744)</b>	(1,939)
Sale of property, plant and equipment and intangible assets and investments		<b>544</b>	1,133
Decrease in other current interest-bearing deposits		<b>91</b>	2,366
Other investing movements <sup>3</sup>		<b>(72)</b>	2
<b>Net cash flows from investing activities</b>		<b>(181)</b>	1,562
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>4,817</b>	3,567
Repayment of borrowings		<b>(784)</b>	(978)
Repayment of lease liabilities		<b>(1,481)</b>	(1,536)
Dividend paid	12	-	(53)
Acquisition of treasury shares		<b>(24)</b>	-
Settlement of derivative financial instruments		<b>(268)</b>	136
Proceeds from rights issue		-	2,674
Other financing movements		<b>(25)</b>	-
<b>Net cash flows from financing activities</b>		<b>2,235</b>	3,810
Net increase in cash and cash equivalents		<b>1,913</b>	1,940
Net foreign exchange differences		<b>205</b>	(228)
Cash and cash equivalents at 1 January		<b>5,774</b>	4,062
<b>Cash and cash equivalents at year end</b>	21	<b>7,892</b>	5,774
<b>Interest-bearing deposits maturing after more than three months</b>	21	<b>51</b>	143
<b>Cash, cash equivalents and interest-bearing deposits</b>	21	<b>7,943</b>	5,917

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

2 The 2020 results include a reclassification to conform with the current year presentation regarding settlement of derivative financial instruments. Further information is given in note 2.

3 Other investing movements include the Air Europa settlement payment. Refer to note 31 for further information.

For details on restricted cash balances refer to note 21 Cash, cash equivalents and current interest-bearing deposits.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2021

€ million	Issued share capital (note 29)	Share premium (note 29)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2021 (restated) <sup>1</sup>	497	7,770	(40)	(2,420)	(4,203)	1,604	6	1,610
Loss for the year	-	-	-	-	(2,933)	(2,933)	-	(2,933)
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	18	-	18	-	18
Fuel and oil costs	-	-	-	(45)	-	(45)	-	(45)
Currency differences	-	-	-	(15)	-	(15)	-	(15)
Finance costs	-	-	-	23	-	23	-	23
Discontinuance of hedge accounting	-	-	-	(62)	-	(62)	-	(62)
Net change in fair value of cash flow hedges	-	-	-	848	-	848	-	848
Net change in fair value of cost of hedging	-	-	-	10	-	10	-	10
Cost of hedging reclassified and reported in net profit	-	-	-	(12)	-	(12)	-	(12)
Fair value movements on liabilities attributable to credit risk changes	-	-	-	(15)	-	(15)	-	(15)
Currency translation differences	-	-	-	(12)	-	(12)	-	(12)
Remeasurements of post-employment benefit obligations	-	-	-	-	1,400	1,400	-	1,400
Remeasurements of long-term employee-related provisions	-	-	-	-	25	25	-	25
Total comprehensive loss for the year	-	-	-	738	(1,508)	(770)	-	(770)
Hedges reclassified and reported in property, plant and equipment	-	-	-	9	-	9	-	9
Cost of share-based payments	-	-	-	-	23	23	-	23
Vesting of share-based payment schemes	-	-	40	-	(42)	(2)	-	(2)
Acquisition of treasury shares	-	-	(24)	-	-	(24)	-	(24)
<b>December 31, 2021</b>	<b>497</b>	<b>7,770</b>	<b>(24)</b>	<b>(1,673)</b>	<b>(5,730)</b>	<b>840</b>	<b>6</b>	<b>846</b>

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2020

€ million	Issued share capital (note 29)	Share premium (note 29)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	Total shareholders' equity	Non- controlling interest (note 31)	Total equity
January 1, 2020 (reported) <sup>1</sup>	996	5,327	(60)	(2,579)	3,139	6,823	6	6,829
Change in accounting policy <sup>1</sup>	-	-	-	-	291	291	-	291
January 1, 2020 (restated)	996	5,327	(60)	(2,579)	3,430	7,114	6	7,120
Loss for the year	-	-	-	-	(6,935)	(6,935)	-	(6,935)
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	50	-	50	-	50
Fuel and oil costs	-	-	-	356	-	356	-	356
Currency differences	-	-	-	18	-	18	-	18
Finance costs	-	-	-	12	-	12	-	12
Discontinuance of hedge accounting	-	-	-	1,435	-	1,435	-	1,435
Net change in fair value of cash flow hedges	-	-	-	(2,216)	-	(2,216)	-	(2,216)
Net change in fair value of equity investments	-	-	-	(53)	-	(53)	-	(53)
Net change in fair value of cost of hedging	-	-	-	10	-	10	-	10
Cost of hedging reclassified and reported in net profit	-	-	-	(19)	-	(19)	-	(19)
Currency translation differences <sup>1</sup>	-	-	-	(213)	-	(213)	-	(213)
Remeasurements of post-employment benefit obligations <sup>1</sup>	-	-	-	-	(587)	(587)	-	(587)
Remeasurements of long-term employee-related provisions	-	-	-	-	(9)	(9)	-	(9)
Total comprehensive income for the year	-	-	-	(620)	(7,531)	(8,151)	-	(8,151)
Capex hedging reclassified and reported in property, plant and equipment	-	-	-	(18)	-	(18)	-	(18)
Cost of share-based payments	-	-	-	-	(10)	(10)	-	(10)
Vesting of share-based payment schemes	-	-	20	-	(22)	(2)	-	(2)
Share capital reduction	(797)	-	-	797	-	-	-	-
Rights issue	298	2,443	-	-	(70)	2,671	-	2,671
December 31, 2020 restated <sup>1</sup>	497	7,770	(40)	(2,420)	(4,203)	1,604	6	1,610

<sup>1</sup> The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

## 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, 2021 were authorised for issue, and approved by the Board of Directors on February 24, 2022.

### Presentation of results

The prior period Cash flow statement includes a reclassification to conform with the current period of presentation regarding the settlement of foreign currency derivative financial instruments not designated in a hedge relationship, but entered into to mitigate foreign exchange movements on long-term financial liabilities in currencies other than the functional currencies of the operating companies holding the liabilities. Accordingly, the Group has reclassified the results for the year ended December 31, 2020 to recognise €136 million of derivative settlement cash inflows as Settlement of derivative financial instruments within cash flows from financing activities with a corresponding increase in cash outflows within cash flows from operating activities.

### Change in accounting policy

During 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with British Airways' Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) defined benefit schemes, while remaining in compliance with IAS 19. The change in policy has been adopted to better reflect the underlying management and operation of these schemes. This change in accounting policy has been applied retrospectively to the consolidated financial statements.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. These administration costs were recognised as a service cost in the year in which such costs arose and recorded within Other comprehensive income. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing credit relating to pensions in the Income statement, as well as increased the Remeasurements of post-employment benefit obligations and Currency translation differences in the Statement of other comprehensive income for the year ended December 31, 2020.

Further details of the accounting policy change are given in note 36.

### 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, 2021, the Group had total liquidity of €11,986 million (December 31, 2020: total liquidity of €8,054 million), comprising cash and interest-bearing deposits of €7,943 million, €2,917 million of committed and undrawn general facilities and a further €1,126 million of committed and undrawn aircraft specific facilities.

The increase in liquidity during the year to December 31, 2021 was attributable to, amongst other actions, accessing €2.3 billion (£2.0 billion) of the UK Export Finance (UKEF) Credit Facility, the issuance of fixed rate bonds of €1.2 billion, the issuance of a convertible bond of €0.8 billion, securing a multi-entity three-year Revolving Credit Facility (RCF) of €1.5 billion (\$1.8 billion), securing a €0.7 billion aircraft specific facility achieved as part of an Enhanced Equipment Trust Certificate (EETC) financing structure and securing an additional UKEF Credit Facility of €1.2 billion (£1.0 billion). These actions raised an additional €7.6 billion of liquidity. Of facilities in place at December 31, 2021, €0.7 billion matures by the end of the going concern period. A loan from the Ireland Strategic Investment Fund (ISIF) of €150 million has limited financial covenants, but otherwise the Group's facilities do not have financial covenants. There are a number of non-financial covenants to protect the position of the lenders, 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 2021.

In its assessment of going concern over the period to June 30, 2023 (the 'going concern period'), the Group has modelled three scenarios referred to below as the Base Case, the Downside Case and the Downside Lockdown Case. The Group's three-year business plan, prepared and approved by the Board in December 2021, was subsequently refreshed with the latest available internal and external information in February 2022. This refreshed business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact of and recovery from the COVID-19 pandemic on the Group's businesses 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 restrictions, including testing and quarantine requirements, between countries are assumed to continue to be scaled back and removed;
- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 34 per cent in quarter 1 2022 (compared to the equivalent period in 2019) to pre-pandemic levels by the end of the going concern period with the average over the going concern period being 11 per cent down versus 2019;
- Passenger unit revenue per ASK, although forecast to continue to recover, is assumed 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 assumption 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 €2.9 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €2.7 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 €1.1 billion, €0.9 billion would be available to be drawn over the going concern period if required, but is not expected to be drawn;
- Of the capital commitments detailed in note 15, €4.3 billion is due to be paid over the going concern period of which the Group has committed aircraft financing of €0.6 billion, under the EETC financing structure, and the Group has further forecast securing 80 per cent, or €2.7 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 Group has assumed that the €0.5 billion convertible bond that matures in November 2022 will be refinanced.

The Downside Case applies 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 existing 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 are delayed by a quarter under the Downside Case and would reach those of the Base Case at the end of the Going Concern period. In the Downside Case, over the going concern period capacity would be 17 per cent down on 2019. The Downside Case assumes that there would be no drawing on either of the RCF and the UKEF credit facility. The Directors consider the Downside Case to be a severe but plausible scenario.

In addition, the Group has sensitised the Downside Case to incorporate the occurrence of a two-month lockdown, and associated travel restrictions, during the second quarter of 2022, a scenario referred to as the Downside Lockdown Case. The Downside Lockdown Case is representative of the emergence of more virulent strains of COVID-19 and/or strains for which the efficacy of existing vaccines is reduced. The Downside Lockdown Case assumes that there would be full drawing on both the RCF and the UKEF credit facility. Subsequent to this lockdown, capacity is assumed to recover gradually over the going concern period and to only recover to the Base Case by the end of 2023. In this scenario, over the going concern period capacity would be 35 per cent down on 2019. Consistent with the Downside Case, the Directors consider the Downside Lockdown Case to be an alternative severe but plausible scenario.

Under all three scenarios modelled, the Group's limited financial covenants are forecast to be met.

The Group has modelled the impact of further deteriorations in capacity operated and yield, but also considered further mitigating actions, such as reducing 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.

Having reviewed the Base Case, Downside Case, Downside Lockdown Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern period and hence continue to adopt the going concern basis in preparing the consolidated financial statements for the year to December 31, 2021.

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 speed at which vaccines are deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Directors, 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 Group may need to secure sufficient additional funding. Sources of additional funding are expected to include 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 24, 2022 that could cast significant doubt upon the Group's ability to continue as a going concern and therefore, to continue to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements for the year to December 31, 2021 do not include the adjustments that would result if the Group was unable to continue as a going concern.

## 2 Significant accounting policies continued

### Consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries, each made up to December 31, together with the attributable share of results and reserves of associates and joint ventures, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the Consolidated balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intragroup account balances, including intragroup profits, are eliminated in preparing the consolidated financial statements.

### Unconsolidated structured entities

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances the Group will undertake several such sale and leaseback transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company or companies (the EETC Issuer) are established to facilitate such financing on behalf of a number of unrelated investors. In certain of these financing structures, additional special purpose vehicles (the Lessor SPV) are established to provide additional financing from a number of further unrelated investors to the EETC Issuer. The proceeds from the issuance of the EETCs by the EETC Issuer, and where relevant the proceeds obtained from the Lessor SPV, are then used to purchase aircraft solely from the Group. The Group will then enter into lease arrangements (which meet the recognition criteria of Asset financed liabilities) with the EETC Issuer, or where relevant the Lessor SPV, with payments made by the Group to the EETC Issuer, or the Lessor SPV, 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 and the Lessor SPV are established solely with the purpose of providing the asset-backed financing and upon maturity of such financing are expected to have no further activity. The relevant activities of the EETC Issuer and the Lessor SPV 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 and the Lessor SPVs are structured entities. Under the contractual terms of the financing structures, the Group has no exposure to losses in these entities, does not own any of the share capital of the EETC Issuer or the Lessor SPV, 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 and Lessor SPVs because its involvement is limited to the payment of principal and interest under the arrangement and, therefore, it does not control the EETC Issuers or the Lessor SPVs 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 23 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.

Certain 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, equipment and other assets. 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 tangible asset for a period of time in exchange for consideration. The Group has elected not to apply such consideration where the contract relates to an intangible asset, in which case payments associated with the contract are expensed as incurred.

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; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs to return the asset to its original condition, for which a corresponding amount is 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.

## 2 Significant accounting policies continued

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 re-assessed 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 are 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. The principal criteria for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred, and; if no such repurchase option exists, then a sale is deemed to have occurred.

### Cash flow presentation

Lease payments are presented as follows in the Consolidated cash flow statement: the proceeds received from sale and leaseback transactions are presented within cash flows from investing activities; 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, up to June 30, 2021, not to assess whether a COVID-19 related rent concession is a lease modification. On March 31, 2021, the IASB extended the period for the application of these concessions through to June 30, 2022. The EU subsequently adopted the amendment on August 31, 2021. The extended amendment is effective for annual reporting periods commencing on or after April 1, 2021 and the Group has elected to adopt this amendment for the year to December 31, 2021.

### Lessor accounting

From time to time the Group will lease, to third parties, specific assets, including certain property, plant and equipment. On inception of the lease, the Group determines whether each lease is a finance lease or an operating lease.

In order to make this determination, the Group assesses whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Factors in making this assessment include, but are not limited to, whether the lease term is for the major part of the economic life of the underlying asset and whether the underlying asset transfers to the lessee or the lessee has the option to purchase the underlying asset at the end of the lease. Where substantially all of the risks and rewards of ownership have been transferred, then the lease is recorded as a finance lease, otherwise it is recorded as an operating lease.

### 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 United Kingdom and the EU are not amortised, as regulations provide that these landing rights are perpetual.

#### **e Contract-based intangibles**

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

#### **f Software**

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

#### **g Emissions allowances**

Where an operating company purchases emissions allowances, such that it has a surplus of allowances when compared to the amount required to discharge its obligations to the relevant authorities, these amounts are recognised at cost and recorded within Other intangible assets. Emissions allowances recorded within Other intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. Where an operating company has a deficit of allowances compared to the amount required to discharge its obligations to the relevant authorities, the Group recognises a provision for the outstanding amount, measured at the market price of such an allowance at the reporting date.

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

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

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

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

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

#### **b Intangible assets**

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

### **Investments in associates and joint ventures**

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

### **Financial instruments**

#### **a Other equity investments**

Other equity investments are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. On initial recognition, these equity investments are irrevocably designated as measured at fair value through Other comprehensive income. They are subsequently measured at fair value, with changes in fair value recognised in Other comprehensive income with no recycling of these gains and losses to the Income statement when the investment is sold. Dividends received on other equity investments are recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

#### **b Interest-bearing deposits**

Interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are solely payments of principal and interest, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

## 2 Significant accounting policies continued

### c Derivative and non-derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap derivatives, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and forward contracts) 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 forward contracts are used to hedge forecast transactions, the Group generally designates only the spot component of the forward contract as the hedging instrument within a hedge relationship. Gains or losses arising on the change in fair value of the spot component are recognised within Other comprehensive income in the cash flow hedge reserve within equity. The forward component of a forward contract is not designated within a hedge relationship, with the associated gains and losses on the forward component recorded within Other comprehensive income in the Cost of hedging reserve within equity until the underlying transaction affects the Income statement.

To manage foreign exchange movements on foreign currency revenues (denominated in US dollars, euros, Japanese yen and Chinese yuan), certain non-derivative repayment instalments on foreign currency-denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Revaluations arising from movements in foreign exchange rates are recorded within Other comprehensive income in the cash flow hedge reserve. Accumulated gains or losses within the cash flow hedge reserve are reclassified to Passenger revenue in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur.

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, if the initial forecast transaction is still expected to occur, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedge item impacts the Income statement. Where there is a change in the risk management objective, then hedge accounting is discontinued and the associated cumulative gain or loss arising prior to the change in risk management objective remains in the cash flow hedge reserve until such time as the underlying hedged item impacts the Income statement had the risk management objective continued to have been met. Where a forecast transaction which was previously determined to be highly probable and for which hedge accounting applied, is no longer expected to occur, hedge accounting is discontinued and the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the Income statement.

The Group enters into foreign currency derivative contracts, that are not designated in a hedge relationship, in order to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentational currency of the Group, including but not limited to, lease liabilities. Movements in the fair value of such derivatives are recognised in the Income statement in the period in which they occur and are presented within Net currency retranslation (charges)/credits.

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 in a hedge relationship of a highly probable expected future transaction are assessed for effectiveness and accordingly recorded in the Cash flow hedge reserve within equity.

#### Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: (i) there is 'an economic relationship' between the hedged item and the hedging instrument; (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and (iii) the hedge ratio is aligned with the requirements of the Group's risk management strategy and in all instances is maintained at a ratio of 1:1.

Sources of ineffectiveness include the following:

- In hedges of fuel purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty; and
- In hedges of interest rate payments, ineffectiveness may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty.

Ineffectiveness is recorded within the Income statement as Realised/unrealised (losses)/gains on derivatives not qualifying for hedge accounting and presented within Other non-operating charges.

#### Reclassification adjustments

Gains and losses accumulated in the Cash flow hedge reserve within equity are reclassified from the Cash flow hedge reserve when the hedged item affects the Income statement as follows:

- Where the forecast hedged item results in the recognition of revenue or expenses within the Income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the Income statement within the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised;

- Where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded within both the cash flow hedge reserve and the cost of hedging reserve are included in the initial cost of the asset. These gains or losses are recorded in the Income statement as the non-financial asset affects the Income statement (which for aircraft is through Depreciation over the expected life of the aircraft); and
- Where the forecast hedged items results in the recognition of a financial asset or liability (such as variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the cash flow hedge reserve are reclassified to Interest expense within the Income statement at the same time as the interest expense arises on the hedged item.

Further information on the risk management activities of the Group are given in note 28d.

#### 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 either compound financial instruments or hybrid financial instruments depending on the settlement alternatives upon redemption. Where the bondholders exercise their equity conversion options and the Group has no alternative other than to settle the convertible bonds into a fixed number of ordinary shares of the Company, then the bonds are classified as a compound financial instrument. Where the Group has an alternative settlement mechanism to the convertible bonds that permits settlement in cash, then the convertible instrument is classified as a hybrid financial instrument.

Convertible bonds that are classified as compound financial instruments consist 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 Long-term 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 the equity portion of the convertible bond in Other reserves and is not subsequently remeasured. 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.

Convertible bonds that are classified as hybrid financial instruments consist only of a liability component recognised within Long-term borrowings. At the date of issue, the entirety of the convertible bonds is accounted for at fair value with subsequent fair value gains or losses recorded within Long-term borrowings. The fair value of such financial instruments is obtained from their respective quoted prices in active markets, with the portion of the change in fair value attributable to changes in the credit risk of the convertible bonds recognised in Other comprehensive income and the portion of the change in fair value attributable to market conditions recognised in the Income statement within Finance costs.

Issue costs associated with compound financial instruments 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. Issue costs associated with hybrid financial instruments are expensed immediately to the Income statement.

#### 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.

#### h Interest rate benchmark reform

In 2020 the Group adopted the amendments to IFRS 9 and IFRS 7 relating to the interest rate benchmark reform Phase 1, ('Phase 1') and in 2021 the Group has adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the interest rate benchmark reform Phase 2, ('Phase 2').

The Phase 1 amendments provide temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform does not cause hedge accounting to terminate prior to contracts being amended. Where transition to an alternative benchmark rate has taken place, the Group ceases to apply the Phase 1 amendments and instead applies the Phase 2 amendments.

#### Hedge accounting

Where the Group continues to apply the Phase 1 amendments, the following reliefs are applied:

- when considering the highly probable requirement, the Group has assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the Group's hedged long-term borrowings are based, do not change as a result of IBOR reform;
- in assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the cash flows of the hedged long-term borrowings and the interest rate swaps that hedge them are based, are not altered by IBOR reform; and
- the Group has not recycled the cash flow hedge reserve relating to the period after the IBOR reform is expected to take effect.

## 2 Significant accounting policies continued

When the Group ceases to apply the Phase 1 amendments, the Group amends its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

- designating an alternative benchmark rate (contractually or non-contractually specified) as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows being hedged; or
- amending the description of the hedging instrument.

The associated hedge documentation is updated to reflect these changes in designation by the end of the reporting period in which the changes are made. Such amendments do not give rise to the hedge relationship being discontinued.

When the Group transitions to an alternative benchmark rate, the accumulated amounts within the cash flow hedge reserve are determined to be based on the alternative benchmark rate and no reclassification adjustments are made from the cash flow hedge reserve to the Income statement.

### Long-term borrowings and lease liabilities

Phase 2 of the amendments requires that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate prospectively. No gain or loss is recognised upon transition to the new benchmark. The expedient is only applicable to direct changes that are required by interest rate benchmark reform.

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform.

Further information on the management of and uncertainty arising from interest rate reform is given in note 27i. No amounts have been recorded in the current or prior periods as a result of these amendments.

### 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, net of the relevant taxes, 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 IAS 19 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 and where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

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 inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent 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 as such activity occurs, with a corresponding expense recorded in the Income statement. Any subsequent change in estimation are recognised in the Income statement.

The method for determining legal claims provisions is determined on a claim-by-claim basis. Where a claim includes a significant population of items, the weighted average provision is estimated by determining all potential outcomes and the probability of their occurrence. Where a claim relates to a single item, then the Group determines the associated provision by applying the most likely outcome giving consideration to alternative outcomes. Where an individual claim is significant, the disclosure of quantitative information is restricted to the extent that it does not prejudice the outcome of the claim. 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 effect of unwinding the discount rate is recognised as a finance cost in the Income statement.

### **Revenue recognition**

#### **Passenger revenue**

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 either the customer has flown or, for flexible tickets, when unused ticket revenue is recognised or the ticket expires unused.

At the time of expected travel, revenue is recognised in relation to flexible tickets where a customer can reschedule the date of intended travel, that are not expected to be used, a term referred to as 'unused tickets'. This revenue is recognised based on the terms and conditions of the ticket and analysis of historical experience. For these unused flexible tickets, revenue is recognised only when the risk of a significant reversal of revenue is remote based on the terms and conditions of the ticket and analysis of historical experience. The estimation regarding historical experience is updated at each reporting date.

## 2 Significant accounting policies continued

Where a flight is cancelled, the passenger is entitled to either compensation, a refund, changing to an alternative flight or the receipt of a voucher. Where compensation is issued to the customer, such payments are presented net within Passenger revenue against the original ticket purchased. Where the Group provides a refund to a customer, Deferred revenue on ticket sales is reduced and no amount is recorded within revenue. Where a voucher is issued it is retained within Deferred revenue on ticket sales until such time as it is redeemed for a flight or it expires, at which time it is recorded within Passenger revenue. The Group also recognises revenue by estimating the amount of vouchers that are not expected to be redeemed prior to expiry using analysis of historical experience. The estimation regarding historical experience is updated at each reporting date. The amount of such revenue recognised is constrained, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Payments received in relation to certain ancillary services regarding passenger transportation, such as change fees, are not considered to be distinct from the performance obligation to provide the passenger flight. Payments relating to these ancillary services are recognised in Deferred revenue on ticket sales in current liabilities until the customer has flown.

The Group considers whether it is an agent or a principal in relation to passenger 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, duties 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. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

### Cargo revenue

The Group has identified a single performance obligation in relation to cargo services and the associated revenue is measured at its standalone selling price and recognised on satisfaction of the performance obligation, which occurs on the fulfilment of the transportation service.

### Other revenue

The Group has identified several performance obligations in relation to services that give rise to revenue being recognised within Other revenue. These services, their performance obligations and associated revenue recognition include:

- the provision of maintenance services and overhaul services for engines and airframes, where the Group is engaged to enhance an asset while the customer retains control of the asset. Accordingly, the performance obligations are satisfied, and revenue recognised, over time. The Group estimates the proportion of the contract completed at the reporting date and recognises revenue based on the percentage of completion of the contract;
- the provision of ground handling services, where the performance obligations are fulfilled when the services are provided, which occurs upon the provision of the service; and
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service.

### 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.

### Avios issuance

When issued, the standalone selling price of an Avios is recorded within Deferred revenue on ticket sales in current liabilities until the customer redeems the Avios. The standalone 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, referred to as 'breakage', based on the results of modelling using historical experiences up until the reporting date. The amount of such revenue recognised is limited, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Where the issuance of Avios arises from travel on the Group's airlines, the consideration received from the customer may differ to the aggregation of the relative standalone selling prices. In such instances the allocation of the consideration to each performance obligation is undertaken using a proportional basis using the relative standalone selling prices.

The Group has contractual arrangements with non-Group airlines and non-air partners for the issuance and redemption of Avios, for which it has identified the following performance obligations:

### Brand and marketing activities

For both air and non-air partners, the Group licenses the Avios and the airline brands for certain activities, such as the creation of co-branded credit cards. In addition, the Group has certain contractual arrangements whereby it commits to provide marketing services to the members of the loyalty schemes on behalf of those partners. For both the provision of brand and marketing services, the partner receives benefits incremental to the issuance of Avios. The Group estimates the standalone selling price of the brand and marketing performance obligations, using valuation techniques, 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 use the brand. For brand services, as the Group considers that the partner has the right to use the brand, revenue is recognised as the brand service is provided and not over time. For marketing performance obligations, revenue is recognised as the marketing activities occur based on when the partner receives the benefit of those services.

### Upfront payments

Where a partner makes an upfront payment to the Group which does not relate to any specific performance obligation, then the Group considers such payments as advance payments for future goods and services and the associated revenue is recognised as those goods and services are provided, as detailed above. In such instances the payment is allocated across all of the performance obligations over the contract term. The Group estimates the expected level of Avios to be issued over the contract term using experience, historical and expected future trends, and allocates the payments to the relevant performance obligations accordingly. At each reporting date, the Group

updates its estimate of the number of Avios expected to be issued over the total contract term and recognises a cumulative catch-up adjustment where necessary.

When a partner makes an upfront payment to the Group, the Group assesses whether such a payment is representative of a significant financing event. Where a significant financing component is identified, the Group estimates a market rate of interest that an arm's length financial liability of similar size and tenor would yield. The Group recognises the imputed interest as a Finance expense in the Income statement.

#### **Other considerations**

The Group considers whether it is an agent or a principal in relation to the loyalty 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. In particular, the Group acts as an agent where customers redeem their Avios on interline partner flights outside of the Group, where the fees payable to interline partner are presented net against the associated release of the Deferred revenue from ticket sales.

#### **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 Group's financial performance. While management has a defined list of items and a quantitative threshold that would merit categorisation as exceptional that has been established through historical experience, the Group retains the flexibility to add additional items should their size or nature merit such presentation. The classification of an item as exceptional is approved by the Board, through the Audit and Compliance Committee.

The financial performance of the Group is monitored by the Management Committee and the Board on a pre-exceptional basis to enable comparison to prior reporting periods as well as to other selected companies, but also for making strategic, financial and operational decisions.

The exceptional items recorded in the Income statement include, but are not limited to, 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; individual significant tax transactions; and the impact of the sale, disposal or impairment of an asset or investment in a business. Where exceptional items are separately disclosed, the resultant tax impact is additionally separately disclosed. While certain exceptional items may cover more than a single reporting period, such as significant restructuring events, they are non-recurring in nature.

Further information is given in the Alternative performance measures section.

#### **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, 2021 the Group recognised €1,775 million in respect of employee benefit assets (2020 restated: €334 million) and €285 million in respect of employee benefit obligations (2020 restated: €477 million). Further information on employee benefit obligations is disclosed in note 32.

The cost of employee benefit obligations, employee leaving indemnities and other employee-related provisions is determined using the valuation requirements of IAS 19. These 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 32. 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 32.

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.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 2 Significant accounting policies continued

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, 2021, market-implied breakeven 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.

### b Revenue recognition

At December 31, 2021 the Group recognised €6,552 million (2020: €5,130 million) in respect of deferred revenue on ticket sales of which €2,820 million (2020: €2,725 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation service is provided. At the time of transportation, revenue is also recognised in respect of unused tickets and is estimated based on the terms and conditions of the tickets and historical experience. The Group considers that there is no reasonably possible change to unused ticket assumptions that would have a material impact on Passenger revenue recorded in the year.

Revenue associated with the issuance of Avios under customer loyalty programmes is based on the relative standalone selling prices of the related performance obligations (brand, marketing and Avios), 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 Avios for which the points can be redeemed and is reduced to take account of the proportion of Avios that are not expected to be redeemed by customers.

The Group estimates the number of Avios not expected to be redeemed using modelling and historical experience. A five percentage point increase in the assumption of Avios outstanding and not expected to be redeemed would result in an adjustment to Deferred revenue from ticket sales of €100 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

### c Income taxes

At December 31, 2021 the Group recognised €1,282 million in respect of deferred tax assets (2020: €1,075 million). Further information on current and deferred tax is disclosed in note 10.

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, 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 uses judgement, including the consideration of 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.

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date, which represents the period over which it is probable that future taxable profits will be available.

At December 31, 2021, the Group had unrecognised deferred tax assets of €2,458 million relating to tax losses the Group does not reasonably expect to utilise. In applying the aforementioned judgement, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised deferred tax assets would have reduced by €2,068 million.

### d Impairment of non-financial assets

At December 31, 2021 the Group recognised €2,439 million (2020: €2,390 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 17.

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

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

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

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

## e Engineering and other aircraft costs

At December 31, 2021, the Group recognised €1,832 million in respect of maintenance, restoration and handback provisions (2020: €1,588 million). Information on movements on the provision is disclosed in note 26.

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. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash outflow. In determining this best estimate, the Group applies significant judgement as to the level of forecast costs expected to be incurred when the aircraft is returned to the lessor. The assumptions of this significant judgement include aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. The associated forecast costs are discounted to their present value, the effect of which is not considered to be material. The Group considers that there is no reasonably possible change to a single assumption that would have a material impact on the provisions, however a combination of changes in multiple assumptions may.

## Judgements

### a 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 re-assesses the lease term if there is a significant event or change in circumstances that affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 14.

## New standards, amendments and interpretations

The following amendments and interpretations apply for the first time in 2021, but do not have a material impact on the consolidated financial statements of the Group:

- COVID-19 related rent concessions beyond June 30, 2021 – Amendments to IFRS 16 Leases; and
- 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.

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. The Group has assessed of the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- 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;
- Classification of liabilities as current or non-current – amendments to IAS 1 effective for periods beginning on or after January 1, 2023;
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after January 1, 2023;
- Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after January 1, 2023; and
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 effective for periods beginning on or after January 1, 2023.

## 3 Impact of COVID-19 on financial reporting

### Significant transactions and 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 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.

### 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 periods prior to the COVID-19 pandemic:

### 3 Impact of COVID-19 on financial reporting continued

#### 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 the year to December 31, 2021, the Group recognised a credit of €159 million (2020: expense of €1,756 million) arising from a combination of the discontinuance of hedge accounting in the year to December 31, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at January 1, 2021. This was represented by a credit of €162 million (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

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 credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

Further information is given in the Alternative performance measures section.

#### 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.

During the year to December 31, 2021, the Group recognised impairment reversals of €21 million, represented by an amount of €14 million relating to the reversal of aircraft impairment and an amount of €7 million relating to the reversal of engine impairment. The aircraft impairment reversal relates to four Airbus A320 aircraft in Vueling, previously permanently stood down in the fourth quarter of 2020, being stood up in the third quarter of 2021 following the successful slot allocation at Paris Orly and the resultant increased capacity. The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. Of the impairment reversal, €9 million was recorded within Property, plant and equipment relating to owned aircraft and €12 million was recorded within Right of use assets relating to leased aircraft.

In the year to December 31, 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 related to 82 aircraft, their associated engines and rotatable inventories that were stood down permanently and 2 further aircraft which were 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 was recorded within Property, plant and equipment relating to owned aircraft and €161 million was recorded within Right of use assets relating to leased aircraft.

Further information is given in the Alternative performance measures section, note 13 and note 14.

#### 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, in the year to December 31, 2021, the Group has not recognised any impairment charge (2020: €nil). 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 17.

#### 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.

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date.

### **Accounting estimates, assumptions and judgements – other transactions**

In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following 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 experience, the level of such vouchers not expected to 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 and accordingly, the Group is unable to estimate with a sufficiently high degree of probability that there will not be a significant reversal of revenue in the future. As such, consistent with the approach taken at December 31, 2020, the Group does not recognise revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

Revenue associated with the issuance of Avios under customer loyalty programmes is determined using estimation techniques, with the transaction price based on the value for which the Avios can be redeemed and is reduced taking into consideration breakage. The Group estimates breakage using modelling and historical experience. Due to the significant restrictions imposed on the ability of customers to redeem Avios coupled with the disruption in the patterns of redemption caused by COVID-19, the Group considers that the trends experienced since the start of the COVID-19 pandemic are not reflective of the long-term expected patterns of redemption, which the Group considers will return to pre-COVID-19 levels in the future. Accordingly, consistent with the approach taken at December 31, 2020, the Group has maintained breakage at the pre-COVID-19 levels.

#### **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 Loans and borrowings**

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing arrangements during 2021, which have been fully drawn unless otherwise stated, including:

- On February 22, 2021, British Airways entered into a 5-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5-year Export Development Guarantee Facility credit facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. At December 31, 2021 no amounts had been drawn under the facility;
- On March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is \$1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021;
- On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1.2 billion; €500 million fixed rate 2.75 per cent due in 2025, and €700 million fixed rate 3.75 per cent due in 2029;
- On December 23, 2020, Aer Lingus entered into a financing arrangement with the Ireland Strategic Investment Fund for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million. The facility is repayable in 2023;
- On May 18, 2021, the Group issued an €825 million senior unsecured convertible bond due 2028 and bearing a fixed rate of 1.125 per cent; and
- In April 2021, British Airways fully repaid the Coronavirus Corporate Finance Facility of €350 million (£300 million), which was entered into in April 2020.

Further information is given in note 25.

#### **g Government assistance**

Given the significant reduction in operations that have occurred during the COVID-19 pandemic, 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 €424 million being received directly from governments (classified as government grants) and savings of €135 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 34.

#### **h 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 amounted to €330 million. Further information is given in note 32 on the deferral of contributions.

#### **i Renegotiation of Air Europa acquisition and subsequent termination**

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. As a result of the impact COVID-19 has had on both the Group and Air Europa during 2020, on January 19, 2021, the Group announced the execution of an amended agreement to acquire the entire share capital of Air Europa, which 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 *Sociedad Estatal de Participaciones Industriales* or 'SEPI' (the Spanish state holding company that has a direct participation in Air Europa) regarding the non-financial terms associated with the financial support provided by SEPI to Air Europa.

On December 16, 2021, the Group announced that Iberia and Globalia had terminated the agreement regarding the acquisition of the share capital of Air Europa, with the Group paying €75 million. This payment is recorded in Other non-operating charges in the Income statement and was settled prior to December 31, 2021 and recorded within Other investing movements within the Statement of cash flows.

Further information is given in the Alternative performance measures section.

## 4 Impact of climate change on financial reporting

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

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

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

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

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

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- Investment and policy regarding the development of Sustainable Aviation Fuel production facilities;
- Investment and improvements in air traffic management;
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and
- Effective market-based policy measures in addition to the EU and UK ETS and CORSIA.

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

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

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting estimates, assumptions and judgements, to the extent they can be reliably measured, have been applied:

#### a Long-term fleet plans and useful economic lives

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

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

With the permanent standing down of these aircraft, coupled with the future delivery of 110 fuel-efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year as a result of the Group's decarbonisation plans.

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

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

The Group adjusts the final year of the three-year business plan to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated at the reporting date and have been excluded from these adjustments. These adjustments incorporate the increased utilisation of sustainable aviation fuel as well as price assumptions relating to sustainable aviation fuels and the price of carbon (both ETS and CORSIA), which are derived from externally sourced prices. Where the Group considers such costs will be recovered through increased passenger ticket fares, then a corresponding adjustment is made to increase passenger revenue.

As detailed in note 17, the Group applies a long-term growth rate to this adjusted three-year business plan, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand impact arising from climate change. This demand impact is derived with reference to external market data.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation/regulation regarding carbon pricing and/or alternative schemes not currently enacted, such as the implementation of kerosene taxes.

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

### **c Valuation of employee benefit scheme assets**

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

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

### **d Recoverability of deferred tax assets**

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

## **5 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.

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

## 5 Segment information continued

For the year to December 31, 2021

€ million	2021					<b>Total</b>
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	2,607	1,707	1,011	302	208	<b>5,835</b>
Cargo revenue	1,268	333	-	65	7	<b>1,673</b>
Other revenue	314	443	5	4	181	<b>947</b>
<b>External revenue</b>	<b>4,189</b>	<b>2,483</b>	<b>1,016</b>	<b>371</b>	<b>396</b>	<b>8,455</b>
Inter-segment revenue	129	301	-	5	370	<b>805</b>
<b>Segment revenue</b>	<b>4,318</b>	<b>2,784</b>	<b>1,016</b>	<b>376</b>	<b>766</b>	<b>9,260</b>
Depreciation and amortisation charge	(1,104)	(350)	(240)	(140)	(81)	<b>(1,915)</b>
Impairment (charge)/reversal	(30)	-	13	-	-	<b>(17)</b>
<b>Operating (loss)/profit</b>	<b>(2,041)</b>	<b>(220)</b>	<b>(233)</b>	<b>(338)</b>	<b>67</b>	<b>(2,765)</b>
Exceptional items <sup>2</sup>	151	14	29	9	2	<b>205</b>
<b>Operating (loss)/profit before exceptional items</b>	<b>(2,192)</b>	<b>(234)</b>	<b>(262)</b>	<b>(347)</b>	<b>65</b>	<b>(2,970)</b>
Net non-operating costs <sup>4</sup>						<b>(742)</b>
<b>Loss before tax</b>						<b>(3,507)</b>
Total assets <sup>3</sup>	20,891	6,919	2,671	1,820	2,105	<b>34,406</b>
Total liabilities	(18,795)	(7,062)	(3,364)	(1,806)	(2,533)	<b>(33,560)</b>

1 Includes eliminations on total assets of €16,023 million and total liabilities of €5,833 million.

2 For details on exceptional items refer to the Alternative performance measures section.

3 Included within total assets associated with Other Group companies is €4,527 million of Cash and cash equivalents.

4 Includes €75 million of exceptional items relating to the Air Europa termination settlement payment. Refer to note 3i for further information.

For the year to December 31, 2020

€ million	2020 <sup>1</sup>					<b>Total</b>
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	3,242	1,148	577	376	169	5,512
Cargo revenue	994	224	-	88	-	1,306
Other revenue	232	605	5	-	146	988
<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	710
<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)	(2,078)
Impairment charge	(445)	(242)	(68)	(24)	(98)	(877)
<b>Operating loss</b>	<b>(4,403)</b>	<b>(1,411)</b>	<b>(875)</b>	<b>(563)</b>	<b>(199)</b>	<b>(7,451)</b>
Exceptional items <sup>2</sup>	(1,778)	(652)	(252)	(202)	(177)	(3,061)
<b>Operating loss before exceptional items</b>	<b>(2,625)</b>	<b>(759)</b>	<b>(623)</b>	<b>(361)</b>	<b>(22)</b>	<b>(4,390)</b>
Net non-operating costs						<b>(376)</b>
<b>Loss before tax</b>						<b>(7,827)</b>
Total assets <sup>3</sup>	17,759	7,009	2,850	1,814	884	30,316
Total liabilities <sup>3</sup>	(15,737)	(7,014)	(3,299)	(1,495)	(1,161)	(28,706)

1 Segment information for 2020 has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.

Further information is given in note 2 and 36.

2 For details on exceptional items refer to the Alternative performance measures section.

3 Includes eliminations on total assets of €14,998 million and total liabilities of €5,100 million.

## b Geographical analysis

### Revenue by area of original sale

€ million	Year to December 31	
	2021	2020
UK	2,435	2,390
Spain	2,189	1,845
USA	931	933
Rest of world	2,900	2,638
	8,455	7,806

### Assets by area

December 31, 2021

€ million	Property, plant and equipment	Intangible assets	
		2021	2020
UK	11,544	1,317	
Spain	4,404	1,333	
USA	76	13	
Rest of world	1,137	576	
	17,161	3,239	

December 31, 2020

€ million	Property, plant and equipment	Intangible assets	
		2021	2020
UK	11,313	1,251	
Spain	4,850	1,353	
USA	122	15	
Rest of world	1,246	589	
	17,531	3,208	

## 6 Expenses by nature

### Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2021		2020
	2021	2020	2020
Depreciation charge on right of use assets	1,058		1,153
Depreciation charge on owned assets	638		720
Impairment (reversal)/charge on owned property, plant and equipment	(4)		681
Amortisation and impairment of intangible assets	178		196
Impairment charge on right of use assets	20		161
Depreciation charge on other leasehold assets	42		44
	1,932		2,955

Cost of inventories:

€ million	2021		2020
	2021	2020	2020
Cost of inventories recognised as an expense, principally fuel	1,038		1,405
Impairment charge on inventories <sup>1</sup>	-		71
	1,038		1,476

1 For details regarding the impairment charge on inventories refer to note 3b.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 7 Auditor's remuneration

The fees for the year ended December 31, 2021, 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, KPMG S.L. (2020: Ernst & Young S.L.), and by companies belonging to KPMG's network (2020: Ernst & Young's network), were as follows:

€'000	2021	2020
Fees payable for the audit of the Group and individual accounts	<b>4,860</b>	4,180
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	<b>532</b>	696
Other services pursuant to legislation	<b>431</b>	532
Other services relating to taxation	–	30
Other audit and assurance services	<b>569</b>	350
Services relating to working capital review	<b>776</b>	1,036
Services relating to corporate finance transactions	–	370
All other services	–	55
	<b>7,168</b>	7,249

The fees payable to the Group's auditor for the audit of the Group's pension scheme during the year totalled €182 thousand.

## 8 Employee costs and numbers

€ million	2021	2020
Wages and salaries	<b>2,135</b>	2,236
Social security costs	<b>307</b>	385
Costs related to pension scheme benefits <sup>1</sup>	<b>232</b>	272
Share-based payment charge/(credit)	<b>23</b>	(8)
Other employee costs <sup>2</sup>	<b>316</b>	700
Total employee costs	<b>3,013</b>	3,585

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

2 Other employee costs include allowances and accommodation for crew.

The number of employees during the year and at December 31 was as follows:

	2021			2020		
	Average number of employees <sup>1</sup>	Number of employees	Percentage of women	Average number of employees	Number of employees	Percentage of women
In the air:						
Cabin crew	<b>9,304</b>	<b>17,865</b>	<b>70%</b>	7,689	17,946	71%
Pilots	<b>3,879</b>	<b>7,607</b>	<b>6%</b>	4,787	7,794	6%
On the ground:						
Airports	<b>6,728</b>	<b>12,842</b>	<b>37%</b>	8,841	14,339	39%
Corporate	<b>8,612</b>	<b>10,709</b>	<b>52%</b>	7,954	11,246	48%
Maintenance	<b>6,345</b>	<b>7,448</b>	<b>8%</b>	5,153	6,410	7%
Senior executives	<b>167</b>	<b>187</b>	<b>34%</b>	196	193	30%
	<b>35,035</b>	<b>56,658</b>	<b>42%</b>	34,620	57,928	

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 34. The total average number of employees including these schemes is 56,618.

The number of employees is based on actual headcount. The average manpower equivalent for 2021 was 50,222 (2020: 60,612), which includes employees on furlough, wage support and equivalent schemes, including Temporary Redundancy Plan arrangements in Spain.

## 9 Finance costs, income and other non-operating (charges)/credits

### a Finance costs

€ million	2021	2020
Interest expense on:		
Bank borrowings	(133)	(45)
Asset financed liabilities	(65)	(41)
Lease liabilities	(408)	(442)
Provisions unwinding of discount	(12)	(14)
Other borrowings	(153)	(103)
Capitalised interest on progress payments	3	8
Other finance costs	(62)	(33)
	<b>(830)</b>	<b>(670)</b>

### b Finance income

€ million	2021	2020
Interest on other interest-bearing deposits	5	21
Other finance income	8	20
	<b>13</b>	<b>41</b>

### c Net financing (charge)/credit relating to pensions

€ million	2021	2020 <sup>1</sup>
Net financing (charge)/credit relating to pensions	(2)	12

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

### d Other non-operating charges

€ million	2021	2020
Gains on sale of property, plant and equipment and investments <sup>2</sup>	59	38
Credit related to equity investments (note 19)	-	1
Share of profits in investments accounted for using the equity method (note 18)	2	1
Realised gains/(losses) on derivatives not qualifying for hedge accounting	37	(13)
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	47	(31)
Air Europa termination settlement payment <sup>1</sup>	(75)	-
	<b>70</b>	<b>(4)</b>

1 Refer to note 31 for further information in relation to the Air Europa termination settlement expense.

2 Includes a gain of €24 million arising from the disposal of Compañía Auxiliar al Cargo Exprés, S.A. and Auxiliar Logística Aeroportuaria, S.A. The Group previously owned 75 per cent of the share capital of these companies and disposed of them during the fourth quarter of 2021. The disposal led to the de-recognition of €12 million of net assets from the consolidated financial statements of the Group.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 10 Tax

### a Tax credits/(charges)

Tax credits/(charges) recognised in the Income statement, Other comprehensive income and directly in equity:

€ million	2021				2020 <sup>1</sup>			
	Income statement	Other comprehensive income	Recognised directly in equity	Total	Income statement	Other comprehensive income	Recognised directly in equity	Total
<b>Current tax</b>								
Movement in respect of prior years	10	-	(1)	<b>9</b>	6	-	-	6
Movement in respect of current year	(9)	5	-	<b>(4)</b>	273	(17)	-	256
<b>Total current tax</b>	<b>1</b>	<b>5</b>	<b>(1)</b>	<b>5</b>	<b>279</b>	<b>(17)</b>	<b>-</b>	<b>262</b>
<b>Deferred tax</b>								
Movement in respect of prior years	(23)	-	-	<b>(23)</b>	(8)	-	-	(8)
Movement in respect of current year	518	(420)	-	<b>98</b>	695	124	(2)	817
Rate change / rate differences	78	61	-	<b>139</b>	(74)	44	-	(30)
<b>Total deferred tax</b>	<b>573</b>	<b>(359)</b>	<b>-</b>	<b>214</b>	<b>613</b>	<b>168</b>	<b>(2)</b>	<b>779</b>
<b>Total tax</b>	<b>574</b>	<b>(354)</b>	<b>(1)</b>	<b>219</b>	<b>892</b>	<b>151</b>	<b>(2)</b>	<b>1,041</b>

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

The current tax credit in Other comprehensive income relates to the fair value movements on the convertible bond of €5 million (2020: €nil) and cash flow hedges of €nil (2020: €17 million).

Tax recognised directly in equity relates to share-based payment schemes of €1 million (2020: €2 million).

Within tax in Other comprehensive income is a tax charge of €123 million (2020: tax credit of €92 million) that may be reclassified to the Income statement and a tax charge of €231 million (2020: tax credit of €59 million) that will not.

### b Current tax (liability)/asset

€ million	2021	2020
Balance at January 1	<b>53</b>	(6)
Income statement	<b>1</b>	279
Other comprehensive income	<b>5</b>	(17)
Recognised directly in equity	<b>(1)</b>	-
Cash	<b>(63)</b>	(45)
Offset against other taxes <sup>1</sup>	-	(152)
Exchange movements and other	-	(6)
<b>Balance at December 31</b>	<b>(5)</b>	53
Current tax asset	<b>16</b>	101
Current tax liability	<b>(21)</b>	(48)
<b>Balance at December 31</b>	<b>(5)</b>	53

1 During 2020 the Group elected, in the UK, to carry back losses and apply them to the 2019 taxable profits. This led to a €152 million corporate tax overpayment in relation to 2019, which HMRC offset against deferred liabilities arising in relation to other taxes. No such offset arose in 2021.

**c Deferred tax asset/(liability)**

€ million	Fixed assets	Right of use assets	Lease liabilities	Employee leaving indemnities and others	Employee benefit plans <sup>1</sup>	Fair value gains/losses <sup>2</sup>	Share-based payment schemes	Tax loss carried forward and tax credits	Other temporary differences	Total
Balance at January 1, 2021	(589)	(248)	21	194	298	195	10	1,090	64	1,035
Income statement <sup>1</sup>	106	67	(3)	9	(11)	(14)	1	408	10	573
Other comprehensive income <sup>1,3</sup>	-	-	-	(9)	(237)	(133)	-	20	-	(359)
Recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Exchange movements and other	6	(39)	1	2	12	9	-	55	(13)	33
<b>Balance at December 31, 2021</b>	<b>(477)</b>	<b>(220)</b>	<b>19</b>	<b>196</b>	<b>62</b>	<b>57</b>	<b>11</b>	<b>1,573</b>	<b>61</b>	<b>1,282</b>
Balance at January 1, 2020	(732)	(195)	24	312	323	70	19	401	34	256
Income statement	116	(76)	(2)	(120)	8	-	(6)	643	50	613
Other comprehensive income <sup>2</sup>	-	-	-	3	(9)	118	-	56	-	168
Recognised directly in equity	-	-	-	-	-	-	(2)	-	-	(2)
Exchange movements and other	27	23	(1)	(1)	(24)	7	(1)	(10)	(20)	-
Balance at December 31, 2020	(589)	(248)	21	194	298	195	10	1,090	64	1,035

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

2 Fair value gains/losses include both the Cash flow hedge reserve and the Cost of hedging reserve, of which the movement in relation to Other comprehensive income recognised in the Cash flow hedge reserve for 2021 was €142 million (refer to note 28d).

3 Movements in Other comprehensive income relating to post-employment benefit obligations increase the Group's tax losses by €20 million (tax value) at December 31, 2021 and have therefore been disclosed as tax loss carried forward and tax credits in the above table.

€ million	2021	2020
Deferred tax asset	1,282	1,075
Deferred tax liability	-	(40)
<b>Balance at December 31</b>	<b>1,282</b>	<b>1,035</b>

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 (charge)/credit is calculated at the domestic rates applicable to profits/(losses) in the country in which the profits/(losses) arise. The tax credit on the loss for the year to December 31, 2021 (2020: loss) is lower (2020: lower) than the notional tax credit (2020: credit). The differences are explained below:

€ million	2021	2020 <sup>2</sup>
Accounting loss before tax	(3,507)	(7,827)
Weighted average tax credit of the Group <sup>1</sup>	683	1,619
Unrecognised losses and deductible temporary differences arising in the year	(193)	(342)
Disposal and write down of investments	8	(83)
Effect of tax rate changes	78	(74)
Prior year tax assets recognised/(derecognised)	44	(176)
Effect of lower tax rate in the Canary Islands	(23)	(40)
Movement in respect of prior years	(13)	(2)
Non-deductible expenses	(15)	(21)
Other items	5	11
<b>Tax credit in the Income statement</b>	<b>574</b>	<b>892</b>

1 The expected tax credit is calculated by aggregating the expected tax credits/(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% (2020: 25%), the UK 19% (2020: 19%) and Ireland 12.5% (2020: 12.5%).

2 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 10 Tax continued

### 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:

	2021	2020
€ million		
Payroll-related taxes	310	400
UK Air Passenger Duty	204	307
	<b>514</b>	707

### f Factors that may affect future tax charges

#### Unrecognised deductible temporary differences and losses

	2021	2020
€ million		
<i>Income tax losses</i>		
Spanish corporate income tax losses	1,993	848
Openskies SASU trading losses	390	450
UK trading losses	72	39
Other tax losses	3	-
	<b>2,458</b>	1,337
<i>Other losses and temporary differences</i>		
Spanish deductible temporary differences	648	1,287
UK capital losses	361	350
Irish capital losses	17	25
	<b>1,026</b>	1,662

None of the unrecognised temporary differences have an expiry date. Further information with regard to the sensitivity of the recoverability of deferred tax assets is given in note 2.

### Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €617 million (2020: €547 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

On March 3, 2021 the UK Chancellor announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On May 24, 2021 the Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a credit of €78 million is recorded in the Income statement and a credit of €61 million is recorded in Other comprehensive income.

On October 8, 2021 Ireland announced that it would increase the rate of corporation tax for certain multinational businesses to 15 per cent with effect from 2023. This expected tax rate change has not been reflected in these results because it has not yet been substantively enacted. The effect of the proposed rate change is not expected to be material over the period of the management approved business plan.

### Tax policy developments

The Group is monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation, and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate. The new framework is expected to be enacted in 2022, and effective from 2023. The implications for the Group will be determined when the relevant legislation is available.

### g Tax-related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at December 31, 2021 amounted to €106 million (December 31, 2020: €166 million). No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liabilities 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 €95 million (December 31, 2020: €92 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to December 31, 2021.

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 the second half of 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 classified this matter as a contingent liability.

## 11 Earnings per share

€ million	2021	2020 <sup>1</sup>
Losses attributable to equity holders of the parent for basic losses	(2,933)	(6,935)
Diluted losses attributable to equity holders of the parent and diluted losses per share	(2,933)	(6,935)
Weighted average number of ordinary shares in issue <sup>2</sup>	2021 Number '000	2020 Number '000 <sup>1</sup>
Weighted average number for diluted loss per share	4,963,945	3,528,052
€ cents	2021	2020 <sup>1</sup>
Basic loss per share	(59.1)	(196.6)
Diluted loss per share	(59.1)	(196.6)

1 Earnings per share information has been restated for the comparative period presented for the effects of the change in accounting policy in respect to pension administration costs (note 2).

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 29).

The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes is antidilutive for the year to December 31, 2021, and therefore has not been included in the diluted loss per share calculation.

The calculation of basic and diluted loss per share before exceptional items is included in the Alternative performance measures section.

## 12 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2021 (2020: €nil). 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.

The future dividend capacity of the Group is dependent on the liquidity requirements and the distributable reserves of the Group's main operating companies and their capacity to pay dividends to the Company, together with the Company's distributable reserves and liquidity.

Certain debt obligations place restrictions or conditions on the payment of dividends from the Group's main operating companies to the Company, including a loan to British Airways partially guaranteed by UKEF and loans to Iberia and Vueling partially guaranteed by the Instituto de Crédito Oficial (ICO) in Spain; these loans can be repaid early without penalty at the election of each company. In Spain, Iberia and Vueling are not permitted to make dividend payments in the reporting period in which they are in receipt of Expedientes de Regulación Temporal de Empleo or 'ERTE' (Temporary Employment Regulation Records). British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of an agreement to defer £450 million of contributions that no dividends will be paid to IAG before 2024 and that any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

### 13 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at January 1, 2020	29,382	3,162	1,605	34,149
Additions	2,854	84	32	2,970
Modification of leases	21	16	(1)	36
Disposals	(3,878)	(95)	(50)	(4,023)
Reclassifications	(4)	8	(4)	-
Exchange movements	(1,439)	(193)	(81)	(1,713)
Balance at December 31, 2020	26,936	2,982	1,501	31,419
Additions	709	38	37	<b>784</b>
Modification of leases	236	(2)	(26)	<b>208</b>
Disposals	(3,035)	(74)	(135)	<b>(3,244)</b>
Reclassifications	(4)	-	(1)	<b>(5)</b>
Transfers to Non-current assets held for sale (note 16)	(111)	-	-	<b>(111)</b>
Exchange movements	1,265	181	74	<b>1,520</b>
<b>December 31, 2021</b>	<b>25,996</b>	<b>3,125</b>	<b>1,450</b>	<b>30,571</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2020	12,707	1,249	1,025	14,981
Depreciation charge for the year <sup>1</sup>	1,659	165	93	1,917
Impairment charge for the year <sup>1</sup>	820	-	22	842
Disposals	(2,886)	(52)	(44)	(2,982)
Exchange movements	(729)	(80)	(61)	(870)
Balance at December 31, 2020	11,571	1,282	1,035	13,888
Depreciation charge for the year	1,500	154	84	<b>1,738</b>
Impairment (reversal)/charge for the year <sup>1</sup>	(3)	19	-	<b>16</b>
Disposals	(2,699)	(63)	(105)	<b>(2,867)</b>
Modification of leases	-	-	(14)	<b>(14)</b>
Transfers to Non-current assets held for sale (note 16)	(91)	-	-	<b>(91)</b>
Exchange movements	602	81	57	<b>740</b>
<b>December 31, 2021</b>	<b>10,880</b>	<b>1,473</b>	<b>1,057</b>	<b>13,410</b>
1 For details regarding the impairment reversal on fleet assets refer to note 3 and the Alternative performance measures section. For details regarding the operating segment in which the impairment charges arose, refer to note 5. In 2021, certain of the impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed. In addition, certain fleet assets in 2020 were 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, 2021</b>	<b>15,116</b>	<b>1,652</b>	<b>393</b>	<b>17,161</b>
December 31, 2020	15,365	1,700	466	17,531
<b>Analysis at December 31, 2021</b>				
Owned	5,736	916	330	<b>6,982</b>
Right of use assets (note 14)	8,626	640	37	<b>9,303</b>
Progress payments	748	96	26	<b>870</b>
Assets not in current use	6	-	-	<b>6</b>
<b>Property, plant and equipment</b>	<b>15,116</b>	<b>1,652</b>	<b>393</b>	<b>17,161</b>
Analysis at December 31, 2020				
Owned	5,457	920	382	6,759
Right of use assets (note 14)	9,124	695	56	9,875
Progress payments	710	85	28	823
Assets not in current use	74	-	-	74
Property, plant and equipment	15,365	1,700	466	17,531

The net book value of property comprises:

€ million	2021	2020
Freehold	<b>495</b>	485
Right of use assets (note 14)	<b>640</b>	695
Long leasehold improvements >50 years	<b>311</b>	297
Short leasehold improvements <50 years	<b>206</b>	223
<b>Property</b>	<b>1,652</b>	1,700

At December 31, 2021, bank and other loans of the Group are secured on owned fleet assets with a net book value of €3,081 million (2020: €2,794 million).

## 14 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, 2020	13,854	882	123	14,859
Additions	1,194	58	1	1,253
Modifications of leases	21	16	(1)	36
Disposals	(77)	(6)	(22)	(105)
Reclassifications <sup>1</sup>	(389)	-	3	(386)
Exchange movements	(595)	(57)	(5)	(657)
<b>December 31, 2020</b>	<b>14,008</b>	<b>893</b>	<b>99</b>	<b>15,000</b>
Additions	240	15	-	<b>255</b>
Modification of leases	236	(2)	(26)	<b>208</b>
Disposals	(72)	(12)	(1)	<b>(85)</b>
Reclassifications <sup>1</sup>	(759)	-	-	<b>(759)</b>
Exchange movements	565	55	2	<b>622</b>
<b>December 31, 2021</b>	<b>14,218</b>	<b>949</b>	<b>74</b>	<b>15,241</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2020	4,108	108	55	4,271
Depreciation charge for the year	1,035	103	15	1,153
Impairment charge for the year <sup>2</sup>	161	-	-	161
Disposals	(53)	(5)	(22)	(80)
Reclassifications <sup>1</sup>	(166)	-	(3)	(169)
Exchange movements	(201)	(8)	(2)	(211)
<b>December 31, 2020</b>	<b>4,884</b>	<b>198</b>	<b>43</b>	<b>5,125</b>
Depreciation charge for the year	963	87	8	<b>1,058</b>
Impairment charge for the year <sup>2</sup>	4	16	-	<b>20</b>
Disposals	(71)	(4)	(1)	<b>(76)</b>
Modification of leases	-	-	(14)	<b>(14)</b>
Reclassifications <sup>1</sup>	(394)	-	-	<b>(394)</b>
Exchange movements	206	12	1	<b>219</b>
<b>December 31, 2021</b>	<b>5,592</b>	<b>309</b>	<b>37</b>	<b>5,938</b>
<b>Net book value</b>				
<b>December 31, 2021</b>	<b>8,626</b>	<b>640</b>	<b>37</b>	<b>9,303</b>
December 31, 2020	9,124	695	56	9,875

1 Amounts with a net book value of €365 million (2020: €217 million) were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified relate to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.

2 For details regarding the impairment charge on fleet assets refer to the Alternative performance measures section.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 14 Leases continued

Interest-bearing long-term borrowings includes the following amount relating to lease liabilities:

€ million	2021	2020
January 1	10,024	11,046
Additions	310	1,179
Modifications of leases	208	20
Repayments	(1,855)	(1,919)
Interest expense	400	442
Disposals	(8)	-
Exchange movements	558	(744)
<b>December 31</b>	<b>9,637</b>	<b>10,024</b>
 <b>Current</b>	 <b>1,521</b>	 <b>1,560</b>
<b>Non-current</b>	<b>8,116</b>	<b>8,464</b>

### b Amounts recognised in the Consolidated income statement

€ million	2021	2020
<i>Amounts not included in the measurement of lease liabilities</i>		
Variable lease payments	1	1
Expenses relating to short-term leases	26	42
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-
<i>Amounts expensed as a result of the recognition of ROU assets and lease liabilities</i>		
Interest expense on lease liabilities	400	442
Gain arising from sale and leaseback transactions	(6)	(10)
Depreciation charge for the year	1,058	1,153
Impairment charge for the year	20	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. During 2021, the IASB extended the period for the application of the practical expedient.

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 2021 has been a credit of €8 million (2020: 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 €1,912 million in 2021 (2020: €1,997 million).

The Group had total cash inflows associated with sale and leaseback transactions of €213 million in 2021 (2020: €898 million).

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2021, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed, of €nil (2020: €183 million).

### d Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 27f.

### 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, 2021, for which no amount has been recognised, for potential extension options of €795 million (2020: €998 million) due to it not being reasonably certain that these leases will be extended.

#### **f Lessor accounting**

The Group leases out certain of its property, plant and equipment. The Group has classified those leases that transfer substantially all of the risks and rewards of ownership to the lessee as finance leases and those leases that do not transfer substantially all of the risks and rewards of ownership to the lessee as operating leases.

#### **Operating leases**

Rental income from operating leases recognised by the Group in 2021 was €nil (2020: €nil). Rental income is recorded within Property, IT and other within the Income statement.

The following table sets out a maturity analysis of operating lease receipts, showing the undiscounted lease receipts to be received after the reporting date:

€ million	2021	2020
Within one year	<b>4</b>	-
One to two years	<b>5</b>	-
Two to five years	<b>2</b>	-
More than five years	-	-
<b>Total</b>	<b>11</b>	-

### **15 Capital expenditure commitments**

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,911 million (December 31, 2020: €10,545 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 €10,813 million for the acquisition of 22 Airbus A320s (from 2022 to 2025), 34 Airbus A321s (from 2022 to 2024), 26 Airbus A350s (from 2022 to 2025), 18 Boeing 777-9s (from 2025 to 2027) and 10 Boeing 787s (from 2022 to 2024). 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, 2021.

### **16 Non-current assets held for sale**

The non-current assets held for sale of €20 million represent three Airbus A321-200 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are presented within the Aer Lingus segment and will exit the business within 12 months of December 31, 2021.

## 17 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, 2020	598	451	253	1,616	1,376	282	4,576
Additions	-	-	-	-	141	51	192
Disposals	-	-	-	-	(18)	(121)	(139)
Reclassifications	-	-	-	-	43	(46)	(3)
Exchange movements	(5)	-	-	(61)	(68)	(5)	(139)
Balance at December 31, 2020	593	451	253	1,555	1,474	161	4,487
Additions	-	-	-	-	149	34	<b>183</b>
Disposals	-	-	-	(6)	(19)	(49)	<b>(74)</b>
Exchange movements	3	-	-	56	70	3	<b>132</b>
<b>December 31, 2021</b>	<b>596</b>	<b>451</b>	<b>253</b>	<b>1,605</b>	<b>1,674</b>	<b>149</b>	<b>4,728</b>
<b>Amortisation and impairment</b>							
Balance at January 1, 2020	249	-	-	115	710	60	1,134
Amortisation charge for the year	-	-	-	6	151	4	161
Impairment charge for the year	-	-	-	15	20	-	35
Disposals	-	-	-	-	(7)	-	(7)
Exchange movements	-	-	-	(4)	(38)	(2)	(44)
Balance at December 31, 2020	249	-	-	132	836	62	1,279
Amortisation charge for the year	-	-	-	6	167	5	<b>178</b>
Disposals	-	-	-	-	(13)	-	<b>(13)</b>
Exchange movements	-	-	-	4	42	(1)	<b>45</b>
<b>December 31, 2021</b>	<b>249</b>	-	-	<b>142</b>	<b>1,032</b>	<b>66</b>	<b>1,489</b>
<b>Net book values</b>							
<b>December 31, 2021</b>	<b>347</b>	<b>451</b>	<b>253</b>	<b>1,463</b>	<b>642</b>	<b>83</b>	<b>3,239</b>
December 31, 2020	344	451	253	1,423	638	99	3,208

<sup>1</sup> The net book value includes non-UK and non-EU based landing rights of €75 million (2020: €81 million) that have a definite life. The remaining average life of these landing rights is 14 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>2021</b>					
<b>Iberia</b>					
January 1 and December 31, 2021	-	423	306	-	<b>729</b>
<b>British Airways</b>					
January 1, 2021	44	763	-	-	<b>807</b>
Disposals	-	(6)	-	-	<b>(6)</b>
Exchange movements	3	52	-	-	<b>55</b>
December 31, 2021	47	809	-	-	<b>856</b>
<b>Vueling</b>					
January 1 and December 31, 2021	28	94	35	-	<b>157</b>
<b>Aer Lingus</b>					
January 1 and December 31, 2021	272	62	110	-	<b>444</b>
<b>IAG Loyalty</b>					
January 1 and December 31, 2021	-	-	-	253	<b>253</b>
<b>December 31, 2021</b>	<b>347</b>	<b>1,388</b>	<b>451</b>	<b>253</b>	<b>2,439</b>
 € million					
<b>2020</b>					
<b>Iberia</b>					
January 1 and December 31, 2020	-	423	306	-	729
<b>British Airways</b>					
January 1, 2020	49	816	-	-	865
Exchange movements	(5)	(53)	-	-	(58)
December 31, 2020	44	763	-	-	807
<b>Vueling</b>					
January 1 and December 31, 2020	28	94	35	-	157
<b>Aer Lingus</b>					
January 1 and December 31, 2020	272	62	110	-	444
<b>IAG Loyalty</b>					
January 1 and December 31, 2020	-	-	-	253	253
<b>Other CGUs</b>					
January 1, 2020	-	12	-	-	12
Impairment charge for the year	-	(12)	-	-	(12)
January 1 and December 31, 2020	-	-	-	-	-
<b>December 31, 2020</b>	<b>344</b>	<b>1,342</b>	<b>451</b>	<b>253</b>	<b>2,390</b>

## 17 Intangible assets and impairment review continued

### 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, 20 per cent to the downside case and 10 per cent to the downside lockdown case. Cash flow projections are based on the business plans approved by the relevant operating companies covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using each CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve three-year business plans, and the Board approved the Group three-year business plan in the fourth quarter of the year. Adjustments have been made to the terminal year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations (refer to note 4). The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by management under existing 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 2022 through to the end of 2024 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:

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

	2020				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin <sup>1</sup>	(20)-16	(12)-11	(22)-12	(14)-13	25-27
ASKs as a proportion of 2019 <sup>1,2</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

1 Operating margin and ASKs as a proportion of 2019 are both stated as the weighted average derived from the multi-scenario discounted cash flow model.

2 In prior periods the Group applied the average ASK growth per annum as a key assumption. Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

Jet fuel price (\$ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
2021	690	673	659	659
2020	373	420	449	449

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 terminal value cash flows and long term growth rate incorporate the impacts of climate change insofar as they can be determined (note 4). The airlines' network plans are reviewed annually as part of the 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, 2021 management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each CGU, where applicable, which include reducing the operating margin by 2 percentage points in each year, ASKs by 5 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 lockdown case, and increasing the fuel price by 40 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible greater impact of climate change on the CGUs than that included in the impairment models.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €3,402 million, €2,166 million, €2,271 million and €1,614 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 4 per cent; (ii) if ASKs had been five per cent lower combined with a reduction of the long-term growth rate to 1.3 per cent; (iii) if operating margin had been two percentage points lower; and (iv) if the fuel price had been 11 per cent higher;
- *Iberia*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 15 per cent; and (ii) if the fuel price had been 21 per cent higher;
- *Vueling*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 32 per cent; and (ii) if the fuel price had been 39 per cent higher; and
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 23 per cent; and (ii) if the fuel price had been 31 per cent higher.

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, and impairment reversals, recognised in relation to landing rights and fleet assets stood down permanently at December 31, 2021 and December 31, 2020, refer to note 3 and the Alternative performance measures section.

## 18 Investments

### a Investments in subsidiaries

The Group's subsidiaries at December 31, 2021 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, 2021 is €6 million (2020: €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	2021	2020
Total assets	115	73
Total liabilities	(85)	(50)
Revenue	64	22
Profit for the year	2	1

The detail of the movement in Investment in associates and joint ventures is shown as follows:

€ million	2021	2020
At beginning of year	29	31
Additions	9	-
Share of retained profits	2	1
Dividends received	(1)	(3)
Exchange movements	1	-
	40	29

At December 31, 2021 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, 2021 and December 31, 2020 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.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 19 Other equity investments

Other equity investments include the following:

€ million	2021	2020
Unlisted securities	31	29
	31	29

The credit relating to other equity investments was €nil (2020: €1 million).

## 20 Trade and other receivables

€ million	2021	2020
<b>Amounts falling due within one year</b>		
Trade receivables	850	682
Provision for expected credit loss	(115)	(125)
Net trade receivables	735	557
Prepayments and accrued income	764	596
Other non-trade receivables	196	196
	1,695	1,349
<b>Amounts falling due after one year</b>		
Prepayments and accrued income	248	226
Other non-trade receivables	2	2
	250	228

Movements in the provision for expected credit loss were as follows:

€ million	2021	2020
At beginning of year	125	113
Provided during the year	8	18
Released during the year	(11)	(2)
Receivables written off during the year	(10)	(1)
Exchange movements	3	(3)
	115	125

Trade receivables are generally non-interest-bearing and on 30 days terms (2020: 30 days).

The credit risk exposure on the Group's trade receivables is set out below:

December 31, 2021

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	498	132	94	10	116
Expected credit loss rate	0.2%	0.1%	1.1%	20.0%	95.7%
<b>Provision for expected credit loss</b>	<b>1</b>	-	<b>1</b>	<b>2</b>	<b>111</b>

December 31, 2020

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	345	114	88	11	124
Expected credit loss rate	0.9%	0.2%	1.1%	72.7%	91.1%
Provision for expected credit loss	3	-	1	8	113

## 21 Cash, cash equivalents and other current interest-bearing deposits

€ million	2021	2020
Cash at bank and in hand	2,569	1,882
Short-term deposits maturing within three months	5,323	3,892
Cash and cash equivalents	7,892	5,774
Current interest-bearing deposits maturing after three months	51	143
<b>Cash, cash equivalents and other interest-bearing deposits</b>	<b>7,943</b>	<b>5,917</b>

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, 2021 the Group had no outstanding bank overdrafts (2020: nil).

Current interest-bearing deposits have maturities in excess of three months and typically within 12 months of the reporting date and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2021 Aer Lingus held €35 million of restricted cash (2020: €38 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, 2021	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at December 31, 2021
Bank, other loans, asset financed liabilities and other financing liabilities	5,655	4,033	261	-	24	<b>9,973</b>
Lease liabilities	10,024	(1,481)	559	518	17	<b>9,637</b>
Cash and cash equivalents	(5,774)	(1,913)	(205)	-	-	<b>(7,892)</b>
Current interest-bearing deposits	(143)	91	1	-	-	<b>(51)</b>
	<b>9,762</b>	<b>730</b>	<b>616</b>	<b>518</b>	<b>41</b>	<b>11,667</b>

€ million	Balance at January 1, 2020	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at December 31, 2020
Bank, other loans and asset financed liabilities	3,208	2,589	(227)	-	85	5,655
Lease liabilities	11,046	(1,536)	(726)	1,179	61	10,024
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>

## 22 Trade and other payables

€ million	2021	2020
Trade creditors <sup>1</sup>	<b>2,068</b>	1,609
Other creditors	<b>898</b>	679
Other taxation and social security	<b>176</b>	149
Accruals and deferred income	<b>570</b>	373
	<b>3,712</b>	2,810

1 Trade creditors includes €89 million (2020: €55 million) 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 150 days with interest incurred at rates between 1.5 per cent and 3.0 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, 2021 these liabilities met these criteria of Trade creditors and are excluded from the Net debt table in note 21a.

### Average payment days to suppliers – Spanish Group companies

Days	2021	2020
Average payment days for payment to suppliers	<b>34</b>	43
Ratio of transactions paid	<b>32</b>	36
Ratio of transactions outstanding for payment	<b>78</b>	135

€ million	2021	2020
Total payments made	<b>3,945</b>	3,694
Total payments outstanding	<b>147</b>	293

## 23 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2021	2,725	2,405	5,130
Revenue recognised in the Income statement <sup>1,2</sup>	(524)	(6,518)	(7,042)
Financing charge recognised in the Income statement	37	-	37
Loyalty points issued to customers	407	40	447
Cash received from customers <sup>3,4</sup>	-	7,689	7,689
Exchange movements	175	116	291
<b>Balance at December 31, 2021</b>	<b>2,820</b>	<b>3,732</b>	<b>6,552</b>
Analysis:			
Current	2,429	3,732	6,161
Non-current	391	-	391
	<b>2,820</b>	<b>3,732</b>	<b>6,552</b>
€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2020	1,917	3,569	5,486
Changes in estimates	-	291	291
Revenue recognised in the Income statement <sup>1,2</sup>	(260)	(6,032)	(6,292)
Loyalty points issued to customers	361	8	369
Cash received from customers <sup>3,4</sup>	850	4,714	5,564
Exchange movements	(143)	(145)	(288)
Balance at December 31, 2020	2,725	2,405	5,130
Analysis:			
Current	2,252	2,405	4,657
Non-current	473	-	473
	<b>2,725</b>	<b>2,405</b>	<b>5,130</b>

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 during 2021 is an amount of €780 million previously held as deferred revenue at January 1, 2021 (recognised during 2020 previously held as deferred revenue at January 1, 2020: €2,006 million).

3 Included within cash received from customers at December 31, 2021 is an amount of €nil (December 31, 2020: €830 million) received from American Express upon signing of the multi-year commercial partnership renewal with IAG Loyalty and which unwinds over the duration of the contract term as the associated performance obligations are fulfilled.

4 Cash received from customers is net of refunds.

The unsatisfied performance obligation under the Group's customer loyalty programmes that is classified as non-current was €391 million at December 31, 2021. Of this amount, €279 million is expected to be recognised as revenue in 1 to 5 years from the reporting date and €112 million thereafter.

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. In addition, the significant disruption caused by the COVID-19 pandemic led to a number of flight cancellations during both 2020 and 2021, which entitled the customer to either a refund or the issuance of a voucher for future redemption. Vouchers are presented within sales in advance of carriage.

## 24 Other long-term liabilities

€ million	2021	2020
Non-current trade creditors	121	49
Accruals and deferred income	87	91
	208	140

## 25 Long-term borrowings

### a Total borrowings

€ million	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Bank and other loans	761	6,724	7,485	90	2,950	3,040
Bank and other loans less than 12 months <sup>1</sup>	-	-	-	329	-	329
Asset financed liabilities	171	2,244	2,415	139	2,050	2,189
Other financing liabilities <sup>2</sup>	73	-	73	97	-	97
Lease liabilities	1,521	8,116	9,637	1,560	8,464	10,024
Interest-bearing borrowings	2,526	17,084	19,610	2,215	13,464	15,679

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 and 2021 with regard to emission allowances and represents the amount the Group expects to repurchase during the course of 2021 and 2022, respectively.

Long-term borrowings of the Group amounting to €2,434 million (December 31, 2020: €2,412 million) are secured on owned fleet assets with a net book value of €2,938 million (December 31, 2020: €2,794 million). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

### b Bank and other loans

€ million	2021	2020
Floating rate GBP term loan guaranteed by UKEF <sup>1</sup>	2,358	-
Floating rate ICO guaranteed loans <sup>2</sup>	1,095	1,009
€825 million fixed rate 1.125 per cent convertible bond 2028 <sup>3</sup>	757	-
€700 million fixed rate 3.75 per cent unsecured bond 2029 <sup>4</sup>	710	-
€500 million fixed rate 2.75 per cent unsecured bond 2025 <sup>4</sup>	508	-
€500 million fixed rate 0.50 per cent bond 2025 <sup>5</sup>	499	498
€500 million fixed rate 1.50 per cent bond 2027 <sup>5</sup>	498	497
€500 million fixed rate 0.625 per cent convertible bond 2022 <sup>6</sup>	491	480
Floating rate euro mortgage loans secured on aircraft <sup>7</sup>	171	198
ISIF facility <sup>8</sup>	149	75
Fixed rate unsecured bonds <sup>9</sup>	138	137
Fixed rate unsecured US dollar mortgage loan <sup>10</sup>	85	97
Fixed rate Chinese yuan mortgage loans secured on aircraft <sup>11</sup>	11	25
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) <sup>12</sup>	15	24
CCFF pound sterling commercial paper <sup>13</sup>	-	329
	7,485	3,369
Less current instalments due on bank and other loans	(761)	(419)
	6,724	2,950

- On February 22, 2021, British Airways entered into a five-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5-year term loan Export Development Guarantee Facility of €1.2 million (£1.0 billion) unwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The further facility had not been drawn as at December 31, 2021. The annual rate of interest associated with the UKEF is consistent with the prevailing market rate of interest at the time of executing the term loan.
- 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.
- Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group on May 11, 2021; €825 million fixed rate 1.125 per cent raising net proceeds of €818 million and due in 2028. 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 244,850,715 options at inception and at December 31, 2021 to convert into ordinary shares of IAG. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG.

## 25 Long-term borrowings continued

4. On March 25, 2021, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1.2 billion, €500 million due March 25, 2025 and €700 million due March 25, 2029. The bonds bear a fixed rate of interest of 2.75 per cent and 3.75 per cent per annum, payable in arrears, respectively. The bonds were issued at 100 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.
5. 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.
6. 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, 2021.
7. 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.
8. On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. On March 27, 2021, Aer Lingus entered into a further floating rate financing agreement with the ISIF for an additional €75 million. The facility is repayable in 2023.
9. Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.
10. 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.
11. 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.
12. 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.
13. 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 €350 million (£300 million). This loan was repaid in April 2021.

In addition, on March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is \$1.755 billion. As at December 31, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had \$786 million undrawn and available at December 31, 2020. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft in the respective operating companies.

### Details of the 2028 convertible bond

The convertible bond provides bondholders with dividend protection and includes a total of 244,850,715 options at inception and at December 31, 2021 to convert into ordinary shares of IAG. 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 Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG.

The convertible bond is recorded at its fair value, which at December 31, 2021 was €756 million, representing a decrease of €69 million since issuance. Of this decrease, the amount recorded in Other comprehensive income arising from credit risk of the convertible bonds was €20 million and a credit recorded within Finance costs in the Income statement attributable to changes in market conditions of €89 million.

### Transactions with unconsolidated entities

In July 2021, the Group entered into an asset-financing structure, under which seven aircraft were financed. These transactions mature between 2031 and 2035. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). In doing so the Group recognised €204 million of Asset financed liabilities.

In the fourth quarter of 2020, the Group entered into an asset-financing structure, under which nine aircraft were financed. 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. In doing so the Group recognised €472 million of Asset financed liabilities.

In the third quarter of 2019, the Group entered into an asset-financing structure, under which eight aircraft were financed, 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, 2021, Asset financed liabilities include cumulative amounts of €1,489 million (2020: €1,312 million) associated with transactions with unconsolidated structured entities having issued EETCs.

**c Reconciliation of movements of liabilities to cash flows arising from financing activities**

€ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at January 1, 2021	5,655	10,024	429	16,108
Proceeds from borrowings	4,817	-	-	4,817
Repayment of borrowings	(784)	-	-	(784)
Repayment of lease liabilities	-	(1,481)	-	(1,481)
Settlement of derivative financial instruments	-	-	(268)	(268)
<b>Total changes from financing cash flows</b>	<b>4,033</b>	<b>(1,481)</b>	<b>(268)</b>	<b>2,284</b>
Interest paid	(212)	(367)	(26)	(605)
Interest expense	307	393	-	700
New leases and lease modifications	-	518	-	518
Fair value movements	(69)	-	(286)	(355)
Other non-cash movements	(2)	(9)	15	4
Effect of changes in foreign exchange rates	261	559	-	820
<b>Balance at December 31, 2021</b>	<b>9,973</b>	<b>9,637</b>	<b>(136)</b>	<b>19,474</b>

€ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Share capital / premium	Total
Balance at January 1, 2020	3,208	11,046	128	6,323	20,705
Proceeds from borrowings	3,567	-	-	-	3,567
Repayment of borrowings	(978)	-	-	-	(978)
Repayment of lease liabilities	-	(1,536)	-	-	(1,536)
Proceeds from rights issue	-	-	-	2,674	2,674
Settlement of derivative financial instruments	-	-	59	-	59
<b>Total changes from financing cash flows</b>	<b>2,589</b>	<b>(1,536)</b>	<b>59</b>	<b>2,674</b>	<b>3,786</b>
Interest paid	(117)	(421)	(15)	-	(553)
Interest expense	108	445	-	-	553
New leases and lease modifications	-	1,179	-	-	1,179
Fair value movements	-	-	273	-	273
Other non-cash movements	94	37	(16)	-	115
Effect of changes in foreign exchange rates	(227)	(726)	-	-	(953)
<b>Total financial liability-related other changes</b>	<b>(142)</b>	<b>514</b>	<b>242</b>	<b>-</b>	<b>614</b>
<b>Total other related movements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(730)</b>	<b>(730)</b>
<b>Balance at December 31, 2020</b>	<b>5,655</b>	<b>10,024</b>	<b>429</b>	<b>8,267</b>	<b>24,375</b>

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

## 25 Long-term borrowings continued

### d Total loans, lease liabilities, other financing liabilities and asset financed liabilities

Million	2021	2020
<b>Loans</b>		
Bank:		
US dollar	\$98	\$121
Euro	€1,430	€1,303
Pound sterling	£2,003	£299
Chinese yuan	CNY 78	CNY 201
	<b>€3,883</b>	€1,756
Fixed rate bonds:		
Euro	<b>€3,602</b>	€1,613
	<b>€3,602</b>	€1,613
<b>Asset financed liabilities</b>		
US dollar	\$2,192	\$2,080
Euro	€408	€448
Japanese yen	¥8,226	¥4,883
	<b>€2,415</b>	€2,189
<b>Other financing liabilities</b>		
Euro	<b>€73</b>	€97
	<b>€73</b>	€97
<b>Lease liabilities</b>		
US dollar	\$7,709	\$8,436
Euro	€1,547	€1,858
Japanese yen	¥75,450	¥74,734
Pound sterling	£569	£608
	<b>€9,637</b>	€10,024
<b>Total interest-bearing borrowings</b>	<b>€19,610</b>	€15,679

## 26 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee- related provisions	Legal claims and contractual disputes provisions	Other provisions	Total
Net book value January 1, 2021	1,588	432	714	84	94	2,912
Reclassifications	(2)	-	-	(7)	-	(9)
Provisions recorded during the year	267	30	66	85	63	511
Utilised during the year	(101)	(171)	(30)	(57)	(62)	(421)
Release of unused amounts	(41)	(22)	-	(18)	(16)	(97)
Unwinding of discount	10	-	2	-	-	12
Remeasurements	-	-	(34)	-	-	(34)
Exchange differences	111	5	2	3	4	125
<b>Net book value December 31, 2021</b>	<b>1,832</b>	<b>274</b>	<b>720</b>	<b>90</b>	<b>83</b>	<b>2,999</b>
Analysis:						
Current	431	142	59	69	31	732
Non-current	1,401	132	661	21	52	2,267
	<b>1,832</b>	<b>274</b>	<b>720</b>	<b>90</b>	<b>83</b>	<b>2,999</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.

Included within the release of unused restoration and handback provisions is an amount of €7 million relating to the reversal of contractual lease provisions, which represent the estimation of the cost to fulfil the handback conditions associated with the leased aircraft that had been permanently stood down and impaired during the year ended December 31, 2020, which have subsequently been stood back up with a resultant impairment reversal during the year ended December 31, 2021.

Where amounts are finalised and the uncertainty relating to these provisions removed, the associated liability is reclassified to either current or non-current Other creditors, dependent on the expecting timing of settlement.

### Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan implemented prior to 2021, 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, 2021, €270 million of this provision related to collective redundancy programmes (2020: €428 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, 2021 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.91 per cent and 0.00 per cent (2020: iBoxx index of 0.37 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 2 per cent annual increase in the Consumer Price Index (CPI) in 2022 and 1.5 per cent in 2023. This is mainly a long-term provision. Remeasurements in the valuation of this provision are recorded in Other comprehensive income. The amount relating to this provision was €644 million at December 31, 2021 (2020: €654 million).

### Legal claims and contractual disputes provisions

Legal claims and contractual disputes 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;
- amounts related to ongoing contractual disputes arising from the Group's ongoing provisions; 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.

### Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO<sub>2</sub> emitted on flights within the United Kingdom and the EU in excess of the relevant United Kingdom and EU Emission Allowances granted.

## 27 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), credit risk and liquidity risk. The principal impact of these on the financial statements are discussed below:

### a Fuel price risk

The Group is exposed to fuel price risk. In order to mitigate such risk, under the Group's fuel price risk management strategy a variety of over the counter derivative instruments are entered into. The Group strategy is to hedge a proportion of fuel consumption up to two years (previously 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<sup>1</sup>:

Increase/(decrease) in fuel price per cent	2021		2020		
	Effect on result before tax € million	Effect on equity € million	Effect on result before tax € million	Effect on equity € million	
30	-	834	30	189	525
(30)	-	(520)	(30)	(219)	(664)

1 The sensitivity analysis on equity excludes the sensitivity amounts recognised in the result before tax.

During the year to December 31, 2021, following a substantial recovery in the global price of crude oil, the fair value of such net asset derivative instruments was €288 million at December 31, 2021, representing an increase of €1,066 million since January 1, 2021. Since the outbreak of COVID-19, a significant proportion of the associated hedge relationships are no longer expected to occur and subsequently fuel hedge accounting was discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 3, a further €72 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs in the year to December 31, 2021.

The gain arising from the derecognition of fuel hedges has been recorded as an exceptional item. Refer to Alternative performance measures section for further details.

### b Foreign currency risk

The Group is exposed to foreign currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge a proportion of its foreign currency sales and purchases for up to three years.

The following table demonstrates the sensitivity of the Group's principal foreign exchange 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<sup>1</sup>. The sensitivity analysis has been performed on interest-bearing liabilities, lease liabilities and derivatives (both designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies, with the disclosure for 2020 updated to align with the current methodology. The methodology has been updated to better reflect the foreign exchange exposures arising from the Group's operations.

	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
2021	10	255	523	10	(10)	134	10	(17)	(41)
	(10)	(260)	(481)	(10)	10	(134)	(10)	17	41
2020	10	234	283	10	9	(167)	10	(16)	(42)
	(10)	(273)	(345)	(10)	(9)	157	(10)	16	42

1 The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

At December 31, 2021, the fair value of foreign currency net asset derivative instruments was €185 million, representing an increase of €652 million since January 1, 2021. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception. As per the fuel price risk above, a significant proportion of the derivatives designated in hedge relationships have no longer been expected to occur and subsequently hedge accounting has been discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 3, a further €5 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue. Those derivatives not designated in a hedge relationship on inception have their mark-to-market movements recorded directly in the Income statement and recognised within Net currency retranslation (charges)/credits.

### c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits. Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars.

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<sup>1</sup>:

	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>2021</b>	<b>50</b>	-	-		<b>50</b>	<b>3</b>	<b>10</b>		<b>50</b>	<b>(2)</b>	-
	<b>(50)</b>	-	-		<b>(50)</b>	<b>(3)</b>	<b>(9)</b>		<b>(50)</b>	<b>2</b>	-
2020	50	-	-		50	9	(8)		50	-	-
	(50)	-	-		(50)	(9)	7		(50)	-	-

1 The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

For details regarding the Group's management of interest rate benchmark reform, refer to note 27i.

### d Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company and by only entering into transactions with counterparties with a very low credit risk.

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives and any ineffectiveness arising is immediately recognised in the Income statement within Other non-operating expenses.

### e 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 into account any guarantees in place or other credit enhancements.

At December 31, 2021 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	
	2021	2020
United Kingdom	44%	53%
Spain	-	3%
Ireland	18%	7%
Rest of Eurozone	34%	16%
Rest of world	4%	21%

## 27 Financial risk management objectives and policies continued

### f 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, 2021 the Group had undrawn overdraft facilities of €53 million (2020: €52 million). The Group held undrawn uncommitted money market lines of €nil (2020: €nil).

The Group held undrawn general and committed aircraft financing facilities:

Million	2021	
	Currency	€ equivalent
<i>General facilities<sup>1</sup></i>		
Euro facilities expiring between January and July 2022	€27	27
Euro facilities expiring March 2023	€60	60
US dollar facility expiring May 2022	\$50	44
Pound sterling facility expiring November 2025	£1,000	1,177
US dollar facility expiring March 2024	\$1,755	1,556
		<b>2,864</b>
<i>Committed aircraft facilities</i>		
US dollar facility expiring September 2022 <sup>2</sup>	\$635	563
US dollar facilities expiring March 2024 <sup>3</sup>	\$635	563
		<b>1,126</b>

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>

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 2022 is available for specific committed aircraft deliveries and further information is given in note 25b.

3 The aircraft facilities maturing in 2024 (2020: maturing in 2023) are available for specific committed aircraft deliveries and require the Group to give three months' notice to the counterparty of its intention to utilise the facilities.

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 2021
<b>Interest-bearing loans and borrowings:</b>						
Asset financing liabilities	(122)	(116)	(230)	(678)	(1,714)	<b>(2,860)</b>
Lease liabilities	(920)	(854)	(1,814)	(3,839)	(5,524)	<b>(12,951)</b>
Fixed rate borrowings	(151)	(529)	(578)	(690)	(2,094)	<b>(4,042)</b>
Floating rate borrowings	(129)	(285)	(428)	(3,368)	(16)	<b>(4,226)</b>
Other financing liabilities	(73)	-	-	-	-	<b>(73)</b>
Trade and other payables	(3,712)	-	(208)	-	-	<b>(3,920)</b>
<b>Derivative financial instruments (assets):</b>						
Interest rate derivatives	-	1	2	3	-	<b>6</b>
Foreign exchange contracts	227	52	46	1	-	<b>326</b>
Fuel derivatives	157	129	48	-	-	<b>334</b>
<b>Derivative financial instruments (liabilities):</b>						
Interest rate derivatives	(12)	(10)	(7)	(3)	-	<b>(32)</b>
Foreign exchange contracts	(67)	(38)	(33)	(6)	-	<b>(144)</b>
Fuel derivatives	(14)	(13)	(18)	-	-	<b>(45)</b>
<b>December 31, 2021</b>	<b>(4,816)</b>	<b>(1,663)</b>	<b>(3,220)</b>	<b>(8,580)</b>	<b>(9,348)</b>	<b>(27,627)</b>

€ 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 obligations	(101)	(97)	(193)	(571)	(1,673)	(2,635)
Lease liabilities	(901)	(919)	(1,500)	(4,122)	(5,962)	(13,404)
Fixed rate borrowings	(360)	(37)	(631)	(666)	(587)	(2,281)
Floating rate borrowings	(78)	(32)	(58)	(1,179)	(41)	(1,388)
Other financing liabilities	(97)	-	-	-	-	(97)
Trade and other payables	(2,810)	-	-	-	-	(2,810)
<b>Derivative financial instruments (assets):</b>						
Forward contracts	73	41	33	8	-	155
Fuel derivatives	6	2	1	-	-	9
<b>Derivative financial instruments (liabilities):</b>						
Interest rate swaps	(13)	(13)	(25)	(14)	(2)	(67)
Forward contracts	(370)	(91)	(115)	(56)	-	(632)
Fuel derivatives	(423)	(314)	(108)	(4)	-	(849)
<b>At 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>

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 27 Financial risk management objectives and policies continued

### g 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, 2021

	€ 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		628	(8)	620	(30)	<b>590</b>
<b>Financial liabilities</b>						
Derivative financial liabilities		181	(8)	173	30	<b>203</b>

1 The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As December 31, 2021, the Group recognised €nil of collateral (2020: €66 million) offset in the balance sheet and €30 million (2020: €24 million) not offset in the balance sheet.

December 31, 2020

	€ 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		165	(1)	164	(13)	151
<b>Financial liabilities</b>						
Derivative financial liabilities		1,537	(67)	1,470	(37)	1,433

### h 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, 2021, the net debt to EBITDA was minus 11.5 times (2020: minus 4.3 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.

### i 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 are expected to mature subsequent to December 31, 2021, and as such will be replaced as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

During 2020 the Group established an IBOR transition working group and project plan, led by Group Treasury. This project has and continues to consider the required changes to systems, processes, risk management and valuation models, as well as managing any accounting and tax implications. During the course of 2021, the Group, and the counterparties to the financial instruments, have transitioned the majority of such instruments to an alternative benchmark rate and in order to enable such transitions, changes to systems, processes and models have been implemented. Those financial instruments that have not transitioned at December 31, 2021 predominantly relate to those with a US dollar LIBOR component, which is not expected to convert to an alternative risk-free rate until mid-2023, subject to further consultation.

In addition, during 2021, the Group has enquired of the trustees of the Group's pension schemes to understand the status of their IBOR transitions, if any. The Group has satisfied itself that all material derivative financial and non-derivative financial instruments with an IBOR component have been transitioned to an alternative benchmark at December 31, 2021.

Reforms to the Euro Interbank Offered Rate (EURIBOR) methodology to enable it to meet the criteria of a risk-free rate were completed in 2019. As such the Group expects to continue to utilise financial instruments with a EURIBOR component without transitioning to an alternative benchmark rate.

## Derivative and non-derivative financial instruments and hedge accounting

While the Group has transitioned a number of its derivative and non-derivative financial instruments to an alternative benchmark rate, certain interest rate swap derivative financial instruments and non-derivative financial instruments continue to have their floating legs indexed to US dollar LIBOR. These derivative financial instruments continue to be recognised as hedging instruments in hedge relationships, with the hedged item being those non-derivative financial instruments indexed to US dollar LIBOR.

For such derivative financial instruments 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, 2021. As part of this evaluation, the Group has applied the hedging relief provided by the IFRS 9 amendments for IBOR reform Phase 1.

There remains 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 table below provides an overview of the IBOR-related exposures as at December 31, 2021. Non-derivative financial instruments are presented on the basis of their carrying values, while derivative financial instruments are presented on the basis of their nominal amounts.

	Non-derivative financial instruments - carrying value <sup>1</sup>	Derivative financial instruments - nominal amount
€ million		
GBP LIBOR	-	-
USD LIBOR	600	782
Other LIBOR	-	-

1 Non-derivative financial instruments include floating rate borrowings, asset financed liabilities and lease liabilities.

The principal outstanding IBOR-related exposures relate to those lease liabilities with a USD LIBOR component. The Group has such leases with a limited number of counterparties for which the Group expects to transition to an alternative benchmark by June 30, 2023.

## 28 Financial instruments

### a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2021 and December 31, 2020 by nature and classification for measurement purposes is as follows:

December 31, 2021

€ 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	-	31	-	-	<b>31</b>
Derivative financial instruments	-	-	77	-	<b>77</b>
Other non-current assets	126	10	-	114	<b>250</b>
<b>Current assets</b>					
Trade receivables	735	-	-	-	<b>735</b>
Other current assets	363	-	-	597	<b>960</b>
Derivative financial instruments	-	-	543	-	<b>543</b>
Other current interest-bearing deposits	51	-	-	-	<b>51</b>
Cash and cash equivalents	7,892	-	-	-	<b>7,892</b>

€ 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	8,116	-	-	-	<b>8,116</b>
Interest-bearing long-term borrowings	8,220	-	748	-	<b>8,968</b>
Derivative financial instruments	-	-	47	-	<b>47</b>
Other long-term liabilities	132	-	-	76	<b>208</b>
<b>Current liabilities</b>					
Lease liabilities	1,521	-	-	-	<b>1,521</b>
Current portion of long-term borrowings	996	-	9	-	<b>1,005</b>
Trade and other payables	3,506	-	-	206	<b>3,712</b>
Derivative financial instruments	-	-	126	-	<b>126</b>

## 28 Financial instruments continued

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

### 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. The fair value of financial liabilities and financial assets incorporates own credit risk and counterparty credit risk, respectively.

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 using forward pricing models, which include forward exchange rates, forward interest rates, forward fuel curves and corresponding volatility surface data at the reporting date. The fair value of derivative financial assets and liabilities are determined as follows, incorporating adjustments for own credit risk and counterparty credit risk:

- commodity reference contracts including swaps and options transactions, referenced to (i) CIF NWE cargoes jet fuel; (ii) ICE Gasoil ; (iii) ICE Brent; (iv) ICE Gasoil Brent crack; (v) Jet Differential and (vi) Jet fuel Brent crack – the mark-to-market valuation prices are determined by reference to current forward curve and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate;
- currency forward and option contracts – by reference to current forward prices and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate; and
- interest rate swap contracts – by discounting the future cash flows of the swap contracts at market interest rate valued with the current forward curve.

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. The fair value of the Group's interest-bearing borrowings is adjusted for own credit risk.

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, 2021 are as follows:

€ million	Fair value				Carrying value Total
	Level 1	Level 2	Level 3	Total	
<b>Financial assets</b>					
Other equity investments	-	-	31	31	<b>31</b>
Derivative financial assets:					
Interest rate swaps <sup>1</sup>	-	5	-	5	<b>5</b>
Foreign exchange contracts <sup>1</sup>	-	314	-	314	<b>314</b>
Fuel derivatives <sup>1</sup>	-	301	-	301	<b>301</b>
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	2,583	-	2,583	<b>2,415</b>
Fixed rate borrowings	3,492	265	-	3,757	<b>3,863</b>
Floating rate borrowings	-	3,622	-	3,622	<b>3,622</b>
Other financing liabilities	-	73	-	73	<b>73</b>
Derivative financial liabilities:					
Interest rate derivatives <sup>2</sup>	-	31	-	31	<b>31</b>
Foreign exchange contracts <sup>2</sup>	-	129	-	129	<b>129</b>
Fuel derivatives <sup>2</sup>	-	13	-	13	<b>13</b>

1 Current portion of derivative financial assets is €543 million.

2 Current portion of derivative financial liabilities is €126 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2020 are set out below:

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

1 Current portion of derivative financial assets is €122 million.

2 Current portion of derivative financial liabilities is €1,160 million.

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

Financial assets, other equity instruments, financial liabilities and derivative financial assets and liabilities are all measured at fair value in the consolidated financial statements. Interest-bearing borrowings, with the exception of the IAG €825 million convertible bond due 2028 which is measured at fair value, are measured at amortised cost.

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

## 28 Financial instruments continued

### c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	2021	2020
Opening balance for the year	29	72
Additions	2	3
Losses recognised in other comprehensive income	-	(44)
Exchange movements	-	(2)
<b>Closing balance for the year</b>	<b>31</b>	<b>29</b>

### d Hedges

#### Cash flow hedges

At December 31, 2021 the Group's principal risk management activities that were hedging future forecast transactions were:

- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, are recorded to the Balance sheet to the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- 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. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense; and
- Future loan repayments denominated in foreign currency are designated in a hedge relationship hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the associated loans are recognised in equity and transferred to the Income statement within Passenger revenue when the loan repayments are made (generally in instalments over the life of the loan).

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	2021	2020
Loan repayments to hedge future revenue	98	220
Foreign exchange contracts to hedge future revenue and expenditure <sup>1</sup>	25	168
Crude, gas oil and jet kerosene derivative contracts <sup>1</sup>	(276)	295
Derivatives used to hedge interest rates <sup>1</sup>	58	66
Instruments for which hedge accounting no longer applies <sup>1,2</sup>	247	276
Related deferred tax credit	152	1,025
<b>Total amount included within equity</b>	<b>(24)</b>	<b>(168)</b>
	<b>128</b>	<b>857</b>

1 The carrying value of derivative instruments recognised in assets and liabilities is analysed in parts a and b above.

2 Relates to previously terminated hedge relationships for which the underlying forecast transaction remains expected to occur.

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below, with the prior period presentation amended to reflect the current presentation:

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	Total December 31, 2021
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling <sup>3</sup>	1.31	1.15 to 1.45	2,606	1,030	42	-	<b>3,678</b>
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros <sup>3</sup>	1.18	1.08 to 1.32	1,632	735	26	-	<b>2,393</b>
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling <sup>3</sup>	1.23	1.08 to 1.42	396	334	543	166	<b>1,439</b>
Fuel commodity price contracts to hedge future US dollar fuel expenditure <sup>1</sup>	649	395 to 737	2,386	826	-	-	<b>3,212</b>
Interest rate contracts to hedge future interest expenditure <sup>2</sup>	1.40	(0.03) to 3.13	3,099	1,080	738	60	<b>4,977</b>

1 Notional amounts of fuel commodity price hedging instruments represent 5.8 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.

2 The hedge range for interest rate contracts is expressed as a percentage.

3 Expenditure includes both operating and capital expenditure.

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	Total December 31, 2020
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling <sup>3</sup>	1.31	1.15 to 1.50	2,402	1,321	442	-	4,165
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros <sup>3</sup>	1.18	0.74 to 1.37	1,380	989	212	-	2,581
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling <sup>3</sup>	1.23	1.08 to 1.42	373	359	661	309	1,702
Fuel commodity price contracts to hedge future US dollar fuel expenditure <sup>1</sup>	702	363 to 941	2,350	1,081	65	-	3,496
Interest rate contracts to hedge future interest expenditure <sup>2</sup>	1.47	0.08 to 3.18	3,286	1,493	862	161	5,802

1 Notional amounts of fuel commodity price hedging instruments represent 9.3 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.

2 The hedge range for interest rate contracts is expressed as a percentage.

3 Expenditure includes both operating and capital expenditure.

For the year to December 31, 2021 (€ million)	Amounts recognised in the Income statement			Fair value movements recognised in Other comprehensive income <sup>2</sup>	Amounts reclassified to the Balance sheet
	Ineffectiveness <sup>1</sup>	Discontinuance of hedge accounting	Recycling to the Income Statement		
Foreign exchange contracts to hedge future revenue and expenditure	-	4	39	43	(178) (24)
Crude, gas oil and jet kerosene derivative contracts	(1)	73	88	160 (737) -	
Derivatives used to hedge interest rates	-	-	(29)	(29) 21	-
Loan repayments to hedge future revenue	-	-	(15)	(15) (120)	-
Instruments for which hedge accounting no longer applies	-	-	(54)	(54) -	-
	(1)	77	29	105 (1,014) (24)	(24) 166 3
Related deferred tax				(24)	166
Total movements recorded in the cash flow hedge reserve				81 (848)	(21)

1 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.

2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 28 Financial instruments continued

For the year to December 31, 2020 (<span>€ million</span>)	Amounts recognised in the Income statement				Fair value movements recognised in Other comprehensive income <sup>2</sup>	Amounts reclassified to the Balance sheet
	Ineffectiveness <sup>1</sup>	Discontinuance of hedge accounting	Recycling to the Income Statement	Total recognised movements		
Foreign exchange contracts to hedge future revenue and expenditure	-	54	55	109	88	32
Crude, gas oil and jet kerosene derivative contracts	2	(1,757)	(461)	(2,216)	2,369	-
Derivatives used to hedge interest rates	-	-	(30)	(30)	59	(32)
Loan repayments to hedge future revenue	-	(22)	(19)	(41)	123	-
Instruments for which hedge accounting no longer applies	-	-	(63)	(63)	-	-
	2	(1,725)	(518)	(2,241)	2,639	-
Related deferred tax				370	(468)	-
Total movements recorded in the cash flow hedge reserve				(1,871)	2,171	-

1 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.

2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

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	2021	2020
(Gains)/losses associated with the discontinuance of hedge accounting recognised in the Income statement	(77)	1,725
Fair value movements subsequently recorded in the Income statement	(82)	31
<b>Total effect of discontinuance of hedge accounting in the Income statement*</b>	<b>(159)</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, 2021 and 2020.

## 29 Share capital, share premium and treasury shares

	Number of shares '000s	Ordinary share capital € million	Share premium € million
Allotted, called up and fully paid			
January 1, 2020: Ordinary shares of €0.50 each	1,992,033	996	5,327
Share capital reduction	-	(797)	-
Rights issue	2,979,443	298	2,443
December 31, 2020: Ordinary shares of €0.10 each	4,971,476	497	7,770
<b>December 31, 2021: 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 31).

### 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 31) 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.

### c Treasury shares

A total of 5.4 million shares (2020: 2.6 million) were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2021 the Group held 10.2 million shares (2020: 5.1 million) which represented 0.20 per cent (2020: 0.10 per cent) of the issued share capital of the Company.

## 30 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 Restricted Share Plan

During 2021, the Group revised its approach to long-term incentives, replacing the existing PSP with a Restricted Share Plan proposal under the new Executive Share Plan (RSP) approved by shareholders in June 2021. The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. 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. There are no performance measures associated with the awards, although approval at the end of the vesting period will be at the discretion of the Remuneration Committee, considering the Group's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified.

### c IAG Full Potential Incentive Plan

During 2021, the Group launched the new Full Potential Incentive Plan (FPIP), which is granted to key individuals involved in the delivery of a series of transformation projects that will enable the Group to deliver business success over the medium to long term. The Awards have been made as nil-cost options, vesting in 2025 and dependent on stretch performance targets for 2024 and the approval of the Board.

### d 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.

### e Share-based payment schemes summary

	Outstanding at January 1, 2021 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	Outstanding at December 31, 2021 '000s	Exercisable December 31, 2021 '000s
Performance Share Plan	32,800	-	5,768	2,326	<b>24,706</b>	1,748
Restricted Share Plan	-	16,260	62	-	<b>16,198</b>	-
Full Potential Incentive Plan	-	28,067	188	-	<b>27,879</b>	-
Incentive Award Deferral Plan	8,367	-	218	2,790	<b>5,359</b>	6
	<b>41,167</b>	<b>44,327</b>	<b>6,236</b>	<b>5,116</b>	<b>74,142</b>	<b>1,754</b>

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2021 was £1.78 (2020: £3.89).

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo valuation model last granted in 2020, taking into account the terms and conditions upon which the plans were granted, used the following assumptions:

	December 31, 2021	December 31, 2020
Expected share price volatility (per cent)	-	35
Expected comparator group volatility (per cent)	-	20
Expected comparator group correlation (per cent)	-	70
Expected life of options (years)	-	4.6
Weighted average share price at date of grant (£)	-	4.59
<b>Weighted average fair value (£)</b>	<b>-</b>	<b>1.84</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 of €23 million for the year to December 31, 2021 (2020: credit of €8 million).

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

### 31 Other reserves and non-controlling interests

For the year to December 31, 2021

€ million	Other reserves						<b>Total other reserves</b>	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 reserves <sup>5</sup>	Capital reserves <sup>6</sup>		
January 1, 2021 restated <sup>7</sup>	(867)	38	(53)	62	(2,467)	867	<b>(2,420)</b>	6
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net loss:								
Passenger revenue	18	-	-	-	-	-	<b>18</b>	-
Fuel and oil costs	(45)	-	-	-	-	-	<b>(45)</b>	-
Currency differences	(15)	-	-	-	-	-	<b>(15)</b>	-
Finance costs	23	-	-	-	-	-	<b>23</b>	-
Discontinuance of hedge accounting	(62)	-	-	-	-	-	<b>(62)</b>	-
Net change in fair value of cash flow hedges	848	-	-	-	-	-	<b>848</b>	-
Net change in fair value of cost of hedging	-	10	-	-	-	-	<b>10</b>	-
Cost of hedging reclassified and reported in the net profit	-	(12)	-	-	-	-	<b>(12)</b>	-
Fair value movements on liabilities attributable to credit risk changes	(15)	-	-	-	-	-	<b>(15)</b>	-
Currency translation differences	-	-	(12)	-	-	-	<b>(12)</b>	-
Hedges reclassified and reported in property, plant and equipment	21	(12)	-	-	-	-	<b>9</b>	-
<b>December 31, 2021</b>	<b>(94)</b>	<b>24</b>	<b>(65)</b>	<b>62</b>	<b>(2,467)</b>	<b>867</b>	<b>(1,673)</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>	Capital reserves <sup>6</sup>	Total other reserves	
January 1, 2020	(464)	60	160	62	(2,467)	70	(2,579)	6
<b>Other comprehensive income for the year</b>								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	50	-	-	-	-	-	50	-
Fuel and oil costs	356	-	-	-	-	-	356	-
Currency differences	18	-	-	-	-	-	18	-
Finance costs	12	-	-	-	-	-	12	-
Discontinuance of hedge accounting	1,435	-	-	-	-	-	1,435	-
Net change in fair value of cash flow hedges	(2,216)	-	-	-	-	-	(2,216)	-
Net change in fair value of other equity investments	(53)	-	-	-	-	-	(53)	-
Net change in fair value of cost of hedging	-	10	-	-	-	-	10	-
Cost of hedging reclassified and reported in the net profit	-	(19)	-	-	-	-	(19)	-
Currency translation differences <sup>7</sup>	-	-	(213)	-	-	-	(213)	-
Hedges reclassified and reported in property, plant and equipment	(5)	(13)	-	-	-	-	(18)	-
Share capital reduction	-	-	-	-	-	797	797	-
December 31, 2020 restated <sup>7</sup>	(867)	38	(53)	62	(2,467)	867	(2,420)	6

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the amounts on hedging instruments in cash flow hedges that are determined to be effective hedges. The amounts at December 31, 2021 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €9 million credit and €128 million charge, respectively.

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

3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

4 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2021 and 2020, this related to the €500 million fixed rate 0.625 per cent convertible bond maturing 2022 (note 25).

5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

6 Capital reserves include a Redeemed capital reserve of €70 million (2020: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2020: 797 million) associated with a reduction in the nominal value of the Company's share capital (note 29).

7 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## NOTES TO THE ACCOUNTS CONTINUED

For the year to December 31, 2021

### 32 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 26).

#### 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, 2021 were €200 million (2020: €235 million).

#### Defined benefit schemes

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.

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.

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).

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.

### 32 Employee benefit obligations continued

Triennially, the Trustees of APS and NAPS undertake actuarial valuations, which are subsequently agreed with British Airways to determine the cash contributions and any deficit payments plans through to the next valuation date, as well as ensuring that the schemes have sufficient funds available to meet future benefit payments to members. These actuarial valuations are prepared using the principles set out in UK Pension legislation. This differs from the IAS 19 'Employee benefits' valuation, which is used for deriving the Income statement and Balance sheet positions, and uses a best-estimate approach overall. The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and deficit.

At December 31, 2021, the triennial valuations as at March 31, 2021 were not finalised and accordingly the latest actuarial valuations of both APS and NAPS were performed as at March 31, 2018, which resulted in a surplus of €683 million for APS and a deficit of €2,736 million for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at December 31, 2021 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.

#### Other plans

British Airways also operates post-retirement schemes in a number of jurisdictions outside of the UK. The principal scheme is the British Airways Plc Pension Plan (USA) based in the United States and referred to as the 'US Plan'. The US Plan is considered to be a defined benefit scheme and is closed to new members and to future accrual.

The majority of the British Airways other plans are fully funded, but there are also a number of unfunded plans, where the Group meets the benefit payment obligations as they fall due.

In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

#### Risk associated with the defined benefit schemes

The defined benefit schemes expose the Group to a range of risks, with the following being the most significant:

- Asset volatility risk – the scheme obligations are calculated using a discount rate set with reference to high quality corporate bond yields. If scheme assets underperform this yield, this will reduce the surplus / increase the deficit, depending on the scheme. Certain of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while creating volatility and risk in the short term;
- Longevity risk – the majority of the scheme obligations are to provide benefits over the life of the scheme members. An increase in life expectancy will result in a corresponding increase in the defined benefit obligation;
- Interest rate risk – a decrease in interest rates will increase plan liabilities, although this will be partially offset by an increase in the value of certain of the scheme assets;
- Inflation risk – a significant proportion of the scheme obligations are linked to inflation, such that any increase in inflation will cause an increase in the obligations. While certain of the scheme assets are indexed to inflation, any expected increase in the scheme assets from inflation would be disproportionately lower than the increase in the scheme obligations; and
- Currency risk – a number of scheme assets are denominated in currencies other than the pound sterling. Weakening of those currencies, or strengthening of the pound sterling, in the long term, will have the effect of reducing the value of scheme assets.

## a Cash payments and funding arrangements

Cash payments in respect to pension obligations comprise normal employer contributions by the Group and deficit contributions based on the agreed deficit payment plan with APS and NAPS. Total payments for the year to December 31, 2021 net of service costs made by the Group were €38 million (2020: €313 million) being the employer contributions of €41 million (2020: €318 million) less the current service cost of €3 million (2020: €5 million) (note 32b).

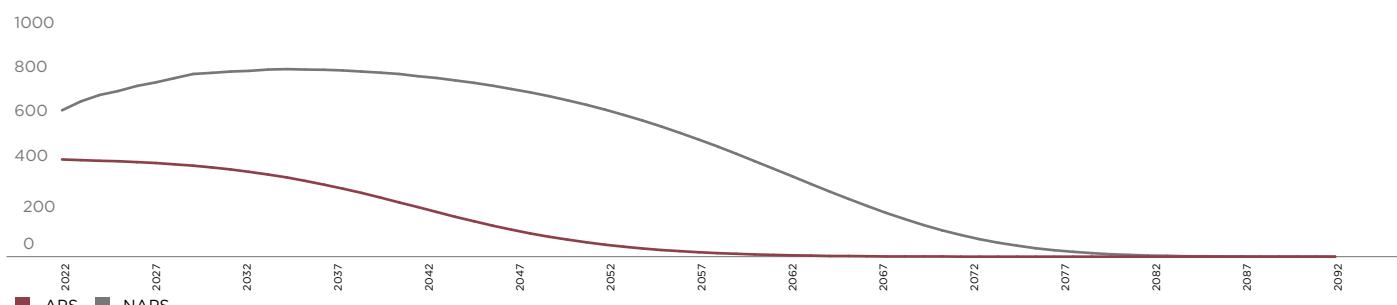
### Future funding arrangements

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.

In total, the Group expects to pay €1 million in employer contributions to APS and NAPS in 2022.

The following graph provides the undiscounted benefit payments to be made by the trustees of APS and NAPS over the remaining expected duration of the schemes:

**Projected benefit payments from the valuation date (€ million, unaudited)**



The amounts and timing of these projected benefit payments are subject to the aforementioned risks to the schemes.

### Deficit contributions and deferred deficit contributions

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 deficit contribution payments through to the end of the first quarter of 2023 amounting to approximately €130 million per quarter. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are paid into an escrow account if the scheme funding position reaches 97 per cent, and are suspended if the funding position reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, which includes additional contributions equivalent to those months where contributions had been suspended, or until such point as the scheme funding level reaches 97 per cent.

During the year ended and as at December 31, 2021, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At December 31, 2021, the valuation of the funding level incorporates significant forward-looking assumptions, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will be incorporated into future triennial actuarial valuations.

At December 31, 2021, had the over-funding protection mechanism not been applied, then the asset ceiling adjustment (as detailed in note 32c) would have been €289 million higher.

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 September 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 August 31, 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. The deferred deficit contribution payments do not include an over-funding protection mechanism.

At December 31, 2021, the Group is committed to the following undiscounted deficit payments, which are deductible for tax purposes at the statutory rate of tax:

€ million	NAPS	Other schemes
Within 12 months	-	4
1-2 years	397	-
2-5 years	175	-
Greater than 5 years	-	-
Total expected deficit payments	572	4

Deficit payments in respect of local arrangements outside of the UK have been determined in accordance with local practice.

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.

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

## 32 Employee benefit obligations continued

### b Employee benefit scheme amounts recognised in the financial statements

#### i Amounts recognised on the Balance sheet

€ million	2021			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,869	25,055	446	34,370
Present value of scheme liabilities <sup>4</sup>	(8,333)	(22,583)	(706)	(31,622)
Net pension asset/(liability)	536	2,472	(260)	2,748
Effect of the asset ceiling <sup>1</sup>	(186)	(1,061)	-	(1,247)
Other employee benefit obligations	-	-	(11)	(11)
<b>December 31, 2021</b>	<b>350</b>	<b>1,411</b>	<b>(271)</b>	<b>1,490</b>
Represented by:				
Employee benefit asset				1,775
Employee benefit obligation				(285)
<b>Net employee benefit asset<sup>3,4</sup></b>				<b>1,490</b>

€ million	2020			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,537	22,240	408	31,185
Present value of scheme liabilities <sup>2,4</sup>	(8,064)	(21,778)	(714)	(30,556)
Net pension asset/(liability) <sup>2</sup>	473	462	(306)	629
Effect of the asset ceiling <sup>1,2</sup>	(151)	(610)	-	(761)
Other employee benefit obligations	-	-	(11)	(11)
<b>December 31, 2020</b>	<b>322</b>	<b>(148)</b>	<b>(317)</b>	<b>(143)</b>
Represented by:				
Employee benefit asset <sup>2</sup>				334
Employee benefit obligation <sup>2</sup>				(477)
<b>Net employee benefit obligation<sup>3,4</sup></b>				<b>(143)</b>

1 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 arising on both the net pension asset and the future contractual minimum funding requirements.

2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

3 The net deferred tax asset recognised on the net employee benefit asset (2020: obligation) was €62 million at December 31, 2021 (2020: €322 million). The defined benefit obligation includes €25 million (2020: €24 million) arising from unfunded plans.

4 Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At December 31, 2021, such assets were €391 million (2020: €436 million) with a corresponding amount recorded in the scheme liabilities.

#### ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2021	2020
Defined benefit plans:		
Current service cost	3	5
Past service cost <sup>1</sup>	-	7
Administrative expenses <sup>2</sup>	29	25
	32	37
Defined contribution plans	200	235
<b>Pension costs recorded as employee costs</b>	<b>232</b>	<b>272</b>

1 Includes a past service credit of €nil (2020: €nil) relating to schemes other than APS and NAPS.

2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

€ million	2021	2020
Interest income on scheme assets	(432)	(599)
Interest expense on scheme liabilities <sup>1</sup>	425	573
Interest expense on asset ceiling	9	14
<b>Net financing charge/(credit) relating to pensions</b>	<b>2</b>	<b>(12)</b>

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

**iii Amounts recognised in the Statement of other comprehensive income**

€ million	2021	2020
Return on plan assets excluding interest income <sup>1</sup>	(2,495)	(2,268)
Remeasurement of plan liabilities from changes in financial assumptions	46	3,633
Remeasurement of experience losses/(gains) <sup>1</sup>	427	(421)
Remeasurement of the APS and NAPS asset ceilings <sup>1</sup>	419	(308)
Exchange movements <sup>1</sup>	(14)	11
Pension remeasurements charged to Other comprehensive income	(1,617)	647
Deferred tax arising on pension remeasurements <sup>1</sup>	217	(60)
Pension remeasurements charged to Other comprehensive income, net of tax	(1,400)	587

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

**c Fair value of scheme assets**

**i Investment strategies**

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, longevity 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. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

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, 2021, the benchmark for NAPS was 37 per cent (2020: 42 per cent) in return seeking assets and 63 per cent (2020: 58 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, 2021 was 1 per cent (2020: 1 per cent) in return seeking assets and 99 per cent (2020: 99 per cent) in liability matching investments.

**ii Movement in scheme assets**

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

€ million	2021	2020
January 1	31,185	31,681
Interest income	432	599
Administrative expenses <sup>2</sup>	(21)	(25)
Return on plan assets excluding interest income <sup>2</sup>	2,495	2,268
Employer contributions <sup>1</sup>	41	313
Employee contributions	13	14
Benefits paid <sup>2</sup>	(1,930)	(1,528)
Exchange movements	2,155	(2,137)
December 31	34,370	31,185

1 Includes employer contributions to APS of €1 million (2020: €2 million) and to NAPS of €nil (2020: €303 million) of which deficit-funding payments represented €nil for APS (2020: €nil) and €nil for NAPS (2020: €296 million).

2 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

## 32 Employee benefit obligations continued

### iii Composition of scheme assets

Scheme assets held by the Group at December 31 comprise:

€ million	2021				2020 <sup>1</sup>
	APS	NAPS	Other	Total	
<i>Return seeking investments</i>					
Listed equities - UK	-	220	4	<b>224</b>	1,468
Listed equities - Rest of world	12	4,222	207	<b>4,441</b>	4,724
Private equities	39	1,604	-	<b>1,643</b>	1,062
Properties	4	2,475	2	<b>2,481</b>	1,798
Alternative investments	53	1,829	43	<b>1,925</b>	880
	<b>108</b>	<b>10,350</b>	<b>256</b>	<b>10,714</b>	9,932
<i>Liability matching investments</i>					
Government issued fixed bonds	733	9,824	124	<b>10,681</b>	6,985
Government issued index-linked bonds	1,311	7,190	10	<b>8,511</b>	6,524
Asset and longevity swaps	6,351	-	-	<b>6,351</b>	4,424
Insurance contract	-	-	27	<b>27</b>	1,660
	<b>8,395</b>	<b>17,014</b>	<b>161</b>	<b>25,570</b>	19,593
<i>Other</i>					
Cash and cash equivalents	292	837	10	<b>1,139</b>	949
Derivative financial instruments	84	(3,219)	-	<b>(3,135)</b>	(228)
Other investments	(10)	73	19	<b>82</b>	939
	<b>366</b>	<b>(2,309)</b>	<b>29</b>	<b>(1,914)</b>	1,660
<b>Total scheme assets</b>	<b>8,869</b>	<b>25,055</b>	<b>446</b>	<b>34,370</b>	31,185

1 The scheme assets at December 31, 2020 have been re-presented to conform with the 2021 presentation. There has been no change in the overall fair value of the scheme assets.

The fair values of the Group's scheme assets, which are not derived from quoted process on active markets, are determined depending on the nature of the inputs used in determining the fair values (see note 28b for further details) and using the following methods and assumptions:

- Private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings-based valuations that generally result in the use of significant unobservable inputs.
- Properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- Alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation and the reporting date.
- Other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the balance sheet date; and payables for the purchase of assets which have not been settled at the balance sheet date.
- Asset and longevity swaps - APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25 per cent (2020: 24 per cent) of the pensioner liabilities for an agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt, asset swaps and longevity swaps) held by the scheme. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.
- During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 21 per cent (2020: 20 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.
- Insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at March 31, 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension-only benefits, who were 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 contracts with Rothesay Life, APS is 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 basis).

#### iv Effect of the asset ceiling

In measuring the valuation of the net defined benefit asset for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available in the form of a refund or a reduction in future contributions after they are paid into the plan. The Group has determined that the recoverability of such surpluses, including minimum funding requirements, will be subject to withholding taxes in the UK, payable by the Trustee, of 35 per cent.

The future committed NAPS deficit contributions, as detailed in note 32a, are treated as minimum funding requirements under IAS 19 and are not recognised as part of the scheme assets or liabilities. The Group has determined that upon the wind up of the scheme, that if the scheme is in surplus, including the incorporation of the minimum funding requirements, then the surplus will be available as a refund or a reduction in future contributions after they are paid into the scheme. The recovery of such amounts are subject to UK withholding tax payable by the Trustee. In measuring the recoverability of the surplus for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available upon wind up of the scheme, less the application of withholding taxes in the UK, payable by the Trustee, at 35 per cent.

A reconciliation of the effect of the asset ceiling used in calculating the IAS 19 irrecoverable surplus in APS and NAPS is set out below:

€ million	2021	2020
January 1 <sup>1</sup>	<b>761</b>	1,130
Interest expense	<b>9</b>	14
Remeasurements <sup>1</sup>	<b>419</b>	(307)
Exchange movements <sup>1</sup>	<b>59</b>	(76)
<b>December 31</b>	<b>1,248</b>	761

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

#### d Present value of scheme liabilities

##### i Movement in scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

€ million	2021	2020
January 1 <sup>1</sup>	<b>30,556</b>	30,335
Current service cost	<b>3</b>	5
Past service cost/(credit)	<b>-</b>	7
Interest expense <sup>1</sup>	<b>425</b>	573
Remeasurements – financial assumptions	<b>46</b>	3,633
Remeasurements of experience losses/(gains) <sup>1</sup>	<b>427</b>	(421)
Benefits paid <sup>1</sup>	<b>(1,930)</b>	(1,528)
Employee contributions	<b>13</b>	14
Exchange movements <sup>1</sup>	<b>2,082</b>	(2,062)
<b>December 31</b>	<b>31,622</b>	30,556

1 The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

##### ii Scheme liability assumptions

The principal assumptions used for the purposes of the IAS 19 valuations were as follows:

Per cent per annum	2021			2020		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate <sup>1</sup>	<b>1.80</b>	<b>1.90</b>	<b>0.3 – 6.5</b>	1.20	1.40	0.5 – 2.4
Rate of increase in pensionable pay <sup>2</sup>	<b>3.55</b>	<b>–</b>	<b>2.0 – 6.0</b>	2.95	<b>–</b>	2.5
Rate of increase of pensions in payment <sup>3</sup>	<b>3.55</b>	<b>2.85</b>	<b>2.0 – 3.0</b>	2.95	2.25	1.1 – 3.5
RPI rate of inflation	<b>3.55</b>	<b>3.3</b>	<b>1.8 – 2.5</b>	2.95	2.80	2.5 – 2.7
CPI rate of inflation	<b>2.95</b>	<b>2.85</b>	<b>1.8 – 2.5</b>	2.25	2.25	1.1 – 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, 2021.

4 The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.00 per cent grading down to 5.00 per cent over five years (2020: 6.25 per cent to 5.00 per cent over five years).

## 32 Employee benefit obligations continued

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. Life expectancy assumptions do not reflect any adjustments for the impact of COVID-19 due to the uncertainty of the long-term effects. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2021	2020
Life expectancy at age 60 for a:		
• male currently aged 60	<b>28.1</b>	28.2
• male currently aged 40	<b>29.9</b>	29.9
• female currently aged 60	<b>29.5</b>	29.3
• female currently aged 40	<b>31.9</b>	31.8

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables.

At December 31, 2021, the weighted-average duration of the defined benefit obligation was 12 years for APS (2020: 12 years) and 19 years for NAPS (2020: 20 years). The weighted-average duration of the defined benefit obligations was 11 to 23 years for other schemes (2020: 11 to 24 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent on movements in the aforementioned discount rates.

### iii Sensitivity analysis

Reasonable possible changes at the reporting date to significant valuation assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

€ million	Increase in scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	(35)	(424)	(9)
Future salary growth (increase of 10 basis points)	n/a	n/a	(3)
Future pension growth (increase of 10 basis points)	(47)	(400)	(4)
Future mortality rate (one year increase in life expectancy)	(35)	(871)	(34)

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.

## 33 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 in note 10.

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2021 amounted to €22 million (December 31, 2020: €56 million).

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2021 are not expected to result in material losses for the Group.

## **34 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 of 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 and then further again to September 30, 2021 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month through to the end of June 2021. From July 1, 2021 the eligibility decreased down each month to 60 per cent of wage costs and a maximum of £1,875 per month by September 30, 2021, at which time the CJRS ended.

Such costs were paid by the Government to the Group in arrears. The Group was 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 were 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 April, 2022. For those qualifying employees (earning less than €1,462 per week), the government will reimburse wage costs up to a maximum of €203 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 2021 amounted to €286 million (2020: €344 million).

### **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 February 28, 2022. Under this plan, employment was temporarily suspended and those designated employees were paid directly by the government and there was no remittance made to the Group. The Group was obliged to continue to pay the associated social security costs.

Had those designated employees not been temporarily suspended during 2021, the Group would have incurred further employee costs of €269 million (2020: €214 million).

### **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. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million.

### **The UK Export Finance (UKEF) – recognised within Long-term borrowings**

On February 22, 2021, British Airways entered into a 5-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The facility is unsecured.

On November 1, 2021, British Airways entered into a further 5-year term loan Export Development Guarantee Facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The facility is unsecured. At December 31, 2021 the facility remained undrawn.

**NOTES TO THE ACCOUNTS CONTINUED**  
For the year to December 31, 2021

### 35 Related party transactions

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

€ million	2021	2020
<b>Sales of goods and services</b>		
Sales to associates <sup>1</sup>	<b>6</b>	12
Sales to significant shareholders <sup>2</sup>	<b>16</b>	23
<b>Purchases of goods and services</b>		
Purchases from associates <sup>3</sup>	<b>49</b>	42
Purchases from significant shareholders <sup>2</sup>	<b>69</b>	80
<b>Receivables from related parties</b>		
Amounts owed by associates <sup>4</sup>	<b>1</b>	1
Amounts owed by significant shareholders <sup>5</sup>	<b>5</b>	1
<b>Payables to related parties</b>		
Amounts owed to associates <sup>6</sup>	<b>3</b>	2
Amounts owed to significant shareholders <sup>5</sup>	<b>2</b>	1

1 Sales to associates: Consisted primarily of sales for airline-related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €5 million (2020: €9 million), €nil (2020: €1 million) to Viajes Ame S.A. and €1 million (2020: €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 €33 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2020: €23 million), €8 million of handling services provided by Dunwoody (2020: €9 million) and €8 million of maintenance services received from Serpista, S.A. (2020: €7 million).

4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A., Dunwoody and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2020: €1 million).

5 Amounts owed by and to significant shareholders related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of €3 million due to Multiservicios Aeroportuarios, S.A., Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A., Viajes Ame S.A., Serpista, S.A. and Dunwoody (2020: €2 million).

During the year to December 31, 2021 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 €6 million (2020: €7 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, 2021, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2020: 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, 2021 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2020: €nil).

#### Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2021 and 2020 is as follows:

€ million	Year to December 31	
	2021	2020
<b>Base salary, fees and benefits</b>		
<b>Board of Directors</b>		
Short-term benefits	<b>3</b>	3
Share based payments	-	-
<b>Management Committee</b>		
Short-term benefits	<b>11</b>	5
Share based payments	<b>1</b>	-

For the year to December 31, 2021 the Board of Directors includes remuneration for one Executive Director (December 31, 2020: three Executive Directors). The Management Committee includes remuneration for 14 members (December 31, 2020: 14 members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2021 the Company's obligation was €35,000 (2020: €38,000).

At December 31, 2021 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €9 million (2020: €9 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at December 31, 2021 (2020: nil).

## 36 Change in accounting policy

### Change in accounting policy relating to employee benefits

During the course of 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPS Defined benefit schemes. The change in policy has been adopted to better reflect the underlying management and operation of these schemes, while remaining in compliance with IAS 19. This change in accounting policy has been applied retrospectively to the consolidated financial statements and is detailed below.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing charge relating to pensions in the Income statement, as well as increased the Remeasurements of post-employment benefit obligations and Currency translation differences in the Statement of other comprehensive income for the year ended December 31, 2020.

The impact of the changes in these accounting policies on the Consolidated income statement and the Consolidated statement of comprehensive income for 2020, as well as the Consolidated balance sheet at December 1, 2020 and January 1, 2020 are shown below:

### Consolidated income statement (extract for the year to December 31, 2020)

€ million	Reported	Adjustment - administration costs	Restated
<b>Total revenue</b>	<b>7,806</b>	<b>-</b>	<b>7,806</b>
Employee costs	3,560	25	3,585
Other expenditure on operations	11,672	-	11,672
<b>Total expenditure on operations</b>	<b>15,232</b>	<b>25</b>	<b>15,257</b>
<b>Operating loss</b>	<b>(7,426)</b>	<b>(25)</b>	<b>(7,451)</b>
Net financing credit relating to pensions	4	8	12
Other financing items	(384)	-	(384)
Other non-operating items	(4)	-	(4)
Total net non-operating costs	(384)	8	(376)
<b>Loss before tax</b>	<b>(7,810)</b>	<b>(17)</b>	<b>(7,827)</b>
Tax	887	5	892
<b>Loss after tax for the year</b>	<b>(6,923)</b>	<b>(12)</b>	<b>(6,935)</b>

### Consolidated statement of other comprehensive income (extract for the year to December 31, 2020)

€ million	Reported	Adjustment - administration costs	Restated
<i>Items that may be classified subsequently to net profit</i>			
Currency translation differences	(192)	(21)	(213)
Other items that may be classified subsequently to net profit	(335)	-	(335)
<i>Items that will not be reclassified to net profit</i>			
Remeasurements of post-employment benefit obligations	(632)	36	(596)
Other items that will not be reclassified to net profit	(72)	-	(72)
Total other comprehensive loss for the year, net of tax	(1,231)	15	(1,216)
<b>Loss after tax for the year</b>	<b>(6,923)</b>	<b>(12)</b>	<b>(6,935)</b>
<b>Total comprehensive loss for the year</b>	<b>(8,154)</b>	<b>3</b>	<b>(8,151)</b>

NOTES TO THE ACCOUNTS CONTINUED  
For the year to December 31, 2021

### 36 Change in accounting policy continued

#### Consolidated balance sheet (extract at December 31, 2020 and December 31, 2019)

€ million	Reported 2020	Adjustment - administration costs <sup>1</sup>	Restated 2020	Reported 2019	Adjustment - administration costs <sup>1</sup>	Restated 2019
<b>Non-current assets</b>						
Employee benefit assets	282	52	334	314	217	531
Other non-current assets	22,142	-	22,142	23,810	-	23,810
	<b>22,424</b>	<b>52</b>	<b>22,476</b>	<b>24,124</b>	<b>217</b>	<b>24,341</b>
<b>Current assets</b>						
<b>Total assets</b>	<b>30,264</b>	<b>52</b>	<b>30,316</b>	<b>35,451</b>	<b>217</b>	<b>35,668</b>
Other equity	8,233	-	8,233	6,269	-	6,269
Other reserves	(6,917)	294	(6,623)	560	291	851
<b>Total equity</b>	<b>1,316</b>	<b>294</b>	<b>1,610</b>	<b>6,829</b>	<b>291</b>	<b>7,120</b>
<b>Non-current liabilities</b>						
Employee benefit obligations	719	(242)	477	400	(74)	326
Other non-current liabilities	16,713	-	16,713	15,474	-	15,474
	<b>17,432</b>	<b>(242)</b>	<b>17,190</b>	<b>15,874</b>	<b>(74)</b>	<b>15,800</b>
<b>Current liabilities</b>						
<b>Total liabilities</b>	<b>11,516</b>	<b>-</b>	<b>11,516</b>	<b>12,748</b>	<b>-</b>	<b>12,748</b>
<b>Total equity and liabilities</b>	<b>30,264</b>	<b>52</b>	<b>30,316</b>	<b>35,451</b>	<b>217</b>	<b>35,668</b>

1 Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

### 37 Post balance sheet events

Between the reporting date and the date of this report there have been no post balance sheet events.

## 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, may differ to definitions given by regulatory bodies applicable to the Group and may differ to similarly titled measures presented by other companies. 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'.

During 2021, while the Group has made no changes to its pre-existing disclosures and treatments of APMs compared to those disclosed in the Annual Report and Accounts for the year to December 31, 2020, the Group has added an additional APM regarding the Liquidity of the Group to reflect the increased level of scrutiny, internally and externally, on this measure as a result of the COVID-19 pandemic.

The impact of the COVID-19 pandemic has significantly changed the basis on which the Management Committee and external parties monitor the performance of the Group. In this regard measures relating to Levered free cash flow, Net debt to EBITDA and Return on capital employed do not provide the level of meaningful additional information that they have done in the past. However, the Group continues to present these APMs for consistency and they will become more prominent and relevant subsequent to the recovery from the COVID-19 pandemic.

The definition of each APM, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

### a Loss 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 to supplement the understanding the entity's financial performance. The Management Committee of the Group uses financial performance on a pre-exceptional basis to evaluate operating performance and to make strategic, financial and operational decisions, and externally because it is widely used by security analysts and investors in evaluating the performance of the Group between reporting periods and against other companies.

Exceptional items in the year to December 31, 2021 and 2020 include: significant discontinuation of hedge accounting; significant restructuring; 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			Before exceptional items 2020		
	Statutory 2021	Exceptional items	Before exceptional items 2021	Statutory 2020 <sup>1</sup>	Exceptional items	Before exceptional items 2020
Passenger revenue <sup>2</sup>	5,835	5	5,830	5,512	(62)	5,574
Cargo revenue	1,673	-	1,673	1,306	-	1,306
Other revenue	947	-	947	988	-	988
<b>Total revenue</b>	<b>8,455</b>	<b>5</b>	<b>8,450</b>	<b>7,806</b>	<b>(62)</b>	<b>7,868</b>
Employee costs <sup>3</sup>	3,013	(18)	3,031	3,585	313	3,272
Fuel, oil costs and emissions charges <sup>2</sup>	1,781	(154)	1,935	3,735	1,694	2,041
Handling, catering and other operating costs	1,308	-	1,308	1,340	-	1,340
Landing fees and en-route charges	923	-	923	918	-	918
Engineering and other aircraft costs <sup>4</sup>	1,085	(7)	1,092	1,456	108	1,348
Property, IT and other costs <sup>5</sup>	758	-	758	782	28	754
Selling costs	434	-	434	405	-	405
Depreciation, amortisation and impairment <sup>6</sup>	1,932	(21)	1,953	2,955	856	2,099
Currency differences	(14)	-	(14)	81	-	81
Total expenditure on operations	11,220	(200)	11,420	15,257	2,999	12,258
<b>Operating (loss)/profit</b>	<b>(2,765)</b>	<b>205</b>	<b>(2,970)</b>	<b>(7,451)</b>	<b>(3,061)</b>	<b>(4,390)</b>
Finance costs	(830)	-	(830)	(670)	-	(670)
Finance income	13	-	13	41	-	41
Net change in fair value of convertible bond	89	-	89	-	-	-
Net financing (charge)/credit relating to pensions	(2)	-	(2)	12	-	12
Net currency retranslation (charges)/credits	(82)	-	(82)	245	-	245
Other non-operating (charges)/credits <sup>7</sup>	70	(75)	145	(4)	-	(4)
Total net non-operating costs	(742)	(75)	(667)	(376)	-	(376)
<b>(Loss)/profit before tax</b>	<b>(3,507)</b>	<b>130</b>	<b>(3,637)</b>	<b>(7,827)</b>	<b>(3,061)</b>	<b>(4,766)</b>
Tax	574	(25)	599	892	463	429
<b>(Loss)/profit after tax for the year</b>	<b>(2,933)</b>	<b>105</b>	<b>(3,038)</b>	<b>(6,935)</b>	<b>(2,598)</b>	<b>(4,337)</b>

## ALTERNATIVE PERFORMANCE MEASURES CONTINUED

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

The rationale for each exceptional item is given below. In 2021 and 2020 all items were associated with the impact of COVID-19, except the settlement provision in relation to the charge in 2020 relating to the theft of customer data at British Airways (item 5).

2 Discontinuation of hedge accounting

The exceptional credit of €159 million (2020: expense of €1,756 million) arising from a combination of the discontinuance of hedge accounting in the year to December 31, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at January 1, 2021. This was represented by credit of €162 million (2020: expense of €1,781 million) relating to fuel derivatives and an expense of €8 million (2020: credit of €87 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (2020: charge of €62 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy is 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 credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

The cash outflow impact associated with the discontinuance of hedge accounting was €338 million in the year to December 31, 2021 (2020: €1,187 million).

The related tax charge was €26 million (2020: credit of €273 million), with €1 million (2020: credit of €11 million) being attributable to Passenger revenue and €25 million (2020: credit of €262 million) being attributable to Fuel, oil costs and emissions charges.

3 Restructuring costs

The exceptional credit of €18 million (2020: charge of €319 million) relates to the reversal of restructuring provisions that have been released unutilised. In 2020, the exceptional charge (comprising €313 million of employee severance pay and €6 million of associated legal costs) represented the Group-wide restructuring programme, which right-sized the Group for the near term. While the restructuring programme affected all of the Group's operating companies, the exceptional charges in the year to December 31, 2020 related to British Airways, Aer Lingus, Iberia and LEVEL only, due to the status of negotiations with employees and their representatives. The exceptional credit (2020: charge) has been recorded within Employee costs (2020: Employee costs and Property, IT and other costs). There has been no cash flow impact relating to the exceptional restructuring credit in 2021.

The related tax charge was €3 million (2020: credit of €53 million).

4 Engineering and other aircraft costs

The exceptional credit of €7 million (2020: charge of €108 million) relates to the reversal of contractual lease provisions for those aircraft in Vueling that have been stood up during 2021, where the estimated costs to fulfil the hand back conditions will be recognised over the remaining operating activity of the aircraft. In 2020, the exceptional charge included an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €37 million. The inventory write down expense represented those expendable inventories that, given the asset impairments, were no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions represented the estimation of the additional cost to fulfil the hand back conditions associated with the leased aircraft that were permanently stood down and impaired. The exceptional credit (2020: charge) is recorded within Engineering and other aircraft costs. There has been no cash flow impact relating to the exceptional credit in 2021.

There is no tax impact on the recognition of this credit (2020: credit of €14 million).

5 Settlement provision

The exceptional charge of €22 million recognised in 2020 represented 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 was recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.

There was no tax impact on the recognition of this charge

6 Impairment of fleet and associated assets

The exceptional impairment reversal of €21 million includes an amount of €14 million relating to the reversal of aircraft impairment and an amount of €7 million relating to the reversal of engine impairment. The aircraft impairment reversal relates to four Airbus A320 aircraft in Vueling, previously permanently stood down in the fourth quarter of 2020, being stood up in the third quarter of 2021 following the successful slot allocation at Paris Orly and the resultant increased capacity. The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. Of the exceptional impairment reversal, €8 million was recorded within Property, plant and equipment relating to owned aircraft and €12 million was recorded within Right of use assets relating to leased aircraft. The exceptional impairment reversal is recorded within Depreciation, amortisation and impairment in the Income statement.

The total exceptional impairment expense of €856 million recorded in 2020 was represented by an impairment of fleet assets of €837 million and an impairment of other assets of €19 million. The fleet impairment related to 82 aircraft, their associated engines and rotatable inventories that had been stood down permanently and 2 further aircraft which were impaired down to their recoverable value at December 31, 2020, which included 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 was recorded within Property, plant and equipment relating to owned aircraft and €161 million was recorded within Right of use assets relating to leased aircraft.

Included within the impairment of other assets was 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 were recorded at the lower of their carrying value and their recoverable value.

The exceptional impairment (reversals)/expenses were recorded within Depreciation, amortisation and impairment in the Income statement. There has been no cash flow impact relating to the exceptional impairment reversals in 2021.

The related tax charge was €1 million (2020: credit of €123 million).

7 Air Europa termination agreement

The exceptional charge of €75 million represents the amount agreed with Globalia to terminate the agreements signed on November 4, 2019 and January 20, 2021 under which Iberia had agreed to acquire the issued share capital of Air Europa. The exceptional charge has been recorded within Other non-operating charges in the Income statement and was settled prior to December 31, 2021.

The related tax credit was €5 million.

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 2021 and 2020:

	Year to December 31, 2021														
	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
€ million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	2,321	5	2,316	2,715	6	2,709	1,724	-	1,724	1,011	-	1,011	307	(1)	308
Cargo revenue	1,097	-	1,097	1,275	-	1,275	394	-	394	-	-	-	65	-	65
Other revenue	281	-	281	328	-	328	666	-	666	5	-	5	4	-	4
<b>Total revenue</b>	<b>3,699</b>	<b>5</b>	<b>3,694</b>	<b>4,318</b>	<b>6</b>	<b>4,312</b>	<b>2,784</b>	<b>-</b>	<b>2,784</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>	<b>376</b>	<b>(1)</b>	<b>377</b>
Employee costs	1,471	(11)	1,482	1,708	(13)	1,721	723	(5)	728	200	-	200	180	-	180
Fuel, oil costs and emissions charges	830	(109)	939	967	(125)	1,092	519	(9)	528	198	(9)	207	89	(10)	99
Depreciation, amortisation and impairment	979	(6)	985	1,134	(7)	1,141	350	-	350	227	(13)	240	140	-	140
Other operating costs	2,188	-	2,188	2,550	-	2,550	1,412	-	1,412	624	(7)	631	305	-	305
Total expenditure on operations	5,468	(126)	5,594	6,359	(145)	6,504	3,004	(14)	3,018	1,249	(29)	1,278	714	(10)	724
<b>Operating loss</b>	<b>(1,769)</b>	<b>131</b>	<b>(1,900)</b>	<b>(2,041)</b>	<b>151</b>	<b>(2,192)</b>	<b>(220)</b>	<b>14</b>	<b>(234)</b>	<b>(233)</b>	<b>29</b>	<b>(262)</b>	<b>(338)</b>	<b>9</b>	<b>(347)</b>
<b>Operating margin (%)</b>	<b>(47.8)%</b>		<b>(51.4)%</b>		<b>(7.9)%</b>		<b>(8.4)%</b>		<b>(23.0)%</b>	<b>(25.8)%</b>		<b>(90.0)%</b>	<b>(92.1)%</b>		
	Year to December 31, 2020														
	British Airways (£) <sup>1</sup>			British Airways (€) <sup>1</sup>			Iberia			Vueling			Aer Lingus		
€ million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	2,840	(54)	2,894	3,309	(59)	3,368	1,160	-	1,160	569	-	569	379	(3)	382
Cargo revenue	890	-	890	998	-	998	240	-	240	-	-	-	88	-	88
Other revenue	217	-	217	251	-	251	859	-	859	5	-	5	-	-	-
<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	1,938	221	1,717	2,193	243	1,950	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	7,849	1,499	6,350	8,961	1,719	7,242	3,670	652	3,018	1,449	252	1,197	1,030	199	831
<b>Operating loss</b>	<b>(3,902)</b>	<b>(1,553)</b>	<b>(2,349)</b>	<b>(4,403)</b>	<b>(1,778)</b>	<b>(2,625)</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>(98.9)%</b>		<b>(58.7)%</b>		<b>(62.5)%</b>		<b>(33.6)%</b>		<b>(152.4)%</b>	<b>(108.5)%</b>		<b>(120.6)%</b>	<b>(76.8)%</b>		

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## ALTERNATIVE PERFORMANCE MEASURES CONTINUED

**b Basic loss per share before exceptional items and adjusted earnings per share (KPI)**

Earnings are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

€ million	Note	2021	2020 <sup>1</sup>
Loss after tax attributable to equity holders of the parent	a	(2,933)	(6,935)
Exceptional items	a	105	(2,598)
<b>Loss after tax attributable to equity holders of the parent before exceptional items</b>		<b>(3,038)</b>	(4,337)
<b>Adjusted loss</b>		<b>(3,038)</b>	(4,337)
Weighted average number of shares used for basic loss per share <sup>2</sup>	11	4,964	3,528
Weighted average number of shares used for diluted loss per share	11	4,964	3,528
<b>Basic loss per share (€ cents)</b>		<b>(61.2)</b>	(122.9)
<b>Adjusted loss per share before exceptional items (€ cents)</b>		<b>(61.2)</b>	(122.9)

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

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 29).

**c 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	2021 Reported	ccy adjustment	2021 ccy	2020 <sup>1</sup>
Total expenditure on operations	a	11,220	41	11,261	15,257
(Add)/less: exceptional items in operating expenditure	a	(200)		(200)	2,999
Less: fuel, oil costs and emission charges	a	1,935	59	1,994	2,041
Non-fuel costs		9,485	(18)	9,467	10,217
Less: Non-flight specific costs		815	12	827	851
<b>Airline non-fuel costs</b>		<b>8,670</b>	<b>(30)</b>	<b>8,640</b>	<b>9,366</b>
ASKs (millions)		121,965		121,965	113,195
<b>Airline non-fuel unit costs per ASK (€ cents)</b>		<b>7.11</b>		<b>7.08</b>	<b>8.27</b>

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

**d Levered free cash flow (KPI)**

Levered free cash flow represents the cash generated, and the financing raised, by the 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 cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

€ million	2021	2020
<b>Net Increase in cash and cash equivalents</b>	<b>1,913</b>	1,940
Less: Decrease in other current interest-bearing deposits	(91)	(2,366)
Less: Other financing movements	-	(2,674)
Add: Dividends paid	-	53
<b>Levered free cash flow</b>	<b>1,822</b>	(3,047)

## e Net debt to EBITDA (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom against internal and external security analyst and investor benchmarks.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits. Net debt excludes supply chain financing arrangements which are classified within trade payables (note 22).

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	2021	2020 <sup>1</sup>
Interest-bearing long-term borrowings	25	<b>19,610</b>	15,679
Less: Cash and cash equivalents	21	(7,892)	(5,774)
Less: Other current interest-bearing deposits	21	(51)	(143)
<b>Net debt</b>		<b>11,667</b>	9,762
Operating loss	a	(2,765)	(7,451)
Add: Exceptional items	a	(205)	3,061
Add: Depreciation, amortisation and impairment	a	<b>1,953</b>	2,099
<b>EBITDA</b>		<b>(1,017)</b>	(2,291)
<b>Net debt to EBITDA</b>		<b>(11.5)</b>	(4.3)

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

## f Return on invested capital (KPI)

The Group monitors return on invested capital (RoIC) as it gives an indication of the Group's capital efficiency relative to the capital invested as well as the ability to fund growth and to pay dividends. RoIC is defined as EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage.

Invested capital is defined as the average of property, plant and equipment and software intangible assets over a 12-month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets.

€ million	Note	2021	2020 <sup>1</sup>
EBITDA	e	(1,017)	(2,291)
Less: Fleet depreciation multiplied by inflation adjustment		(1,777)	(1,921)
Less: Other property, plant and equipment depreciation		(257)	(258)
Less: Software intangible amortisation		(167)	(151)
		<b>(3,218)</b>	(4,621)
<b>Invested capital</b>			
Average fleet value <sup>3</sup>	13	<b>15,241</b>	16,020
Less: average progress payments <sup>4</sup>	13	(729)	(1,117)
Fleet book value less progress payments		<b>14,512</b>	14,903
<i>Inflation adjustment<sup>2</sup></i>		<b>1.16</b>	1.18
		<b>16,893</b>	17,520
Average net book value of other property, plant and equipment <sup>5</sup>	13	<b>2,106</b>	2,329
Average net book value of software intangible assets <sup>6</sup>	17	<b>640</b>	652
<b>Total invested capital</b>		<b>19,639</b>	20,501
<b>Return on Invested Capital</b>		<b>(16.4)%</b>	(22.5)%

1 Refer to notes 2 and 36 for the change in accounting policy relating to pension administration costs.

2 Presented to two decimal places and calculated using a 1.5 per cent inflation (December 31, 2020: 1.5 per cent inflation) rate over the weighted average age of the fleet December 31, 2021: 10.6 years (December 31, 2020: 9.8 years).

3 The average net book value of aircraft is calculated from an amount of €15,365 million at December 31, 2020 and €15,116 million at December 31, 2021.

4 The average net book value of progress payments is calculated from an amount of €710 million at December 31, 2020 and €748 million at December 31, 2021.

5 The average net book value of other property, plant and equipment is calculated from an amount of €2,166 million at December 31, 2020 and €2,045 million at December 31, 2021.

6 The average net book value of software intangible assets is calculated from an amount of €638 million at December 31, 2020 and €642 million at December 31, 2021.

## ALTERNATIVE PERFORMANCE MEASURES CONTINUED

**g 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 2021 figures are stated at a constant currency basis, they have applied the 2020 rates stated below:

**Foreign exchange rates**

	Weighted average 2021	2020	Closing	
			2021	2020
Pound sterling to euro	<b>1.15</b>	1.13	<b>1.18</b>	1.10
Euro to US dollar	<b>1.20</b>	1.13	<b>1.13</b>	1.22
Pound sterling to US dollar	<b>1.38</b>	1.27	<b>1.33</b>	1.35

**h Liquidity**

The Management Committee monitors liquidity in order to assess the resilience of the Group to adverse events and uncertainty and develops funding initiatives to maintain this resilience.

Liquidity is used by analysts, investors and other users of the financial statements as a measure to the financial health and resilience of the Group.

Liquidity is defined as Cash and cash equivalents plus Current interest-bearing deposits, plus Committed general undrawn facilities and committed aircraft undrawn facilities.

€ million	Note	2021	2020
Cash and cash equivalents	21	<b>7,892</b>	5,774
Current interest-bearing deposits	21	<b>51</b>	143
Committed general undrawn facilities	27f	<b>2,864</b>	905
Committed aircraft undrawn facilities	27f	<b>1,126</b>	1,180
Overdrafts and other facilities	27f	<b>53</b>	52
<b>Total liquidity</b>		<b>11,986</b>	8,054

## 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, JE11ST	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, JE11ES	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>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%
<b>BA Euroflyer Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>Teleflight Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Call centre	England	100%

## GROUP INVESTMENTS CONTINUED

**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> Calle Montes Urales 424, Colonia Lomas de Chapultepec V, Ciudad de México, 11000	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>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	Airline operations	Republic of Ireland	100%
<b>Aer Lingus 2009 DCS Trustee Limited</b> Dublin Airport, Dublin	Trustee	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	Airline operations	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 0GB	Dormant	England	100%

## IAG Cargo

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Cargo Innovations Limited</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Dormant	England	100%
<b>Zenda Group Limited</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Dormant	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 0GB	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 0GB	Holding company	England	100%
<b>British Airways Plc*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100% <sup>3</sup>
<b>FLY LEVEL, S.L.</b> Camino de la Muñoz 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 0GB	Inflight eCommerce platform	Republic of Ireland	100%
<b>IAG GBS Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	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

- 1 The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of both the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.
- 2 The Group holds 49.75% of the total number of voting rights and the majority of the economic rights in Aer Lingus Group DAC. The remaining voting rights, representing 50.25%, correspond to a trust established for implementing the Aer Lingus nationality structure.
- 3 The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, are held by a trust established for the purposes of implementing the British Airways nationality structure.

## GROUP INVESTMENTS CONTINUED

**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 Manoteras 46, 2 <sup>a</sup> planta, Madrid, 28050	Spain	49%
<b>Dunwoody Airline Services Limited</b> Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	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	23%
<b>LanzaJet</b> 520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015, USA	United States	16.7%

**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 Muñoz s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	71	(0.6)
<b>The Airline Group Limited</b> 5 <sup>th</sup> Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	n/a	n/a
<b>Travel Quinto Centenario, S.A.</b> Calle Alemenes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
<b>i6 Group Limited</b> Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4%	GBP	4	(1)
<b>Monese Limited</b> 1 King Street, London, EC2V 8AU	England	5.9%	GBP	(13)	(25)
<b>NAYAKJV1, S.L.</b> C/ d'Osuna, 2, El Prat de Llobregat, 08820	Spain	5%	EUR	n/a	n/a

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### **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 24, 2022, 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, 2021, prepared in accordance with the applicable set of accounting standards and in single electronic format, 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 24, 2022

---

**Javier Ferrán Larraz**  
Chairman

**Luis Gallego Martín**  
Chief Executive Officer

---

**Giles Agutter**

---

**Peggy Bruzelius**

---

**Eva Castillo Sanz**

---

**Margaret Ewing**

---

**Maurice Lam**

---

**Heather Ann McSharry**

---

**Robin Phillips**

---

**Emilio Saracho Rodríguez de Torres**

---

**Lucy Nicola Shaw**

---

**Alberto Terol Esteban**



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

## Independent Auditor's Report on the Consolidated Financial statements

To the shareholders of International Consolidated Airlines Group, S.A. commissioned by management

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

#### Opinion

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A (the Parent) and subsidiaries (together the "Group") which comprise the consolidated balance sheet at 31 December 2021 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated 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 of the financial reporting framework applicable in Spain.

#### Basis for Opinion

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

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

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

## Material Uncertainty Related to Going Concern

Going Concern	Our response
<p>We draw your attention to note 2 to the accompanying consolidated financial statements, which states that the pandemic triggered by COVID-19 has had a significant impact on the Group's results and its cash flows.</p> <p>In this regard, in its assessment of the going concern principle, the Group has considered three different scenarios, one using base case assumptions and two other downside scenarios. The base case considers the expected recovery during the period encompassed by the going concern analysis. However, the downside scenarios take into account stress case assumptions, with one considering a more gradual recovery compared to the base case and the other considering a further period of lockdown followed by recovery.</p> <p>The Directors consider that the Group has sufficient liquidity to continue operations in the foreseeable future, and thus the going concern principle has been applied in the preparation of these consolidated financial statements. Nonetheless, as indicated in note 2 to the accompanying consolidated financial statements, a number of factors are beyond the Group's control, and should a more severe scenario come about than those envisaged, the Group would need to obtain the necessary additional financing. These events and conditions indicate the existence of material uncertainty which could cast significant doubt as to the Group's ability to continue as a going concern.</p> <p>Our opinion is not modified in respect of this matter.</p> <p><b>The risk</b></p> <p>Clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area.</p>	<p>Our procedures included:</p> <p><b>Assessing transparency:</b> Assessing the completeness and accuracy of the matters covered in the going concern disclosure by:</p> <ul style="list-style-type: none"> <li>- <b>Funding assessment:</b> Assessing the financing arrangements currently in place and the actions taken by Group to maintain liquidity and the headroom.</li> <li>- <b>Key dependency assessment:</b> Using our knowledge of the business and the audit work performed on the areas such as revenue, operating costs, pensions to identify critical factors within the Group's financial forecasts and in our assessment of the severe but plausible downside scenarios.</li> <li>- <b>Sensitivity analysis:</b> Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively.</li> <li>- <b>Benchmarking assumptions:</b> Critically assessing the key assumptions in Group's financial forecasts in relation to specific risks with reference to market trends (ASKs, PRASKs, fuel prices), third-party economic and industry forecasts, and the Group's recovery pattern versus industry expectations, Group's ability to raise finance throughout the pandemic period, as well as our findings in relation to the work performed on other areas of the audit.</li> <li>- <b>Historical comparisons:</b> Assessing the directors' track record of forecasts vs actual cashflows by analysing actual monthly results since January 2021 and actual results for the three years preceding the pandemic.</li> <li>- <b>Evaluating Directors' intent:</b> Evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which included mitigation actions to reduce operating and capital expenditure, and asset disposal.</li> </ul>

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the 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 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 the risks described below as those of most significance in the audit which should be communicated in our report.



Recoverability of property, plant and equipment and intangible assets, including goodwill (€20,400 million; 2020: €20,739 million)

See note 17 to the financial statements, refer further to accounting policy and financial disclosures.

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><b>Forecast-based assessment</b></p> <p>Property, plant and equipment, intangible assets and goodwill are significant and at risk of irrecoverability due to continuing economic uncertainty arising from the effects of COVID-19 and its impact on the aviation industry.</p> <p>The estimated recoverable amount of the Group's cash generating units (CGUs) to which property, plant and equipment, and intangible assets including goodwill are allocated is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>Changes in the key assumptions in cash flow forecasts can have a material impact on the available headroom and so whether any impairment is required. The most significant assumptions are revenue growth and operating profit margins recovery, ASK, PRASK, fuel prices and discount rate. Based on the headroom available the risk is specifically associated with British Airways, Iberia and Aer Lingus CGUs.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the British Airways, Iberia and Aer Lingus CGUs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 17b) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Our sector experience:</b> Assessing the Group's identification of impairment indicators and considering whether further indicators should have been assessed based on our knowledge of the business, its operating environment, industry knowledge, current market conditions and other information obtained during the audit. Assessing the Group's determination of the cash generating units (CGUs) based on the same factors.</li> <li>- <b>Benchmarking assumptions:</b> Evaluating assumptions applied, including forecast revenue growth and operating profit margins recovery, ASK, PRASK and fuel prices and comparing to externally derived data. We also assessed, how the impact of climate change risk has been incorporated into the forecasts, discount rates applied and long term growth rates, including the impact of the cost of sustainable aviation fuel (SAF) on the cost base, demand and the Group's ability to recover the additional costs.</li> <li>- <b>Benchmarking assumptions:</b> With the assistance of our valuation specialists, assessing the methodology applied by the Group to derive its discount rates and the basis for the calculation of the key components such as debt/equity ratio, risk free rates and market risk premium.</li> <li>- <b>Sensitivity analysis:</b> Performing breakeven analysis on the key assumptions, including assessing the impact of downside scenarios with reference to the speed of recovery post Covid and potential further travel restrictions.</li> <li>- <b>Comparing valuations:</b> Comparing the sum of the discounted cash flows to the Group's market capitalisation, including the analysis of the implied trading multiples, to assess the reasonableness of those cashflows.</li> <li>- <b>Methodology implementation:</b> Assessing mathematical accuracy of the model and whether the calculation has been prepared in accordance with IAS 36.</li> <li>- <b>Assessing consistency:</b> Assessing the consistency with the forecasts used in impairment testing with those applied for going concern assessment and deferred tax recoverability assessment.</li> <li>- <b>Assessing transparency:</b> Assessing whether the Group's disclosures, and specifically about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the recoverable amount of goodwill and other intangibles with indefinite useful life, and the impact of the current economic environment on the valuation of property, plant and equipment and intangible assets.</li> </ul>

**Valuation of the gross defined benefit pension obligation (DBO) (€30.9 billion; 2020: €29.9 billion)**

See note 32 to the financial statements, refer further to accounting policy and financial disclosures.

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><b>Subjective valuation</b></p> <p>Significant estimates are made in determining the key assumptions used in valuing the Group's gross defined benefit pension scheme obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness.</p> <p>A small change in assumptions can have a material financial impact on the Group's gross defined benefit pension obligations and so net employee benefit assets.</p> <p>The significant risk relates to New Airways Pension Scheme and British Airways Pension Scheme which represent 97.8% (2020: 97.7%) of pension scheme obligations. The most significant assumptions are discount rate, inflation rate and mortality/life expectancy.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension scheme obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 32) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Benchmarking assumptions:</b> Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data in the context of market practice and the uncertainties related to the future impact of COVID.</li> <li>- <b>Assessing transparency:</b> Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.</li> </ul>



**Customer loyalty programmes - revenue recognition for deferred revenue liabilities (€2,820 million; 2020: €2,725 million)**

See note 23 to the financial statements, refer further to page accounting policy and financial disclosures.

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><b>Subjective estimate</b></p> <p>Significant estimates are made in determining the assumptions applied in calculating the value of points issued under customer loyalty programs (including the allocation of contract revenue between points issued and brand / marketing services) and the number of points not expected to be redeemed (breakage).</p> <p>Relatively small changes in these assumptions could result in significant adjustments to revenue and deferred revenue.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that deferred revenue liabilities arising on customer loyalty programs have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, [and possibly many times that amount]. The financial statements (note 23) discloses the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Control design:</b> Testing the design and implementation of controls around customer loyalty revenue recognition and estimation of breakage.</li> <li>- <b>Assessing principles:</b> Assessing the Group's accounting policies in determining customer loyalty revenues by reference to the revenue accounting standard.</li> <li>- <b>Assessing application:</b> Assessing the allocation of income received from the Group's loyalty partners between the points issued and the brand and marketing services provided to assess whether these are accounted for in accordance with the Group's accounting policy.</li> <li>- <b>Methodology implementation:</b> With the assistance of our own actuarial specialists, assessing the methods applied to estimate future redemption and breakage rates in the Group's statistical model.</li> <li>- <b>Our sector experience:</b> With the assistance of our own valuation experts, we have assessed the risk over brand loyalty assumptions set in previous periods to recognise upfront brand revenue on partner contracts.</li> <li>- <b>Re-performance:</b> With the application of our Data Analytics techniques, reconciling the Avios activity back to the operational systems, including for the data migration to the new loyalty system for the BA Executive club in November and investigating material variances.</li> <li>- <b>Tests of detail:</b> On a sample basis, testing the value of an Avios derived by the Group to defer revenues when points are initially issued. Agreeing the balance sheet reconciliation to income statement movements, issuances and redemption data and the closing Avios position.</li> <li>- <b>Assessing transparency:</b> Assessing the Group's disclosures in respect of revenue, including over the key judgements and estimation uncertainty and the associated sensitivity disclosures.</li> </ul>

Accounting for aircraft maintenance, restoration and handback costs (liabilities of €1,832 million (2020 €1,588 million))

See note 26 to the financial statements, refer further to accounting policy and financial disclosures.

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><b>Subjective estimate</b></p> <p>Maintenance provisions are determined via complex calculations which use budgeted cost rates and an estimated timetable of required checks. There are a number of individually significant judgements and assumptions to be made when calculating the provision and associated asset balances.</p> <p>The key assumptions used include: expected future utilisation patterns of the aircraft (which can be impacted by COVID-19 uncertainties); expected maintenance intervals and costs (future rates) of the maintenance at the time it is estimated to occur and discount rate applied to the future liability.</p> <p>Changes in these assumptions could result in significant adjustments to the level of provision and associated asset balances recognised.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>- <b>Assessing principles:</b> Determining whether the recognition of maintenance provisions and capitalised maintenance assets are in accordance with IAS 37 requirements, lease obligations and industry practice.</li> <li>- <b>Re-performance:</b> Assessing the maintenance model for mathematical accuracy by performing a recalculation of the year end provision held.</li> <li>- <b>Tests of detail:</b> Inspecting lease agreements on a sample basis for significant return obligations and checking that those lease obligations were included in the maintenance model. Agreeing budgeted and contracted rates on a sample basis to supporting documentation.</li> <li>- <b>Re-performance:</b> Assessing the maintenance prepayment calculation for each type of engine and performing a recalculation of the year end balance based on the latest forecast for expected forecast flying hours and contracted rates.</li> <li>- <b>Assessing consistency:</b> Critically assessing the forecast future flying hours assumption underpinning provisions calculations, against the Board approved forecasts and changes in the future fleet plans.</li> <li>- <b>Historical comparisons:</b> Assessing whether past estimates have been historically accurate by comparing actual cost to previously recognised provisions.</li> <li>- <b>Assumptions assessment:</b> Assessing the future utilisation assumptions in light of past experience and considering changes in fleet utilisation, including the grounding of aircraft for extended periods of time, due to COVID 19.</li> <li>- <b>Assessing transparency:</b> Assessing the Group's disclosures in relation to the key judgements around the accounting for aircraft maintenance, restoration and handback costs.</li> </ul>



Passenger and cargo revenue recognition (€7,508 million (2020 €6,818 million))

See note 5 to the financial statements, refer further to accounting policy and financial disclosures.

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><b>Processing errors</b></p> <p>Passenger and cargo revenues are made up of a high volume, low value number of transactions.</p> <p>They are recorded via a highly automated, but complex, transactional process including third party booking management systems as well as operational data such as when a flight has flown thus triggering the revenue recognition point.</p> <p>Passenger revenues include tickets containing multiple flights, booking classes and a variety of surcharges and taxes which vary by route. Revenue accuracy depends on the correctly applying appropriate rules.</p> <p>Due to the travel restrictions and flight cancellations during the COVID-19 pandemic, there are a higher number of refunds and vouchers issued.</p> <p>Due to limited judgement and estimation involved, passenger and cargo revenues are not at a high risk of significant misstatement. However, due to materiality in the context of the Group financial statements, this is considered to be one of the areas where significant audit effort was spent.</p>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>- <b>Assessing principles:</b> Assessing Group's revenue recognition policy by reference to the accounting standards</li> </ul> <p>Passenger revenue (€5,835m (2020: €5,512m)):</p> <ul style="list-style-type: none"> <li>- <b>Control operation:</b> Testing the design and implementation, and the operating effectiveness of General IT Controls over the key revenue accounting systems considering appropriate configuration and prevention of unauthorised access and changes. Testing design and implementation, and the operating effectiveness of manual and automated controls underpinning the recognition of revenue.</li> <li>- <b>Testing application:</b> Using our Revenue Data Analytics programme to recreate the revenue flow through the accounting systems for the key revenue accounts and assess whether the entries pass through the expected stages and accounts.</li> <li>- <b>Tests of detail:</b> Testing revenue journals to determine whether they are recorded based on our understanding of the revenue process. Testing revenue transactions on a sample basis by re-calculating the appropriate fare rules and verifying flight flown status.</li> <li>- <b>Tests of detail:</b> Testing revenue by tracing a sample of passenger events, such as bookings, departures, voucher issuances and cancellations, back to the revenue data.</li> <li>- <b>Tests of detail:</b> Testing year end trade receivables to cash received post year end. Testing on a sample basis for flights departing close to the year end whether revenue was recorded in the correct period.</li> <li>- <b>Historical comparisons:</b> For passenger breakage revenue, we have evaluated the Group's accounting policy, assessed the methodology applied and challenged key assumptions by comparing against the Group's airlines' past experiences.</li> <li>- <b>Tests of details:</b> Testing on a sample basis vouchers and refunds issued during the year to assess whether such transactions have been appropriately recognised.</li> <li>- <b>Outsourcing controls:</b> Inspecting the third party Service Organisation Control reports to determine whether General IT controls over certain passenger revenue systems operated effectively during the year.</li> </ul> <p>Cargo revenue (€1,673m (2020: €1,306m)):</p> <ul style="list-style-type: none"> <li>- <b>Tests of detail:</b> Testing on a sample basis cargo revenue transactions to external support and cash received.</li> </ul>

## Other matters

On March 2, 2021, other auditors issued their audit report on the consolidated financial statements for the year 2020 in which they expressed a favourable opinion including a paragraph of material uncertainty related to going concern.

## Other Information: Consolidated Management Report

Other information solely comprises the 2021 consolidated management report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated financial statements.

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

- a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Directors' Remuneration Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the consolidated management report with the consolidated financial statements, based on knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements. Also, assess and report on whether the content and presentation of this part of the consolidated management report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated management report is consistent with that disclosed in the consolidated financial statements for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

## Directors' and Audit and Compliance Committee's Responsibility for the Consolidated Financial statements

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

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

The Parent's Audit and Compliance Committee is responsible for overseeing the preparation and presentation of the consolidated financial statements.



## Auditor's Responsibilities for the Audit of the Consolidated Financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent's Audit and Compliance Committee with a statement that we have complied with the applicable ethical requirements, including those regarding 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 to the Audit and Compliance Committee of the Parent, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the 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

### European Single Electronic Format

We have examined the digital files of International Consolidated Airlines Group S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated financial statements for the aforementioned year and the XBRL files tagged by the Parent, which will form part of the annual financial report.

The Directors of International Consolidated Airlines Group S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Directors' Remuneration Report by means of a reference thereto in the consolidated management report.

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated financial statements included in the aforementioned digital files fully corresponds to the consolidated financial statements we have audited, and whether the consolidated financial statements and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated financial statements, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

### Additional Report to the Audit and Compliance Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Compliance Committee dated 2 March 2022.

### Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 8 September 2020 for a period of 3 years, including year ended 31 December 2021.

### Review of the Corporate Governance Statement

We have nothing to report in respect of our requirement to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules.

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

Bernardo Rücker-Embden  
On the Spanish Official Register of Auditors ("ROAC") with nº 18.836

2 March 2022

## GLOSSARY

Adjusted earnings per share	Earnings are based on results before exceptional items after tax, adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding
Airline non-fuel costs	Total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs. Within non-fuel costs are the costs associated with generating Other revenue, which typically do not represent the costs of transporting passengers or cargo and instead represent the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams. Shown on a constant currency basis
Airline non-fuel costs per ASK	Airline non-fuel costs divided by ASK
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo carried that generate revenue (freight and mail) multiplied by the distance flown
Dividend cover	The number of times the result for the year covers the dividends paid and proposed
EBITDA	Operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment
Gross capex	Gross capital expenditure is the total investment in fleet, customer product, IT and infrastructure before any proceeds from the sale of property, plant and equipment as shown in the Cash flow statement ('Acquisition of property, plant and equipment and intangible assets')
Interest cover	The number of times the (loss)/profit before taxation and exceptional items adding back net interest expense and interest income cover the net interest expense and interest income
Invested capital	The average of property, plant and equipment and software intangible assets over a 12-month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets
Levered free cash flow	The cash generated in the year, including movements in borrowings and before returns to shareholders. It is calculated 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
Liquidity	Cash and cash equivalents plus Current interest-bearing deposits, plus committed general undrawn facilities and committed aircraft undrawn facilities
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less cash and cash equivalents and current interest-bearing deposits

Net Promoter Score (NPS)	The Net Promoter Score (NPS) is a metric based on survey responses to the 'likelihood to recommend' question and is calculated by subtracting the percentage of customers who are 'Detractors' (score 0-6, unlikely to recommend) from the percentage of customers who are 'Promoters' (score 9-10, likely to recommend)
Operating margin	Operating result before exceptional items as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Passenger unit revenue per ASK (PRASK)	Passenger revenue before exceptional items divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue before exceptional items divided by RPK
Productivity	ASK divided by average manpower equivalent
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on Invested Capital (RoIC)	EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Sector	A one-way revenue flight
Sold cargo tonnes	The number of cargo tonnes sold, including freight, courier, mail and interline
Total capital	Total equity plus net debt
Total revenue per ASK (RASK)	Total revenue before exceptional items divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure before exceptional items excluding fuel divided by ASK
Total operating expenditure per ASK (CASK)	Total operating expenditure before exceptional items divided by ASK
Total traffic revenue per ATK	Revenue from total traffic before exceptional items (passenger and cargo) divided by ATK

AIRCRAFT FLEET

	Owned	Right of use	Total December 31, 2021	Total December 31, 2020	Changes since December 31, 2020	Future deliveries	Options
Airbus A319	8	31	<b>39</b>	49	(10)	-	-
Airbus A320	63	177	<b>240</b>	232	8	22	76
Airbus A321	16	57	<b>73</b>	72	1	34	14
Airbus A330-200	-	18	<b>18</b>	19	(1)	-	-
Airbus A330-300	5	13	<b>18</b>	18	-	-	-
Airbus A350	10	7	<b>17</b>	17	-	26	52
Airbus A380	2	10	<b>12</b>	12	-	-	-
Boeing 777-200	38	5	<b>43</b>	43	-	-	-
Boeing 777-300	4	12	<b>16</b>	16	-	-	-
Boeing 777-9	-	-	<b>-</b>	-	-	18	24
Boeing 787-8	-	12	<b>12</b>	12	-	-	-
Boeing 787-9	1	17	<b>18</b>	18	-	-	-
Boeing 787-10	2	-	<b>2</b>	2	-	10	6
Embraer E170	-	-	<b>-</b>	1	(1)	-	-
Embraer E190	9	14	<b>23</b>	22	1	-	-
<b>Group total</b>	<b>158</b>	<b>373</b>	<b>531</b>	<b>533</b>	<b>(2)</b>	<b>110</b>	<b>172</b>

At December 31, 2021, the Group held 29 aircraft not in service, pending disposal.

Total Group operations		2021	2020 <sup>2</sup>	2019 <sup>2</sup>	2018 <sup>3</sup>	2017 <sup>4</sup>
<b>Traffic and capacity</b>						
Available seat km (ASK)	million	<b>121,965</b>	113,195	337,754	324,808	306,185
Revenue passenger km (RPK)	million	<b>78,689</b>	72,262	285,745	270,657	252,819
Cargo tonne km (CTK)	million	<b>3,970</b>	3,399	5,580	5,713	5,762
Passengers carried	'000	<b>38,864</b>	31,275	118,253	112,920	104,829
Sold cargo tonnes	'000	<b>539</b>	444	682	702	701
Sectors		<b>307,519</b>	267,748	775,486	754,700	717,325
Block hours	hours	<b>892,455</b>	820,983	2,272,904	2,207,374	2,100,089
<b>Operations</b>						
Average manpower equivalent		<b>50,222</b>	60,612	66,034	64,734	63,422
Aircraft in service at year end		<b>531</b>	533	598	573	546
Aircraft utilisation - Longhaul (average hours per aircraft per day)	hours	<b>8.1</b>	6.4	13.5	13.5	13.5
Aircraft utilisation - Shorthaul (average hours per aircraft per day)	hours	<b>4.5</b>	2.7	8.6	9.0	8.9
Punctuality - within 15 minutes	%	<b>86.4</b>	88.8	77.8	75.5	81.8
Regularity	%	<b>96.7</b>	91.8	98.7	98.7	99.1
<b>Financial</b>						
Passenger unit revenue per ASK (PRASK) <sup>1</sup>	€cents	<b>4.78</b>	4.92	6.65	6.59	6.63
Passenger revenue per RPK <sup>1</sup>	€cents	<b>7.41</b>	7.71	7.86	7.91	8.02
Cargo revenue per CTK <sup>1</sup>	€cents	<b>42.14</b>	38.42	20.02	20.53	19.65
Total revenue per ASK (RASK) <sup>1</sup>	€cents	<b>6.93</b>	6.95	7.55	7.47	7.47
Average fuel price	(\$/metric tonne)	<b>587</b>	376	628	687	519
Fuel cost per ASK <sup>1</sup>	€cents	<b>1.59</b>	1.80	1.78	1.63	1.51
Operating (loss)/profit before depreciation and amortisation (EBITDA) <sup>1</sup>	€million	<b>(1,017)</b>	(2,291)	5,361	5,481	4,134
Total operating expenditure excluding fuel per ASK (CASK ex. fuel) <sup>1</sup>	€cents	<b>7.78</b>	9.03	4.81	4.77	5.00
Operating margin <sup>1</sup>	%	<b>(35.1)</b>	(55.8)	12.7	14.4	12.9
Lease adjusted operating margin <sup>1</sup>	%	<b>n/a</b>	n/a	n/a	14.4	14.2
Total operating expenditure per ASK (CASK) <sup>1</sup>	€cents	<b>9.36</b>	10.83	6.59	6.40	6.51
Dividend cover	times	<b>n/a</b>	n/a	3.8	3.9	4.0
Interest cover	times	<b>(4.0)</b>	(6.6)	6.2	6.7	16.4
Net debt	€million	<b>11,667</b>	9,762	7,571	6,430	655
Equity	€million	<b>846</b>	1,610	7,120	6,720	6,933
Adjusted net debt to EBITDA <sup>1</sup>	times	<b>n/a</b>	n/a	n/a	1.6	1.5
Net debt to EBITDA <sup>1</sup>	times	<b>(11.5)</b>	(4.3)	1.4	1.2	n/a
<b>Exchange rates</b>						
Translation - weighted average	£:€	<b>1.15</b>	1.13	1.13	1.13	1.14
Transaction	£:€	<b>1.15</b>	1.13	1.13	1.13	1.14
Transaction	€:\$	<b>1.20</b>	1.13	1.12	1.18	1.14
Transaction	€:\$	<b>1.38</b>	1.27	1.27	1.33	1.29

<sup>1</sup> Figures on a pre-exceptional items basis<sup>2</sup> The 2019 and 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.<sup>3</sup> 2018 figures restated for accounting standards IFRS 16 'Leases' and to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense<sup>4</sup> 2017 figures restated for accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'.

n/a: not available

**Registered office**

International Consolidated Airlines Group, S.A. El Caserío, Iberia  
Zona Industrial nº 2 (La Muñoz) Camino de La Muñoz, s/n,  
28042 Madrid, Spain.

Madrid Commercial Registrar tomo 27312, folio 11, hoja  
M-492129C.I.F. A85845535

**UK Branch registered address**

International Airlines Group Waterside (HAA2), PO Box 365,  
Speedbird Way Harmondsworth,  
UB7 0GB

Registered in England and Wales: BR014868

**UK Registrar**

Computershare Investor Services PLC

For enquiries relating to shares held through the Corporate  
Sponsored Nominee (UK share register):

Tel: +44 370 702 0110

Email: web.queries@computershare.co.uk

Online: [www.investorcentre.co.uk/iag](http://www.investorcentre.co.uk/iag)

**IAG Investor relations team**

Institutional investors: [investor.relations@iairgroup.com](mailto:investor.relations@iairgroup.com)

Private shareholders: [shareholder.services@iairgroup.com](mailto:shareholder.services@iairgroup.com)

**American Depository Receipt program**

IAG has a Sponsored Level 1 American Depository Receipt (ADR) facility that trades on the OTC market in the US (see [www.otcmarkets.com](http://www.otcmarkets.com)). Deutsche Bank is the ADR depositary bank.

For shareholder enquiries, contact:

Deutsche Bank Trust Company Americas c/o American Stock Transfer & Trust Co, 6201 15<sup>th</sup> Avenue, Brooklyn NY 11219, USA

Email: [db@astfinancial.com](mailto:db@astfinancial.com)

Toll free: 800 301 3517 (within the US)

International: +1 718 921 8137

Online: [www.adr.db.com](http://www.adr.db.com)

**Financial calendar**

Financial year end: December 31, 2021

Q1 results: May 6, 2022

Half year results: July 29, 2022

Q3 results: October 28, 2022

Other key dates can be found on our website: [www.iairgroup.com](http://www.iairgroup.com)

**ShareGift**

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

Certain statements included in this report are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements often use words such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group, S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group, discussions of the Group's business plan, and our assumptions, expectations, objectives and resilience with respect to climate scenarios. All forward-looking statements in this report are based upon information known to the Group on the date of this report and speak as of the date of this report. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

Actual results may differ from those expressed or implied in the forward-looking statements in this report as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this report are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group's risk management process is set out in the Risk management and principal risk factors section in this report. All forward-looking statements made on or after the date of this report and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.



This report is printed on paper certified in accordance with the FSC® (Forest Stewardship Council®) and is recyclable and acid-free.

Pureprint Ltd is FSC certified and ISO 14001 certified showing that it is committed to all round excellence and improving environmental performance is an important part of this strategy.

Pureprint Ltd aims to reduce at source the effect its operations have on the environment and is committed to continual improvement, prevention of pollution and compliance with any legislation or industry standards.

Pureprint Ltd is a Carbon / Neutral® Printing Company.

Designed and produced  
by Black Sun Plc  
[www.blacksunplc.com](http://www.blacksunplc.com)

For more information  
please visit us online at  
**[iairgroup.com](http://iairgroup.com)**