

# ANNUAL REPORT ON UK CORPORATE GOVERNANCE

# Overseeing a time of fundamental change



**Javier Ferrán**  
Chairman

*“2020 was an unprecedented year for IAG and for the Board, as we tackled the huge and disruptive challenges of the COVID-19 pandemic and made significant changes in our leadership.”*

This is my first report as the Chairman of IAG and I want to begin by thanking Antonio Vázquez, our outgoing Chairman, for the magnificent job he has done since the Group was created in 2011 to create such solid foundations for our corporate governance structure. I am also indebted to him for the tremendous support he has given me during the transition process.

It's a great honour to lead the IAG Board and to have the trust of my fellow directors in carrying out this role.

I come into the post at the end of an unprecedented year for the Group, faced with the incredible disruption to our business caused by COVID-19 but also in the midst of the most fundamental changes in our executive and Board leadership in ten years, including the appointment of five new Board members.

Despite these extraordinary times, the Board's role remains the same - to create long-term sustainable value for shareholders and our wider stakeholders.

In a crisis, however, the guidance we provide to the management team is more important than ever and our focus on the long term and on the interests of different stakeholders is right at the forefront of our thinking. This year, we were particularly focused first and foremost on confronting this crisis, overseeing the different initiatives for cash preservation and securing liquidity, as well as considering allocation of capital and risk management

matters, while issues around the acquisition of Air Europa and Brexit were also high on our agenda.

I am very proud of the work and commitment shown by the Board in our response to the pandemic. We held a total of 42 Board meetings during the year as well as carrying out extra work to challenge, support and advise the management team. It's in times like these when a Board really proves its worth and I think that the Board rose to the occasion on contribution, availability and commitment.

As I've said the interests of stakeholders have been to the fore. But I would highlight one group in particular - the great people who work for our Group. Their wellbeing and ability to adapt to new ways of working have been central to our thinking, particularly when difficult decisions have had to be taken and sacrifices made. Efforts by our airlines to make sure customers remain safe at every point of travel during this overwhelming health emergency were also a big focus for the Board.

## **Board and committee changes**

Effective succession planning is a vital element of good corporate governance. We faced some huge challenges here, which tested the resilience of our governance framework.

For any company, no change in leadership is greater than the appointment of a new chief executive. We were glad, at the start of the year, to announce the appointment of an internal candidate, Luis Gallego, to succeed Willie Walsh in the role. Luis' knowledge of the Group and of our industry is proving extremely valuable in these trying circumstances. I would like to thank Willie for his fundamental contribution to IAG and for his commitment from the inception of the Group right through to his last day with us, and particularly for agreeing to stay on for an extra six months in 2020.

Kieran Poynter, an IAG non-executive director since 2011, stepped down from the Board at our shareholders' meeting in September, having been an outstanding chair of the Audit Committee. We thank him for his great contribution to the Group from its inception. We also said farewell to Marc Bolland, who decided not to seek

re-election, and he goes with our great gratitude also.

To fill these vacancies, Giles Agutter and Robin Phillips were elected to the Board, having been proposed by our largest shareholder, Qatar Airways. Both are valuable recruits to our team – Giles with a background in aviation, and Robin with his long experience in the financial sector.

As Antonio mentioned in his opening letter to this report, we had to make other significant changes in relation to Brexit to meet the requirement of having a majority of independent, EU non-executive directors. Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down in December 2020 to help us fulfil this requirement and we thank them for their flexibility and their contribution. Steve's executive duties as Chief Financial Officer remain unchanged and he will continue to attend Board meetings.

We appointed Peggy Bruzelius, Eva Castillo and Heather Ann McSharry to fill these positions and are grateful for the perspective and experience they bring – Peggy, with a background in financial services and project finance; Eva, with deep knowledge of telecoms and finance; and Heather Ann, with a career spent in pharmaceuticals and healthcare, financial services and consumer products. They are all well versed in governance having all served as non-executives before.

It's particularly pleasing to note that with their appointment female representation on the Board now stands at 45 per cent, with women also chairing two of our Committees. We remain committed to improving ethnic diversity in line with current best practice.

We have also refreshed the membership of the Board's Committees, including appointing new chairs in each case.

You can find further details of all these changes and appointments in the Nominations Committee report.

### Management changes

In addition to approving the appointment of a new Chief Executive, the Board also considered the appointments of Javier Sánchez-Prieto, replacing Luis as Executive Chairman and CEO of Iberia, and Marco Sansavini moving over to lead Vueling. These appointments were delayed, along with Luis' elevation, until September to

make sure we had stability in the early days of the pandemic.

The Nominations Committee also approved the following further significant changes in our leadership team:

- Sean Doyle, as the new British Airways Chief Executive;
- Donal Moriarty as acting interim Chief Executive of Aer Lingus;
- Fernando Candela in a new Management Committee role of Chief Transformation Officer; and
- David Podolsky as the new IAG Chief Strategy Officer.

All these appointments with the exception of David, who was previously at Bain & Co, were internal – yet again proving the superb pipeline of talent we have within the Company.

### Board evaluation and inductions

We carried out an internal evaluation of the Board during the year. Although it was a limited exercise because of the amount of change in the Board and committees composition, it came to some useful conclusions, allowing us to draw on the experience of former directors and committee members. The process was overseen by the Nominations Committee and led by Antonio and me, with the support of the Board Secretariat. You can read more about it further on in this report.

We are making a special effort to introduce our new colleagues to the business as quickly and efficiently as possible. Obviously the induction programme has had to be adjusted to contend with the current environment, ensuring it brings new directors up to speed on current matters being debated by the Board and its committees. Details of the induction process are provided further on in this report.

### Culture, employee and stakeholder engagement

Last year, given the challenging environment and the travel restrictions, work on culture and employee engagement was led by the operating companies. The IAG Board was regularly and closely informed of these initiatives. Particular focus was given to the wellbeing, health and safety of our employees.

In addition, in the last quarter a major and deep study was undertaken using common methodology with the help of McKinsey to evaluate culture for each business unit. This comprehensive study constitutes an excellent base to identify opportunities and establish action plans to continue to make sustainable progress in this critical area.

Restructuring plans were also shared with the Board, and the Board could confirm the rigour with which the different companies approached these difficult processes. We are extremely proud of the commitment, resilience and flexibility shown by people right across the Group during these very challenging times.

Finally, as a result of a review of our governance architecture, the Board has decided to retain direct oversight of culture and governance matters, giving it a greater priority by involving all Board members in this task. In addition, the remit of the Safety Committee was expanded to include environment and corporate responsibility, with a new composition fully meeting governance requirements. It will help improve the Board's oversight and involvement on sustainability and all related matters, sharpening our focus in this crucial area.

### Outlook

I cannot say how proud I am of how people at every level of the Group have performed in these most difficult of times. Our employees, our various leadership teams and the Board itself, have all shown remarkable strength, endurance and adaptability.

That gives me great confidence that we will emerge from this crisis – not only stronger, but also ready to transform IAG into a more sustainable business for the future.

**Javier Ferrán**  
Chairman



Javier Ferrán



Luis Gallego



Alberto Terol



Giles Agutter



Peggy Bruzelius



Eva Castillo



Margaret Ewing



Robin Phillips



Heather Ann McSharry



Emilio Saracho



Nicola Shaw

**Javier Ferrán** <sup>N</sup>

**Key areas of experience:**

Consumer, finance, sales/marketing, governance

**Current external appointments:**

Chairman, Diageo Plc. Senior advisor to BlackRock Long Term Private Capital and director of investee company.

**Previous relevant experience:**

Non-executive director, Coca Cola European Partners Plc 2016-2020. Chairman of Supervisory Board, Picard Surgelés 2010-2020. Member, International Advisory Board ESADE 2005-2019. Non-executive director, Associated British Foods plc 2005-2018. Non-executive director, SABMiller plc 2015-2016. Vice Chairman, William Grants & Sons Limited 2005-2014. Non-executive director, Louis Dreyfus Holdings BV 2013-2014. Non-executive director, Abbott Group 2005-2008. Non-executive director, Desigual SA. Non-executive director, Chupa Chups SA. Partner, Lion Capital LLC 2005-2018. President EMEA, President and CEO, Bacardi Group 1992-2004.

**Luis Gallego** <sup>S</sup>

**Key areas of experience:**

Airline industry

**Current external appointments:**

Member of the Board of Governors and Member of the Chair Committee, IATA.

**Previous relevant experience:**

Chairman and CEO, Iberia 2013-2020. CEO, Iberia Express 2012-2013. Chief Operating Officer, Vueling 2009-2012. Founder of Clickair 2006-2009.

**Alberto Terol** <sup>R A N</sup>

**Key areas of experience:**

Finance, professional services, information technology, hospitality industry

**Current external appointments:**

Vice Chairman, Lead Independent Director and Chair of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Non-executive director, Schindler España. Independent Director Varma, S.A.. Patron of Fundación Telefónica. Executive Chairman of various family owned companies.

**Previous relevant experience:**

Chairman of the Supervisory Board, Servion GmbH 2017-2019. Non-executive director, OHL 2010-2016. Non-executive director, Aktua 2013-2016. Non-executive director, N+1 2014-2015. International Senior Advisor, BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner Global Tax & Legal, Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007, Integration Andersen Deloitte 2002-2003, Managing Partner EMEA, Arthur Andersen 2001-2002, Managing Partner Global Tax & Legal, Arthur Andersen 1997-2001, Managing Partner, Garrigues-Andersen 1997-2000.

**Giles Agutter** (N) (S)

**Key areas of experience:**

Airline industry

**Current external appointments:**

CEO, Southern Sky Ltd. Director, JSX Airlines.

**Previous relevant experience:**

Non-executive director, LATAM Airlines Group 2017-2020. Non-executive director, Air Italy 2017-2020.

**Peggy Bruzelius** (A)

**Key areas of experience:**

Financial services, corporate finance

**Current external appointments:**

Chair, Lancelot Holding AB. Non-executive director and Chair of the Audit Committee, Lundin Energy AB. Non-executive director and Chair of the Investment Committee, Skandia Mutual Life Insurance. Member, the Royal Academy of Engineering Sciences.

**Previous relevant experience:**

Chair, Swedish National Agency for Higher Education 2008-2011. Member Board of Trustees, Stockholm School of Economics 2000-2011. Various Corporate Boards, Trygg Hansa Liv AB, Celsius AB, AB Ratos, Scania AB, The Body Shop Plc, Axel Johnson AB, Axfood AB Husqvarna AB 1992-2019. Senior Independent Director, AB Electrolux 1996-2012. Non-executive director, Syngenta AG 2001-2014. Non-executive director, Diageo plc 2009-2018. Non-executive director, Akzo Nobel nv 2007-2019. Executive Vice President, Head of Asset Management Skandinaviska Enskilda Banken 1997-1998. CEO, ABB Financial Services AB 1991-1997.

**Eva Castillo** (A) (R)

**Key areas of experience:**

Financial sector, telecoms sector

**Current external appointments:**

Non-executive director, Bankia. Non-executive director, Zardoya Otis. Member of the Council for Economy of the Holy See (Vatican), Member of the Board of the Comillas ICAI Foundation. Member of Entreculturas Foundation. Member of JAMS Foundation.

**Previous relevant experience:**

President and CEO Merrill Lynch Capital Markets, Spain 1999-2006. President and CEO, Merrill Lynch, Wealth Management EMEA 2006-2009. President and CEO, Telefónica Europe 2012-2014. Non-executive director, Old Mutual Plc 2011-2013. Non-executive director, Telefónica, S.A. 2008-2018. Non-executive director VISA Europe Plc 2014-2017. Chair Telefónica Deutschland AG. 2012-2018.

**Margaret Ewing** (A) (N)

**Key areas of experience:**

Professional services, financial accounting, corporate finance, strategic and capital planning, corporate governance, risk management

**Current external appointments:**

Senior Independent Director and Chair of the Audit and Risk Committee, ConvaTec Group Plc. Non-executive director and Chair of the Audit and Risk Committee, ITV Plc.

**Previous relevant experience:**

Trustee and Chairman of the Finance and Audit Committee, Great Ormond Street Hospital Children's Charity 2015-2020. Non-executive director, Standard Chartered Plc 2012-2014. Non-executive director, John Lewis Partnership Plc 2012-2014. Non-executive director, Whitbread Plc 2005-2007. Vice Chairman, Managing Partner, Public Policy, Quality and Risk and London Practice Senior Partner, Deloitte LLP 2007-2012. Director, Finance, BAA Ltd 2006 and Chief Financial Officer, BAA PLC 2002-2006. Group Finance Director, Trinity Mirror PLC 2000-2002. Partner, Corporate Finance, Deloitte & Touche LLP 1987-1999.

**Robin Phillips**

**Key areas of experience:**

Finance, airline industry and transportation

**Current external appointments:**

Chairman, Development Funding Board, Pancreatic Cancer UK. Senior Advisor, Circadence Corporation (US). Board member, IR - Scientific (Canada).

**Previous relevant experience:**

Global Head/Co-Head of Corporate and Investment Banking, Head of Global Banking and Markets (Hong Kong), Group Head Climate committee, Head of Global Industries Group, Head of Transport, Services and Infrastructure, HSBC 2003-2019. Global Co-Head of Transport & Infrastructure Group, Citigroup 1999-2003. Executive Director, Transportation and Aviation Investment Banking, UBS Warburg 1992-1999. Assistant Director, Capital Markets, Kleinwort Benson 1985-1991.

**Heather Ann McSharry** (N) (R)

**Key areas of experience:**

General management, pharmaceuticals/health care, financial services, consumer products, food and construction industry sectors, governance

**Current external appointments:**

Non-executive director, Chair of Remuneration Committee, CRH plc. Non-executive director, Chair of Nominations and Governance Committee, Jazz Pharmaceuticals Plc.

**Previous relevant experience:**

Non-executive director, Greencore plc 2013-2021. Non-executive Director, Uniphar Plc 2019-2020. Non-executive director, Bank of Ireland Plc 2007-2011. Chairman, Bank of Ireland Pension Fund Trustee Board 2011-2017. Managing Director, Reckitt Benckiser Ireland 2004-2009 Managing Director, Boots Healthcare Ireland 1998-2004.

**Emilio Saracho** (R)

**Key areas of experience:**

Banking, corporate finance, investment management

**Current external appointments:**

Director, Altamar Capital Partners. Non-executive director, Inditex.

**Previous relevant experience:**

Chairman, Banco Popular Español 2017. Vice Chairman and Member Investment Banking Management Committee, JP Morgan 2015-2016. Deputy CEO EMEA 2012-2015, Co-CEO Investment Banking for EMEA 2009-2014, JP Morgan. CEO, JP Morgan Private Banking for EMEA 2006-2008. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain & Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Head Corporate Finance Iberia, Goldman Sachs International 1990-1995.

**Nicola Shaw** (R) (S)

**Key areas of experience:**


Transport sector, public policy and regulatory affairs, consumer, general management

**Current external appointments:**

Executive Director, National Grid plc. Director, Major Projects Association. Director, Energy Networks Association and Energy UK.

**Previous relevant experience:**

Member of the Audit and Risk Committee, English Heritage 2015-2018. Non-Executive Director Ellevio AB 2015-2017. CEO, 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.

-  Committee Chair
-  Audit and Compliance Committee
-  Nominations Committee
-  Safety Committee
-  Remuneration Committee



## Statement of compliance with applicable corporate governance codes

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. In accordance with Spanish legal requirements, this Corporate Governance report includes information regarding compliance with the Spanish Good Governance Code of Listed Companies (which was updated and published in June 2020), as well as other information related to IAG's corporate governance. This report is part of the IAG Management Report.

At the same time, as IAG has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council ("FRC") as amended from time to time. A copy of the current version of the UK Corporate Governance Code applicable to this reporting period (updated and published in July 2018) is available at the website of the FRC ([www.frc.org.uk](http://www.frc.org.uk)).

IAG has prepared a consolidated Corporate Governance Report responding to both Spanish and UK reporting requirements. This Corporate Governance Report is available on the Company's website ([www.iairgroup.com](http://www.iairgroup.com)), and it is also available on the Spanish Comisión Nacional del Mercado de Valores (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.

In addition, and as required by the LSE Listing Rules, this Corporate Governance Report includes an explanation regarding the Company's application of the principles of the UK Corporate Governance Code. In effect, the disclosures in this Corporate Governance section of this Annual Report, including the different Board committees' reports, have been grouped into each of the five areas in which the Code is divided with the objective of helping shareholders and investors to assess how IAG has applied the Code principles during the reporting period.

During 2020, IAG fully complied with almost all the applicable recommendations of the Spanish Corporate Governance Code with the following exceptions, in relation to which the Company is reporting partial compliance:

- Recommendation number 1 regarding the existence of share ownership restrictions in the Company's bylaws, as IAG is required to have such restrictions due to applicable legal and regulatory requirements of the aviation sector.
- Recommendations number 4, 42, 45 and 54; in relation to the amendments introduced to these recommendations in June 2020, the Company was not able to update the relevant internal policies and the Board of Directors Regulations before December 31, 2020. The IAG Board will consider the relevant amendments and policy changes to bring the Company in line with these requirements within the first quarter of 2021.
- Recommendation number 52 regarding the rules on the composition and operation of non-mandatory board committees, because IAG's Safety Committee is chaired by an executive director, the Group Chief Executive, and not by an independent director as recommended by the Code. In this respect, on February 25, 2021 the Board reviewed its regulations and approved separate regulations for each Board advisory committee. As part of this review, it was decided to combine the support provided to the Board over safety matters with those related to environmental and corporate responsibility matters under a new Safety, Environment and Corporate Responsibility Committee. The composition of this Committee is fully compliant with the recommendation 52 of the Spanish Code.

As far as the 2018 UK Corporate Governance Code is concerned, the Company considers that it has complied with almost all of the Code provisions. The Company considers it is not in alignment with Provision 36 of the Code, as it has not developed a formal policy for post-employment shareholding requirements, but as explained in the Directors' Remuneration Report, it will approve such a policy as part of the changes to be introduced in the revised remuneration policy that it is due to be submitted to shareholders for approval during 2021.

Over the past year, work on culture and workforce engagement was primarily carried out at the level of the Group's various companies. Both the challenges posed by the COVID-19 pandemic and changes in the Group's leadership have led to a reconsideration of these matters both within the Board of Directors and the Management Committee itself.

Following the review of its corporate governance framework, the Board will have direct oversight over corporate culture and governance to support and monitor these matters at main board level.

At the same time, it has been agreed to reallocate oversight of environmental and corporate responsibility matters from the Audit and Compliance Committee to the new Safety, Environment and Corporate Responsibility Committee, thus alleviating the workload of the former and providing a closer and more specialised monitoring environment.

In addition, within the Management Committee, a new position has been created with responsibility for culture, talent and sustainability to promote and coordinate these areas at Group level.

In taking these steps, IAG's Board and Management Committee are reinforcing their commitment to ESG, especially at a time when the Group is seeking to rebuild itself as it overcomes the crisis created by the COVID-19 pandemic.

### Key principles of the 2018 Corporate Governance Code

Board Leadership	<b>95</b>
Division of responsibilities	<b>103</b>
Composition, Succession and Evaluation	<b>108</b>
Audit, Risk and Internal Control	<b>114</b>
Remuneration	<b>124</b>

# Board Leadership

## IGAG governance framework

IGAG, as the Group's parent company, is responsible for the Group's strategy and business plan. It centralises the Group's corporate functions, including the development of its global platform. IGAG sets the long-term vision for the Group, defines portfolio attractiveness and makes capital allocation decisions. Further details on the Group structure and corporate governance framework is included further on in this report.

The IGAG Board is collectively responsible for the long-term sustainable success of the Group. As stated in its Regulations, the Board shall endeavour to reconcile the corporate interest with the legitimate interests, as applicable, of the employees, suppliers, customers and other stakeholders that might be affected, also taking into consideration the impact of its activities on the community as a whole and on the environment. Examples of this long-term focus and consideration of stakeholders' interest are discussed further on in this report and in the stakeholder section. In addition to this, each operating company has an individual brand and cultural identity, is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plans.

## The IGAG Board

The Board has delegated the day-to-day management of the Company to the Group Chief Executive and the Group's management team but it has reserved for itself the authority on a number of matters detailed in article 3.4 of the Board Regulations, which are available on the corporate website ([www.iaggroup.com](http://www.iaggroup.com)).

The Board's primary responsibilities are summarised further on in this report.

Each Board meeting starts with a report from each of the committee's chairs on the key discussions and decisions considered by the respective committees, providing an opportunity for directors to comment or ask questions on the matters dealt with by each committee. This is followed by a general update from the Group Chief Executive Officer and subsequently, from the Chief Financial Officer.

With support from the General Counsel and the Board Secretary, the Chairman sets a carefully structured agenda for each meeting in consultation with the Chief Executive Officer. The Board has a 12-month rolling planner including both standard items and specific topics. During 2020, the Board activities and oversight of the business was adjusted to respond to the COVID-19 pandemic. The key activities of the Board in 2020 are detailed in the Board activities table further on in this report.

## Board composition

The IGAG Board currently comprises eight independent non-executive directors, two proprietary non-executive directors and one executive director, IGAG's Chief Executive Officer. The biographies of each member of the Board are set out in the Board of Directors section.

At the Shareholders' Meeting on September 8, 2020, Luis Gallego was appointed as an executive director of the Company and its Chief Executive Officer following the retirement of Willie Walsh. Giles Agutter and Robin Phillips were appointed as proprietary non-executive directors at the proposal of Qatar Airways, IGAG's biggest shareholder, with Kieran Poynter and Marc Bolland retiring from the Board.

As part of the plans implemented to ensure that the Group's EU licensed airlines continue to comply with EU ownership and control rules following Brexit, the composition of the IGAG Board of Directors was changed so that it has a majority of independent EU non-executive directors. To this effect, on December 31, 2020 Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down from the Board and Peggy Bruzelius, Eva Castillo and Heather Ann McSharry were appointed as new members. Steve Gunning's executive functions as Chief Financial Officer remain unchanged.

As set out in the Company's Bylaws the Board shall comprise a minimum of nine and a maximum of 14 members. As of December 31, 2020, the Board composition was:

Name of Board Member	Position/Category	First appointed
Antonio Vázquez	Chairman	May 25, 2010 <sup>1</sup>
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
Javier Ferrán	Director (independent)	June 20, 2019
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	Director (independent)	January 1, 2018 <sup>3</sup>

<sup>1</sup> Antonio Vázquez retired from the Board on January 7, 2021. As previously announced, Javier Ferrán succeeded him as Chair.

<sup>2</sup> Appointed on proposal from Qatar Airways (Q.C.S.C) a significant shareholder of IGAG.

<sup>3</sup> The appointment of Nicola Shaw as a non-executive director was approved by the Shareholders' Meeting on June 15, 2017 but did not become effective until January 1, 2018.

Further details of Board appointments during 2020 are set out in the Nominations Committee report.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P, and the Deputy Secretary is Lucila Rodríguez. The Group Chief Financial Officer, Steve Gunning, and the Group General Counsel, Chris Haynes, attend all Board meetings.

### Board Committees

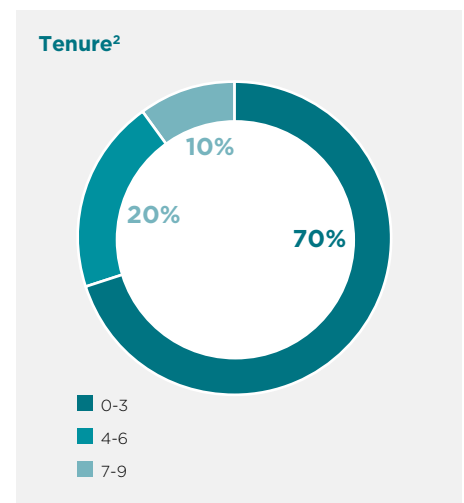
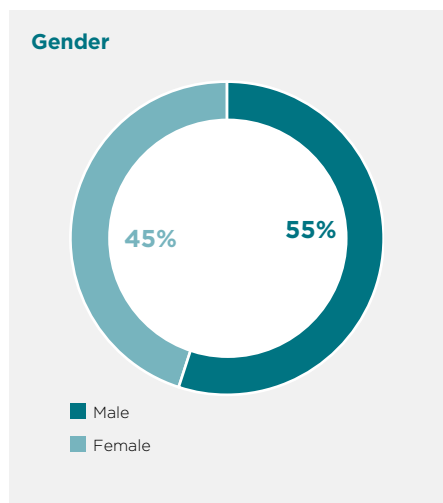
The Board has four advisory committees to support its oversight on a number of areas, and exercises a direct supervision over the Group strategy, culture and governance. As a general rule, copies of the minutes of all committees' meetings as well as the documents made available ahead of each committee meeting are made available to all Board members.

The roles, memberships and activities of these committees during 2020 are described in their individual reports within this corporate governance report.

- Audit and Compliance Committee
- Nominations Committee
- Remuneration Committee
- Safety Committee

The Board decided in 2020 that it should reinforce its focus on ESG matters, assigning these responsibilities to an advisory Board committee. Following the Board evaluation and the review of the Board and committees' remits, it was decided to include sustainability matters within the existing Safety Committee, reviewing its remit and composition. The Board approved new and separate regulations for each one of the Board committees in its February 2021 meeting. These regulations are available on the corporate website.

## Board diversity<sup>1</sup>



1 Analysis completed on current Board composition.  
 2 Non-executive directors only.



## Board and committee meetings

The Board was scheduled to meet nine times during the year along with its annual two-day strategy meeting scheduled for September 2020. Due to the COVID-19 pandemic from April the Board held weekly/bi-weekly meetings bringing the total meetings held during the reporting period to 42.

Some of these meetings were needed to be held at short notice in order to properly monitor business developments, support management during this difficult period and to make critical decisions in response to the COVID-19 pandemic. This illustrates director's individual and collective commitment to the Company.

The annual two-day strategy meeting was postponed and held in December allowing

the new Chief Executive Officer and the management team to present their initial consideration on the required transformation of the Group.

During 2020, the Chairman and the non-executive directors met privately following each scheduled Board meeting. In addition to this, the Senior Independent Director also met with the non-executive directors, without the Chairman, as part of the chair succession planning process.

As stated in the Board Regulations, directors shall make their best efforts to attend Board meetings. If this is not possible, they may grant a proxy to another director, although non-executive directors may only grant their proxy to another non-executive director. These proxies need to be in writing and

specifically granted for each meeting. No director may hold more than three proxies, except for the Chairman, although he cannot represent more than half of the Board members. As far as possible, proxies should be granted including voting instructions. Due to the extensive number of additional Board Meetings held during the year due to the COVID-19 pandemic some directors due to other commitments, were not able to attend all meetings.

Meetings attended by each director of the Board and the different committees during the reporting period are shown in the table below. The Board is listed as at date of this report:

Director	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
<b>Total in the period</b>	<b>42</b>	<b>12</b>	<b>9</b>	<b>9</b>	<b>2</b>
<b>Current directors</b>					
Javier Ferrán <sup>1</sup>	40/42		4/4	6/7	0/1
Luis Gallego <sup>2,3</sup>	12/12				1/1
Giles Agutter <sup>2,4</sup>	12/12		4/4		1/1
Peggy Bruzelius <sup>5</sup>	1/1	1/1			
Eva Castillo <sup>5</sup>	1/1	1/1			
Margaret Ewing <sup>6</sup>	42/42	12/12			
Heather Ann McSharry <sup>5</sup>	1/1				
Robin Phillips <sup>2</sup>	12/12				
Emilio Saracho <sup>7</sup>	42/42		5/5	9/9	
Nicola Shaw	35/42			8/9	2/2
Alberto Terol <sup>8</sup>	42/42	12/12	9/9		
<b>Former Directors</b>					
Antonio Vázquez <sup>9</sup>	42/42		9/9		1/2
Willie Walsh <sup>10</sup>	29/30				1/1
Marc Bolland <sup>10</sup>	29/30		5/5	6/6	
Steve Gunning <sup>11</sup>	42/42				
Deborah Kerr <sup>11</sup>	42/42	10/11	7/8	3/3	
María Fernanda Mejía <sup>11</sup>	41/42	11/11		9/9	
Kieran Poynter <sup>10</sup>	29/30	7/7			1/1

1 Appointed chair and member of Nominations Committee on September 8 2020; stepped down from the Remuneration and Safety Committees on September 24, 2020; appointed Chairman of the Board on January 7, 2021.

2 Appointed on September 8, 2020.

3 Luis Gallego was due to take over from Willie Walsh as Chief Executive on March 26, 2020. Due to the COVID-19 pandemic and the exceptional circumstances facing the airline industry it was decided that Willie Walsh would remain as Chief Executive and delay his retirement. Luis Gallego attended Board Meetings as a guest until his official appointment at the Shareholders' Meeting held on September 8, 2020. Appointed chair and member of the Safety Committee on September 8, 2020.

4 Joined the Nominations Committee and the Safety Committee on September 24, 2020.

5 Appointed on December 31, 2020. Heather Ann McSharry joined the Nominations Committee. Peggy Bruzelius and Eva Castillo joined the Audit and Compliance Committee. Eva Castillo and Heather Ann McSharry joined the Remuneration Committee.

6 Appointed chair of the Audit and Compliance Committee on September 8, 2020, having been a member since June 20, 2019; joined the Nominations Committee on January 28, 2021.

7 Joined the Remuneration Committee on September 8, 2020; stood down from the Nominations Committee on September 24, 2020.

8 Appointed chair and member of the Remuneration Committee on December 31, 2020.

9 Retired on January 7, 2021.

10 Retired from the Board on September 8, 2020.

11 Stepped down from the Board on December 31, 2020.

## Board activities

2020 has been an unprecedented year for the Group, as it faced, and continues to face, the biggest challenge the airline industry has ever encountered. The Board activity clearly reflects these circumstances. The key areas of Board activity during 2020 both on standard items and on COVID-19 pandemic oversight are outlined herein:

### Strategy and planning

- Joint Board/ Management Committee two-day strategy session, including:
  - IAG TSR drivers and performance
  - COVID-19 scenarios and IAG ambition
  - Recovery plan and priorities
  - Operating companies plans
  - Culture and talent
  - Analysis of key strategic questions
- Update on strategy with respect to the US market
- LEVEL's strategy
- 2021 financial plan
- €2.74 billion capital increase

### Performance and monitoring

- Operating companies regular reporting
- Quarterly and full year financial reporting
- Monthly financial report (reviewed at the relevant meeting or distributed to all Board members)
- Review of different joint business agreements and franchise agreements.
- Update on the UK Information Commissioner's Office enforcement proceedings against British Airways

## Board oversight - COVID-19 Crisis

MARCH	APRIL	MAY	JUNE	JULY
Number of meetings <b>3</b>	Number of meetings <b>6</b>	Number of meetings <b>4</b>	Number of meetings <b>4</b>	Number of meetings <b>6</b>
<ul style="list-style-type: none"> <li>• Initial impact of the pandemic (first lockdowns and reduction of operations)</li> <li>• Engagement with key stakeholder groups</li> <li>• Initial cash preservation initiatives</li> <li>• COVID-19 crisis governance</li> <li>• Briefing on Board responsibilities (I)</li> <li>• Delay of leadership succession plans / salary/Board fee reduction measures adopted</li> </ul>	<ul style="list-style-type: none"> <li>• Operational and financial monitoring updates</li> <li>• Cancellation of 2019 dividend</li> <li>• Delay of Annual Shareholders' Meeting</li> <li>• Financing initiatives (Spanish ICO Loans)</li> <li>• Pre-release of 2020 first quarter results</li> <li>• Report on workforce related measures</li> </ul>	<ul style="list-style-type: none"> <li>• Operational and financial monitoring updates</li> <li>• Financial plan: phase II initiatives and balance sheet repair exercise</li> <li>• Engagement with key suppliers</li> <li>• Briefing on Board responsibilities (II)</li> <li>• Regulatory and governmental engagement activities (quarantine measures)</li> <li>• Update on the restart of passenger operations</li> <li>• Report on workforce related measures</li> <li>• Evaluation of funding alternatives</li> </ul>	<ul style="list-style-type: none"> <li>• Operational and financial monitoring updates</li> <li>• Regulatory and governmental engagement activities</li> <li>• Report on workforce related measures</li> </ul>	<ul style="list-style-type: none"> <li>• Operational and financial monitoring updates</li> <li>• Preparation for capital increase (announced July 31)</li> <li>• Briefing on Board responsibilities (III)</li> </ul>

### Significant transactions, investments and expenditures

- Air Europa acquisition proposal and renegotiation of terms
- Launch of new products and fleet reconfigurations (Q1)
- Significant aircraft acquisitions, lease-backs and aircraft-related financing arrangements
- Financing arrangement for the acquisition or lease of aircrafts
- Disposals/write-off of aircraft and deferral agreements

### Risk management and internal controls

- Review risk map and risk appetite performance and statements
- Approve going concern and viability statements
- Effectiveness review of the internal control and risk management systems
- Updates regarding Brexit process
- External auditor yearly report to the Board
- Recommendation to appoint KPMG as external auditor for the period 2021 to 2024

### Shareholders, stakeholders and governance

- Sustainability update
- Review feedback from institutional shareholders, roadshows as well as analyst reports
- Board and management succession planning
- Remuneration matters
- Shareholders' meeting call notice and proposed resolutions
- Review of the Board committee's composition
- Board and committees effectiveness evaluation, and agreed improvement priorities
- Corporate governance updates

<b>AUGUST</b>	<b>SEPTEMBER</b>	<b>OCTOBER</b>	<b>NOVEMBER</b>	<b>DECEMBER</b>
<b>Number of meetings</b> <b>2</b>	<b>Number of meetings</b> <b>4</b>	<b>Number of meetings</b> <b>3</b>	<b>Number of meetings</b> <b>4</b>	<b>Number of meetings</b> <b>3</b>
<ul style="list-style-type: none"> <li>• Initial impact of the pandemic (first lockdowns and reduction of operations)</li> <li>• Preparation for capital increase</li> </ul>	<ul style="list-style-type: none"> <li>• Financial markets and IAG trading updates</li> <li>• Annual Shareholders' Meeting</li> <li>• Capital increase (launched on September 9)</li> <li>• Capital allocation framework</li> </ul>	<ul style="list-style-type: none"> <li>• Financial markets and IAG trading updates (including revenue/pricing framework analysis)</li> <li>• Pre-release of 2020 third quarter results</li> <li>• Capital allocation update</li> <li>• Financing update</li> </ul>	<ul style="list-style-type: none"> <li>• Operational update</li> <li>• Financing and capital allocation proposals</li> <li>• Update on impact of new lockdowns measures</li> </ul>	<ul style="list-style-type: none"> <li>• Operational update</li> <li>• Financing and capital allocation proposals</li> <li>• Update on impact of new lockdowns measures</li> </ul>

## Culture and stakeholder engagement

During 2020, IAG continued working under the same framework, based on its vision 'to be the world's leading airline group, maximizing sustainable value creation for our shareholders and customers' and the values that derive from the Code of Conduct approved in 2019. This Code that applies to all directors and employees of the Group, establishes simple integrity and compliance values applicable across the Group while respecting the different cultures and values existing in each of the operating companies.

Although compliance and training activities were carried out to support awareness of the principles detailed in the IAG Code of Conduct, the COVID-19 pandemic and the delay in the change of leadership, postponed some of the Group's plans in this area, but each of the operating companies continued with their own programmes and initiatives during the year. The IAG Board was regularly and closely informed of these initiatives. A specific case study regarding IAG Tech, a crucial area for the Group which works across the different business units, is provided opposite.

In the last quarter of 2020, a Group wide exercise was completed with external support. The survey has been designed to help understand the key leadership and cultural elements that are required to build a consistently high performing organisation. As the Group seeks to recover from the COVID-19 pandemic, the survey sought to identify strengths to build on, opportunities for improvement, and obstacles standing in the way of IAG being the leading airline group. The results and initial conclusions from this exercise were shared with the Board during the two-day strategy meeting held in December, during a session devoted to culture and talent.

The Audit and Compliance Committee has also reviewed and reported to the Board on the effectiveness and functioning of the confidential speak up channels available throughout the Group, where concerns can be raised on a confidential basis, and the number and nature of incidents reported to the speak up channels during 2020.

The Board continued to be updated throughout 2020 in relation to each operating company's employee matters as part of the report each company presents to the Board, in addition to specific matters that were conveyed as part of the COVID-19 pandemic ongoing reporting. In particular, information was shared with the Board on the COVID-19 specific measures adopted across the Group to support employee safety and wellbeing.

## IAG Tech culture journey



*IAG Tech was launched at the end of 2019, following my appointment as IAG CIO, bringing together over 1,500 digital and IT professionals across the Group, with a renewed mission to accelerate business performance, enable employees and protect the business through the use of technology and data.*

*IAG Tech has refocused around a common vision of bringing Technology Excellence to everything we do and started a transformative journey, where a single identity and a common vision purpose and values are key. These common values are innovation, empowerment, professionalism, transparency and agility.*

*During 2020, we have redefined the IAG Tech operating model and placed people at the heart of everything we do. As part of this effort, we have appointed our own Head of People and Culture emphasising the importance of nurturing culture and providing a focal point to hold everyone accountable.*

*When recruiting externally as well as when promoting people, there is a special focus to ensure the continuity and consolidation of IAG Tech's common values. Our own leadership academy is playing a key role in ensuring the right values and culture, as well as the right behaviours are fostered.*

*IAG Tech's targeted culture is underpinned by five people themes:*

- Engagement to ensure people are motivated, energised, happy, healthy and fulfilled. This is driven by widespread communication to capture our employees voice so we can include their views in any decisions we take, a focus on mental and physical wellbeing, encouraging a positive work/life balance, embracing diversity in every way, making everyone feel included and valued, being strong advocates for environment, social and governance activities inside and outside work, a strong and supportive network of IT/Digital professionals, and fostering the right working environment.*

- Talent Management aiming to ensure IAG Tech has the best people with the right skills at the right time. A strategic resource plan will be prepared in 2021 contemplating talent acquisition and onboarding, a new graduate and apprentice programme, a pipeline to identify and develop our people, succession and retention plans, and opportunities for growth and progression.*
- Recognition framework allowing us to identify and celebrate great performance and examples of people living our values and behaviours.*
- Performance Management directly linking everyone's objectives to our goals and targets, and KPIs and metrics so our people understand how they are personally contributing to achieving our vision, purpose and the business outcomes. We believe in fair, transparent and continual feedback.*
- Learning and Development enabling us to have the right capabilities, skills and competencies needed to deliver the business outcomes and our vision of Technology Excellence whilst ensuring that our people feel they can grow and progress.*

*IAG Tech participated in the Group's Organisation Health Index and other employee satisfaction surveys in 2020. Although we are still analysing the feedback received from the Organisation Health Index completed in December 2020, we acknowledge that we are only at the start of a long journey to create a world class culture. In order to support our journey, we have a robust plan as part of Project Magna (IAG Tech transformation programme) to continue to define, embed and nurture our culture. To complete this effort and to measure progress, we have planned an internal audit of our culture in 2021.*

**John Gibbs**  
IAG CIO

**Shareholders**

Shareholders’ interests have always been present in the Board’s considerations. The Board engages directly in active dialogue with shareholders and investors mainly through the Group Chief Executive Officer, the Group Chief Financial Officer and the Chairman, who regularly meet with shareholders and investors. In addition, the Senior Independent Director has attended meetings at the request of certain shareholders. In January to March 2020, meetings were conducted in person, but from April onwards meetings have been conducted by telephone or by virtual means.

The Board is regularly appraised of shareholders’ feedback and the main issues discussed with or raised by shareholders and investors. During 2020, the Company’s brokers and other financial advisors gave a number of presentations to the Board to report on specific topics, including the capital increase, as well as the macro economic environment.

In July 2020, the IAG Board proposed the execution of a capital increase, which was approved at the 2020 Annual Shareholders’ Meeting and was completed in October 2020. As part of this, a full roadshow was held with major shareholders on the day of the announcement and the subsequent days, and also several meetings were conducted in the month of September with numerous members of IAG’s shareholder base and key potential investors, mainly across Europe and the US.

In addition, a wide campaign was launched to ensure retail shareholders were duly informed and provided the opportunity to participate exercising their pre-emptive rights or selling the corresponding subscription rights. As the capital increase was conducted under Spanish law, which differs from the UK rules, the Company launched a retail campaign in relation to its UK retail shareholders to ensure they were made aware of the process, of the relevant key dates to participate in the capital increase, as well as the fact that those who took no action would not be entitled to receive compensation for any unused and expired subscription rights and that their shareholding will be diluted, this being an important difference in relation to UK practice.

This retail campaign included contact centres both in the UK and Spain which provided support with shareholder queries in relation to the process, and the preparation of a shareholder guide including frequently asked questions which was made available on the corporate website, as well as media campaigns both in the UK and Spain.

At the 2020 Shareholders’ Meeting, the 2019 report on directors’ remuneration (resolution 8) was passed with 71.60% of the votes. As publicly stated, while the Board welcomed the majority support for this report, it was disappointed that 20.56%

voted against this resolution. In accordance with the UK Corporate Governance Code recommendation, the Company completed an analysis of the voting results in order to identify those shareholders in the Top 100 who voted against or abstained on this resolution. Following this, a consultation process was launched in November 2020, including the main proxy advisory firms and more than 30 institutions that represent approximately half of the dissenting vote.

The main conclusion drawn from the conversations held were, while it was recognised that bonuses were determined at the end of February 2020 and paid in respect of the financial year to December 2019, these investors would have expected the implementation of exceptional measures in light of the financial situation of the Company and also to reflect the stakeholder experiences of employees and shareholders. They welcomed the salary reduction and other measures put in place by the Company and did not express any concern regarding IAG’s current remuneration policy.

**Considering stakeholders’ interests**

As explained in the stakeholder section of the report, IAG’s engagement framework is articulated in accordance with the Group’s business model. In line with this, the relationship with certain stakeholders is managed at an operating company level, as is the case of customers, employees, and, to a certain extent in the case of airline partners and industry associations, or governments and regulators. This ensures that the relationship is established as closely as possible and within the relevant cultural and business context. This does not preclude that the Group coordinates certain activities and sets minimum standards or

guidance as far as this is deemed appropriate.

In addition, the relationship with shareholders and investors is conducted at IAG level, mainly through the investor relations department, the Group Chief Financial Officer, the Group Chief Executive Officer and the IAG Chairman. Engagement with debt and operating lease providers is also done at IAG level to ensure a strategic and consistent approach across the Group.

IAG GBS provides a centralised procurement function for the Group and generally manages supplier engagement.

As far as sustainability matters are concerned, these are coordinated at Group level, covering the Group policies and objectives, governance structure, risk management, strategy and targets on material issues, sustainability performance indicators, communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy. In 2020, the Board decided to reinforce its focus on this important area assigning this responsibility to a separate Board committee which can provide a closer oversight and support to this function. In February 2021, the Board decided to enhance the remit of the existing Safety Committee to fulfil this objective as a new Safety, Environment and Corporate Responsibility Committee. Further details on IAG’s sustainability governance and engagement with stakeholders on sustainability can be found in the ‘Sustainability’ section.

The following graph details how the Board is kept informed in relation to IAG’s key stakeholders.





## Shareholders and other financial stakeholders



The Board has been regularly informed about shareholders considerations and concerns. As an example, the IAG Head of Investor Relations and the Company brokers were invited to the January 2020 Board meeting to inform about investors' comments following the Company's recent announcements in relation to the removal of the restrictions for non-EU shareholders, as well as regarding the retirement of the Group Chief Executive and the appointment of Luis Gallego as his successor. In addition, an analysis was shared with the Board on the market and investors' reaction to the announcement of the removal of these capital restrictions.

The Board was also regularly informed about engagement efforts with institutional shareholders as well as with retail shareholders in relation to the capital increase, from the preparation of the transaction until its completion in early October. The Board placed particular emphasis on retail shareholders to ensure they were informed of their rights, the process to be followed and the calendar of the capital increase.

The Board was also kept informed during 2020 about engagement with both debt and lease providers, as well as with respect to the different governmental support programmes in the context of the COVID-19 crisis.

## Employees



The Board has been regularly informed about each operating company initiatives with respect to their workforce during the COVID-19 pandemic. In particular, a session at the annual strategy meeting was devoted to the analysis and discussion of the results and initial conclusions from the employee survey completed in the Group.

## Customers



The Board has always paid special attention to issues related to customers and brands, and the focus on customer issues has always been present in Board discussions. During 2020, the Board has been regularly provided with customer information as part of its standard performance and monitoring activities. During this difficult period, the Board has been informed about the activities undertaken by the Group airlines to respond to COVID-19 pandemic customer expectations and changes introduced in the flying experience, as well as the measures adopted to support consumer confidence.

## Suppliers



The Board receives regular updates regarding key supplier relationships, relevant developments and engagement activities, including updates received through internal audit and risk management reporting. Within the context of the COVID-19 crisis, the Board received regular reports on the engagement with the Group strategic suppliers, including airframe manufacturers and engine maintenance providers.

## Governments and regulators



The Board is kept informed of any relevant issues within the regulatory and political context. In 2020, the Board was regularly informed about Brexit developments and the engagement with the relevant authorities at EU and Member State level.

In addition to this, through the frequent meetings held during 2020, the Board was kept updated on the different engagement workstreams open with regulators and policy makers in relation to the COVID-19 pandemic. Contributing on how to respond to the virus to allow safe, continued operations and to demonstrate the inherent safety of air services and at the same time highlighting to those stakeholders IAG believed measures were severely detrimental to it and its customers' interests and provided no health benefit.

## Airline partners and industry associations



As part of its usual work, the Board reviewed the Group's existing partnerships and joint business agreements and was frequently informed of the most relevant matters affecting the industry, particularly in the context of environmental matters. In addition to this, the Board was kept updated on the different initiatives put in place through cooperation with airlines partners and industry associations in the context of the COVID-19 crisis.

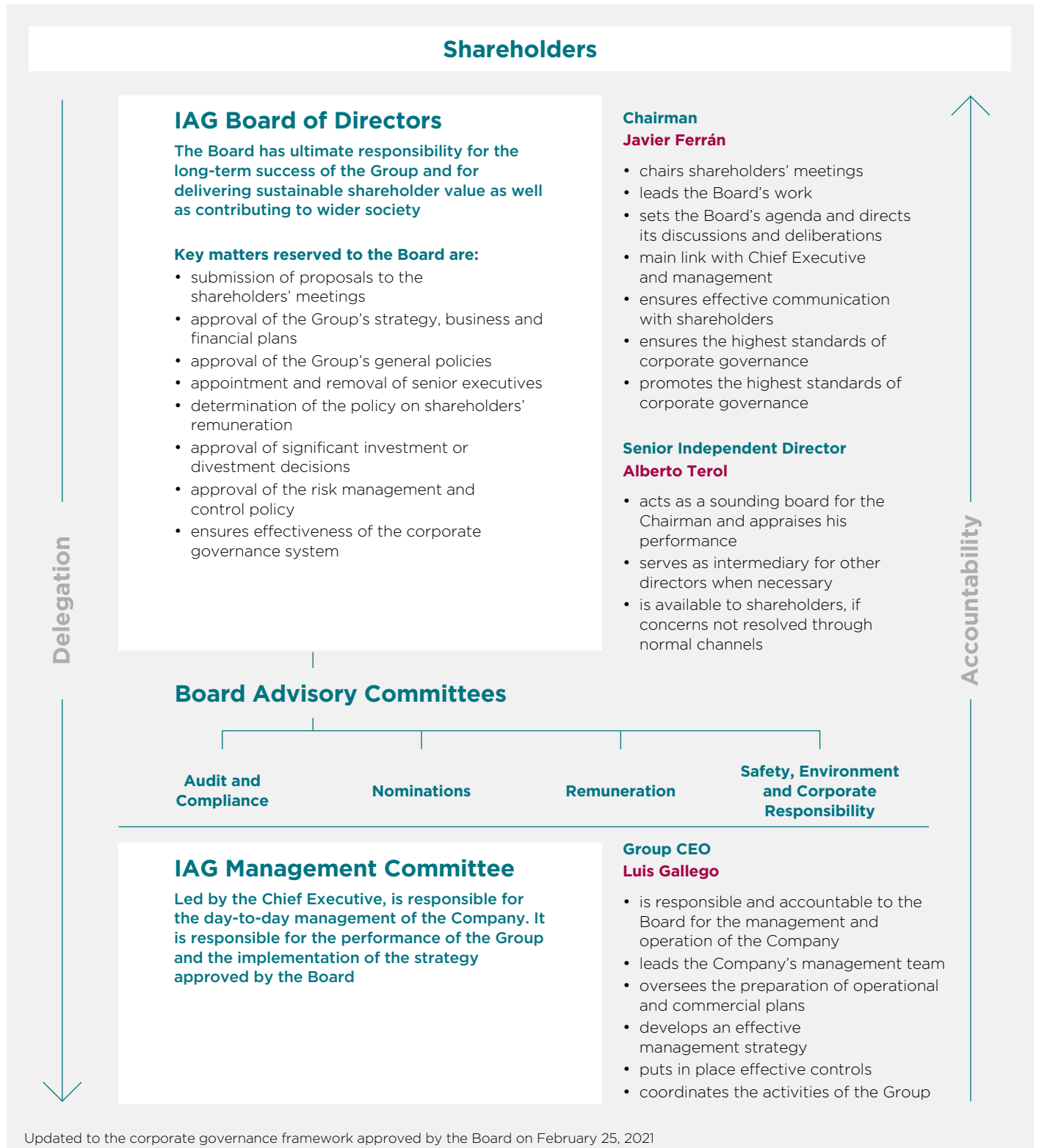
# Division of Responsibilities

There is a clear separation of the roles of the Chairman and the Group Chief Executive. The Chairman is responsible for the operation of the Board and is responsible for its overall effectiveness in directing the company.

The Chief Executive is responsible for the day-to-day management and performance of the Group and for the implementation of the strategy approved by the Board. All the powers of the Board have been permanently delegated to the IAG Chief Executive Officer save for those which cannot be delegated pursuant to the

Bylaws, the Board Regulations or the applicable legislation.

The different Company roles and their respective responsibilities are detailed in the Board Regulations as amended on February 25, 2021 (available on the corporate website).



Updated to the corporate governance framework approved by the Board on February 25, 2021

### **Non-executive directors**

The role of non-executive directors is to hold management to account in respect of the Group's performance. They should provide guidance and advice but also a constructive challenge to the executive team.

The Board, as reported by the Nominations Committee, is satisfied that those directors classified as independent are free from any business or other relationship that could materially interfere with exercising an independent judgement, both as a question of character and judgement. Directors are required to provide the Nominations Committee with relevant information regarding potential conflict of interest that may arise, any positions that they hold or activities they perform at other companies or entities, as well as any substantial change that may affect their independence.

The shareholders' meeting held on September 8, 2020 approved the appointment of Giles Agutter and Robin Phillips as non-executive proprietary directors as proposed by IAG's significant shareholder Qatar Airways Group (Q.C.S.C.). Qatar Airways, a Middle East air carrier headquartered in Doha, has been the single largest shareholder of IAG since 2016, owning, as of the date of this report, 25.1% of the share capital of the Company. Throughout this period there has been a long-standing business and commercial relationship between Qatar Airways and the airlines of the IAG Group. This close relationship of commercial cooperation, which has always been undertaken on an arms-length and commercial basis, significantly reduces the potential existence of permanent conflicts of interest between Qatar Airways and the Group's airlines. Any potential conflict of interest that might affect the new proprietary directors is managed by applying the duty to abstention in accordance with the procedure for managing conflicts of interest described below.

As far as the relationship of the proprietary directors with the significant shareholder who proposed their appointments is concerned, it should be noted that Giles Agutter is the owner and Chief Executive of the consultancy services firm Southern Sky Limited, one of whose material clients is Qatar Airways Group, and that Robin Phillips has no relevant connection with Qatar Airways Group.

All schedule Board meetings include a private session for non-executive directors to meet with the Chairman.

### **Directors' disclosure duties, conflicts of interests, and related party transactions**

Directors must inform the Company of any participation or interest they may hold or acquire in any company that is a competitor of the Group, or any activities that could place them in conflict with the corporate interest.

According to article 21 of the Board Regulations, directors have an obligation to adopt the measures necessary to avoid conflict of interest situations. These include any situation where the interest of the director, either directly or through third parties, may conflict with the corporate interest or with his duties to the Company. In the event of conflict, the affected director must inform the Company and abstain from participating in the discussion of the transaction referred to by the conflict. For the purposes of calculating the quorum and voting majorities, the affected director would be excluded from the number of members in attendance.

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions with the directors, with shareholders that have a significant holding or with any persons related to them.

The execution of these type of transactions or any transaction which may entail a conflict of interest need to be reported to the Audit and Compliance Committee to ensure that they are carried out at arm's length and with due observance of the principle of equal treatment of shareholders. In the case of transactions that fall within the ordinary course of business and are customary or recurring in nature and following a report by the Audit and

Compliance Committee, the Board may grant a general authorisation as long as they are executed under certain terms and conditions. This authorisation needs to be endorsed by the shareholders' meeting in those cases established in the Spanish companies' legislation and, in particular, in any transaction with a director valued at more than 10 per cent of corporate assets.

In addition to this, and prior to the Audit and Compliance Committee consideration, shareholder related party transactions are also reviewed by the IAG Management Committee and are reported to the IAG Head of Group Audit.

IAG maintains commercial relationships with Qatar Airways, including cargo capacity agreements, passenger codeshares, wet leases and interline agreements. As a significant shareholder, all of these transactions have been reviewed by the Audit and Compliance Committee and approved by the Board.

### **Board information and training**

All Board and committee meeting documents are available to all directors, including the minutes of each meeting. All directors have access to the advice of the Board Secretary and the Group General Counsel. Directors may take independent legal, accounting, technical, financial, commercial or other expert advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in the 2020 financial year.

In 2020 the Board received specific briefings on key developments, such as the ongoing negotiations regarding the UK's exit from the EU, and specific briefings regarding directors' duties and liabilities under Spanish and UK law, as well as regarding corporate governance developments both in Spain and the UK.

Directors are offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Directors are consulted about their training and development needs and given the opportunity to discuss training and development matters as part of their annual individual performance evaluation.

### Appointment, re-election, resignation and removal of directors

The selection and appointment process is described in detail in the Nominations Committee report.

IAG directors are appointed for a period of one year, as set out in the Company's Bylaws. At the end of their mandate, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws. In this way, the Company complies with the UK Code recommendation that directors should be subject to annual re-election.

Re-election proposals are subject to a formal process, based on the Nominations Committee proposal in the case of non-executive directors, or its recommendation report for executive directors. This proposal or report is prepared having due regard to the performance, commitment, capacity, ability and availability of the director to continue to contribute to the Board with the knowledge, skills and experience required.

Directors cease to hold office when the term of office for which they were appointed expires.

Notwithstanding the above, a director must resign in the cases established in article 17.2 of the Board Regulations, among other things when the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company or when his or her remaining on the Board might affect the Company's 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 circumstances that might harm the Group's name or reputation. In particular, if they become subject to any judicial, administrative or other proceedings. In such circumstances, the Board would consider the case as soon as practicable and adopt the decisions it deems fit, taking into account the corporate interest. As stated previously, if remaining on the Board would affect the Company's reputation, or otherwise jeopardise its interest, a director must

place their position at the disposal of the Board and, at its request, formally resign.

The Board may only propose the removal of a non-executive director before the end of the mandate when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause is deemed to exist when the director takes up new positions or enters into new obligations that prevent them from dedicating the necessary time to the performance of his or her duties as a director, otherwise breaches his or her duties as a director or unexpectedly becomes subject to any of the circumstances provided for in article 16.2 of the Board Regulations. The removal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that determine a material change of control.

A director who stands down before the end of their term of office must state their reasons in a letter to be sent to all the directors. In addition, these explanations need to be included in the Company's Annual Corporate Governance Report.

The rules above have been updated according with the Spanish Corporate Governance Recommendations approved in June 2020 and incorporated in the Board Regulations approved in February 2021, and are available on the Company's website ([www.iairgroup.com](http://www.iairgroup.com)), and the website of the Spanish Comisión Nacional del Mercado de Valores ([www.cnmv.es](http://www.cnmv.es)).

### Other Statutory Information

#### Share issues, buy-backs and treasury shares

The Annual General Meeting held on September 8, 2020, authorised the Board, with the express power of substitution, for a term ending at the 2021 Annual General Meeting (or, if earlier, 15 months from September 8, 2020), to:

- i reduce the share capital by means of reducing the par value of the shares by €0.40 each, to €0.10 per share.
- ii increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by up to fifty per cent of the aggregate nominal amount of the Company's issued share capital resulting after the capital reduction of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation), through the issuance and placement into circulation of new shares (with or without a premium) the consideration for which shall be cash contributions;
- iii issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,500,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than one-third of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation);
- iv exclude pre-emptive rights in connection with the capital increases and the issuance of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances subject to an aggregate maximum nominal amount of the

#### Company's share capital

During the year the following changes to the share capital occurred:

Date of change	Share capital (euros)	Number of shares/voting rights
September 9, 2020	199,203,263.40	1,992,032,634
October 5, 2020	497,147,601	4,971,476,010

- shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued share capital as at September 8, 2020.
- v carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions:
- a the maximum aggregate number of shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued share capital on September 8, 2020, the date of passing the resolution;
- b the minimum price which may be paid for an ordinary share is zero;
- c the maximum price which may be paid for an ordinary share is the highest of:
- 1 an amount equal to five per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
  - 2 the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the transaction is carried out at the relevant time; in each case, exclusive of expenses.

The shares acquired pursuant to this authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby. For further details see note 27 to the Group financial statements.

The IAG Securities Code of Conduct regulates the Company's dealings in its treasury shares. This can be accessed on the Company's website.

#### Capital structure and shareholder rights

As of December 31, 2020, the share capital of the Company amounted to 497,147,601 euros (2019: 996,016,317 euros), divided into 4,971,476,010 shares (2019: 1,992,032,634 shares) of the same class and series and with a nominal value of €0.10 each (2019: €0.50 each), fully subscribed and paid.

As of December 31, 2020, the Company owned 5,096,863 shares as treasury shares.

Each share in the Company confers on its legitimate holder the status of shareholder and the rights recognised by applicable law and the Company's Bylaws which can be accessed on the Company's website.

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depository, Deutsche Bank, is the registered holder. As at December 31,

2020 the equivalent of 40,957,218 shares was held in ADR form (2019: 6 million shares).

During 2020, the Company filed one treasury shares reporting statement with the CNMV as a consequence of the change of the number of shares of the Company, as required by Spanish regulations, communicating the transfer of a total of 3,117,151 shares and resulting in a total of 5,737,059 treasury shares owned by the Company as of October 2, 2020.

Following shareholder approval, the nominal value of the Company's shares was reduced from €0.50 to €0.10 per share.

On July 31, 2020 the Company announced its proposal to undertake a capital increase with pre-emptive subscription rights to raise gross proceeds of up to €2.75 billion which was approved by shareholders at the shareholder meeting held on September 8, 2020. Therefore, during the period, 2,979,443,376 ordinary shares in the Company were issued and allotted on completion of the capital increase.

The significant shareholders of the Company at December 31, 2020, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:

Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	Percentage of capital
Qatar Airways (Q.C.S.C)	1,249,999,997	-		1,249,999,997	<b>25.14%</b>
Invesco Limited	-	65,995,270	Various mutual pension funds managed by Invesco Ltd	65,995,270	<b>1.327%</b>
Lansdowne Partners International Limited	-	62,414,365	Funds and accounts managed by Lansdowne Partners (UK) LLP	62,414,365	<b>1.255%</b>
Allan & Gill Gray foundation	-	54,667,573	Funds managed by Orbis Investment Management Limited	54,667,573	<b>1.100%</b>

As reported to the Spanish CNMV on February 23, 2021, Lansdowne Partners International Limited's shareholding increased to 80,876,691 shares, representing 1.627 % of the Company's share capital.



### Shareholders' meeting

The quorum required for the constitution of the shareholder's meeting, the system of adopting corporate resolutions, the procedure for amending the Bylaws and the applicable rules for protecting shareholders' rights when changing the Bylaws are governed by the provisions established in the Spanish Companies Law.

Considering the COVID-19 pandemic circumstances as well as the recommendation of the 2020 Spanish Corporate Governance Code, the Company facilitated attendance and participation to the 2020 Annual Shareholders' Meeting using an online platform.

The Shareholder Meeting Regulations, which establishes the operating rules of the shareholder meeting, are available in the Corporate Governance section of the Company's website.

### Disclosure obligations

The Company's Bylaws establish a series of special obligations concerning disclosure of share ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the UK.

In accordance with article 7.2 b) of the Bylaws, shareholders must notify the Company of any acquisition or disposal of shares or of any interest in the shares of the Company that directly or indirectly entails the acquisition or disposal of a stake of over 0.25 per cent of the Company's share capital, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, as well as the creation of any charges on shares (or interests in shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, pursuant to article 10 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the

knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its subsidiaries.

In the event of a breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's share capital in nominal value, the Board may also direct that no transfer of any such shares shall be registered.

### Limitations on ownership of shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-qualifying shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital. If such a determination is made and notified to the stock market, no further acquisitions of shares by non-qualifying persons can be made.

In such circumstances, if non-qualifying persons acquire shares in breach of such restriction, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-qualifying person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the

corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-qualifying person.

### Impact of change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination in the event of a change of control of the Company:

- the brand alliance agreement in respect of British Airways and Iberia's membership of **oneworld**, the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company;
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third-party airline, or the parent of a third-party airline; and
- certain IAG financing and fuel arrangements allow for prepayment, redemption or early termination in certain circumstances if there is a change of control of the Company.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

### Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability for the benefit of the directors and officers of the Company and its subsidiaries.

# Composition, Succession and Evaluation

## Report of the Nominations Committee



**Javier Ferrán**  
Nominations Committee Chair

I am convinced that the Group starts this new phase of its development with a strong board and senior management team with the breadth of skills, experience, capabilities and perspectives necessary to respond to the demands and challenges the business and the Group faces.

**Javier Ferrán**  
Nominations Committee Chair

### The Nominations Committee

The composition, competencies and operating rules of the Nominations Committee are regulated by article 31 of the Board Regulations and by the Nominations Committee Regulations as approved by the Board on February 25, 2021. A copy of the Board and the new Nominations Committee Regulations can be found on the Company's website.

The Nominations Committee has overall responsibility for leading the process for appointments to the Board and to ensure that these appointments bring the necessary skills, experience and competencies to the Board, aligning its composition to the business strategy and needs. The Committee also reports to the Board on the proposed appointment of senior executives of the Company. It oversees Board and senior management succession planning and in general the development of a diverse pipeline for succession.

The Nominations Committee shall be made up of no less than three non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. A majority of the members must be independent directors that are EU nationals.

The Committee was chaired by Antonio Vázquez until September 8, 2020, when he was replaced by Javier Ferrán. Antonio Vázquez remained a member until he retired from the Board on January 7, 2021.

The former members of the Committee during 2020 were:

- Antonio Vázquez left January 7, 2021
- Marc Bolland left September 8, 2020
- Deborah Kerr left December 31, 2020
- Emilio Saracho left September 24, 2020

### Committee members

	Date appointed
<b>Javier Ferrán (Chair)</b>	September 8, 2020
<b>Giles Agutter</b>	September 24, 2020
<b>Margaret Ewing</b>	January 28, 2021
<b>Heather Ann McSharry</b>	December 31, 2020
<b>Alberto Terol</b>	June 20, 2019

### Dear Shareholder

I am pleased to present my first report of the Nominations Committee, after taking the chair position on September 8, 2020.

The main focus of the Committee during the year was on Board and Board committee's composition. The oversight of the succession arrangements for both the Chief Executive and, as far as appropriate as this process was led by the Senior Independent Director, for the Board Chair position were also key areas of consideration. The Committee was also consulted on appointments to, and promotions within, the IAG Management Committee.

I have covered in detail all the changes made during the year in my introduction to the Corporate Governance Report. As far as the Board is concerned, I would add that after a year with significant changes, we are very pleased with the outcome, having a Board with very solid and diverse set of skills, experience and capabilities. We are especially satisfied to have reached a female representation of 45%, but we recognise that there is more to do in other areas, such as ethnicity, as well as to ensure the development of diversity in its broadest sense in senior management across the Group.

Following executive leadership changes, the Committee's key priority for 2021 will be to focus on IAG's succession and talent management plans, as well as to reinforce the diversity of our pipeline.

## The Committee's responsibilities

The Nominations Committee's responsibilities can be summarised as:

- evaluating the mix of competencies, knowledge and experience necessary in the Board's membership and reviewing the criteria for the Board composition and the selection of candidates
- submitting the recommendation for appointment of directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairs
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner
- reporting to the Board on the appointment and removal of senior executives (which includes all IAG Management Committee members)
- ensuring that non-executive directors receive appropriate induction programmes
- setting diversity targets (gender, ethnicity and other criteria) both within the senior management and the succession pipeline
- ensuring that plans are in place for orderly succession of senior management positions whilst safeguarding the achievement of agreed diversity targets establishing a target for female representation on the Board which should adhere to the Company's Directors Selection and Diversity Policy
- coordinating the annual evaluation of the performance of the Board and its committees

## The Committee's activities in 2020

The Committee met nine times during 2020, including five scheduled meetings and four *ad hoc* meetings. Directors' attendance at these meetings can be found in the Corporate Governance section. The Group Chief Executive is invited to attend the Committee's meetings as and when necessary. During 2020, the Group General Counsel also attended several meetings.

The Committee focused on the following activities during the year:

- Group Chief Executive succession and appointment of Luis Gallego
- Board Chair succession plan and appointment of Javier Ferrán
- the composition of the Board, including Brexit considerations
- reviewing the Board committees' membership
- annual evaluation of performance of the Board Chair and of the Chief Executive
- management succession plans
- talent management, pipeline and diversity
- overview of the Board annual evaluation process and conclusions, as well as that of the Nominations Committee
- changes to Group company boards

Throughout the year, Spencer Stuart provided recruitment consultancy services to the Committee. Spencer Stuart does not have any other connection with the Company or individual directors and is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms.

## Board changes

The Committee regularly reviews the formal succession plan for the Board, including analysis of non-executive directors' length of tenure, skills and experience, and planning for succession of any areas that would require strengthening from a skills and succession perspective. The conclusions of this exercise helped to inform new directors' searches and the profile and skills required.

As foreseen in the Board refreshment plan, Kieran Poynter did not stand for re-election at the 2020 Shareholders' Meeting having served as an independent director of the Company for more than nine years. Marc Bolland also did not stand for re-election having considered his non-IAG commitments and increased demand of these commitments on his time during 2020. To fill the vacancies this created, Giles Agutter and Robin Phillips were appointed as non-executive proprietary directors in representation of the significant shareholder Qatar Airways Group (Q.C.S.C.), owner of 25.1% of the share capital of the Company. These appointments were reviewed by the Nominations Committee, taking into consideration the composition of the Board of Directors, as well as the suitability of the professional profiles and experiences of the proposed directors.

Having served nine years in office and as anticipated, Antonio Vázquez announced on July 31, 2020 his intention to retire from his position as a member and Chair of the Board of Directors. In accordance with the succession process outlined further on in this report, the Board unanimously approved the appointment of Javier Ferrán as his successor. Javier Ferrán met the independence criteria set out in the Spanish legislation and in the 2018 UK Code on appointment.

Due to the nature of our business and Brexit, IAG had to implement its plans to ensure that its EU licensed airlines continue to comply with EU ownership and control rules. In this context, the composition of the Board of Directors was changed so that it has a majority of independent EU non-executive directors. To facilitate these changes, on December 31, 2020 Deborah Kerr, María Fernanda Mejía and Steve Gunning stepped down from the Board, and Peggy Bruzelius, Eva Castillo and Heather Ann McSharry were appointed to fill these vacancies.

The search for these three new independent non-executive directors was initiated in 2019 by the Nominations Committee in accordance with the Board succession plan and was later redefined to identify suitable candidates to ensure that the Board had a majority of independent EU non-executive directors.

This process was completed in accordance with the IAG Directors Selection and Diversity Policy, respecting the following principles:

- Spencer Stuart was engaged to conduct this search.
- The search criteria was formulated following the evaluation of the balance of skills, experience, independence, diversity and knowledge on the Board. Based on these considerations, the role and capabilities required for these appointments were established, and the resulting criteria were included as an annex to the search firm's engagement letter.
- Two long-lists of candidates were reviewed during September and October 2020 and, following a detailed analysis of the profiles of the candidates included on both lists, it was agreed on a potential shortlist of candidates.
- This shortlist was reviewed and discussed by the Chair of the Nominations Committee, the Board Chair and the Senior Independent Director, and according to the conclusions reached and after hearing the feedback from a compliance perspective from the Group General Counsel, it was reported to the Nominations Committee.
- The interview process was completed between October and November 2020.

Following this, the three candidates identified were agreed, and submitted for approval at the Nominations Committee held on December 31, 2020. A final report was presented to the Board endorsing the three candidates' nominations.

## Board positions and committee memberships

There has been a number of important changes to the Board composition and consequently to its committees, all of which have been overseen by the Nominations Committee.

Being a key position on the Board, succession for the chair of the Audit and Compliance Committee was carefully planned, ensuring an adequate handover process. Following the 2020 Shareholders' Meeting, Margaret Ewing succeeded Kieran Poynter in this position. Deborah Kerr and María Fernanda Mejía resigned as members of the committee with effect from December 31, 2020. This committee membership includes Alberto Terol, who has been an IAG director for seven years providing his expertise and knowledge of the sector. Peggy Bruzelius and Eva Castillo were appointed as members of this committee on December 31, 2020 given their respective backgrounds and experience.

Following his appointment as designated Chair, Javier Ferrán was appointed as Chair of the Nominations Committee. Antonio Vázquez, incumbent Chair, continued as a member of this committee until his retirement. Alberto Terol, as Senior Independent Director is also a member and was throughout 2020. Current membership also includes Giles Agutter, Margaret Ewing and Heather Ann McSharry ensuring a balanced composition as well as adequate cross-membership with other key committees.

On December 31, 2020 Alberto Terol was appointed as chair of the Remuneration Committee. In a challenging period for this committee, Alberto brings not only his experience as a current member of this committee, but also his experience of having chaired other listed companies' remuneration committees. This committee also includes Nicola Shaw and Emilio Saracho, and recently appointed members Eva Castillo and Heather Ann McSharry, all of them with relevant backgrounds.

On February 24, 2021 the Nominations Committee considered the composition of the new Safety, Environment and Corporate Responsibility Committee which was subsequently approved by the Board. This committee will be chaired by an independent non-executive director, Nicola Shaw, and it will be exclusively composed of non-executive directors with a majority of independent directors, thus conforming to the Spanish Code requirements.

## Directors independence, performance and re-election

The Nominations Committee, having considered the matter carefully, is of the opinion that all of the current non-executive directors, with the exception of the two recently appointed

proprietary directors, are independent, both in line with the definition set out by the Spanish Companies Act and with that of the UK Corporate Governance Code, and are free from any relationship or circumstances that could affect, or appear to affect, their independent judgement.

All proposals for the appointment or re-election of directors presented to the 2020 Shareholders' Meeting were accompanied by an explanatory report issued by the Board of Directors with the support of the Nominations Committee assessing the competence, experience and merits of each candidate. Following this review, the Committee was of the opinion that each non-executive director submitting him or herself for re-election continued to demonstrate commitment to the role as a member of the Board and its committees, discharged his or her duties effectively and that each was making a valuable contribution to the leadership of the Company for the benefit of all shareholders.

The Committee also reviews the time commitment of each non-executive director on at least an annual basis. During 2020, the commitment, support and availability demonstrated by all directors without exception during these difficult months has been and continues to be outstanding.

Each director is required to advise the Committee and seek its authorisation before accepting any external directorship or other significant appointment that might affect the time they are able to devote to the role as a director of the Company.

## Management appointments and succession planning

At the beginning of the year, the Committee reviewed and finalised the succession plan for the Group Chief Executive, which culminated with the announcement, in January 2020, that Luis Gallego, the Chairman and Chief Executive of Iberia, would succeed Willie Walsh as Group Chief Executive.

In addition to this, and as proposed by both the incumbent and designated Chief Executive, the Committee considered the appointment of Javier Sánchez-Prieto, the then Chairman and Chief Executive of Vueling, as Chairman and Chief Executive of Iberia, and of Marco Sansavini, the then Commercial Director of Iberia, as Chairman and Chief Executive of Vueling.

Initially the appointments were due to take effect on March 26, 2020 but because of the impact of the COVID-19 pandemic on the Group's operations and the exceptional circumstances facing the airline industry, the Board decided to delay Willie Walsh's retirement as well as the relevant changes in the leadership of Iberia and Vueling to

preserve management stability in the immediate response to the crisis. The appointments took effect following the Shareholders' Meeting held on September 8, 2020.

In addition, the Committee reviewed the following Management Committee appointments, which took effect on October 11, 2020, on the recommendation of the new Group Chief Executive:

- Sean Doyle, then Aer Lingus Chairman and Chief Executive, appointed to succeed Alex Cruz as British Airways Chief Executive.
- Donal Moriarty, then Aer Lingus Chief Corporate Affairs Officer, appointed interim Chief Executive in Sean's place.
- Fernando Candela, then Chief Executive of LEVEL, appointed to the Management Committee in a new role of Chief Transformation Officer.

In January 2021, the Committee also considered and reported to the Board on the appointment of David Podolsky as the new IAG Chief Strategy Officer.

In 2020 a formal review of the senior management succession plan was not undertaken by the Committee other than in respect of the changes outlined above. This will be an area of focus both for the Committee and the Group Chief Executive and its management team during 2021.

## Diversity

The Nominations Committee and the Board are committed to achieving diversity in its broadest sense in the composition of the Board and senior management. Details of Board diversity can be found in the Corporate Governance section. Female directors currently represent 45% of the Board of Directors.

The Committee and the Board will be reviewing the Group's diversity and inclusion policies in 2021 to align to both the Spanish and UK Corporate Governance Codes' requirements as well as to current best practices. The Committee recognises that there is more to do in other areas beyond gender such as ethnicity and disability and will seek to further diversify the management and Board composition while recognising the difficulties it faces as far as the Board composition is concerned due to Spanish and UK governance and other relevant regulatory requirements.

IAG's approach to inclusion and diversity on the Board is set out in the Company's Director Selection and Diversity Policy, available on the corporate website. The procedure for the appointment of directors follows the principles established in this policy, and, as recommended by the Spanish Good Governance Code, the Nominations Committee reviews compliance with this policy on a annual basis.



When considering director appointments, the Committee follows a formal, rigorous and transparent procedure, designed to preserve this diversity value while ensuring that any appointment is made on merit, and taking into account the specific skills and experience needed at any point in time to ensure continuing Board balance and relevant knowledge. Gender diversity principles are followed throughout the process, while preserving the general diversity and merit-based appointment principles established in the policy. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

Searches are conducted by selected executive search firms, only engaging with those who are signatories to the UK Voluntary Code of Conduct for Executive Search Firms. During 2020, Spencer Stuart was engaged to conduct relevant searches on behalf of the Board. Spencer Stuart, received the accreditation in 2019 under the Enhanced Code of Conduct for

meeting exacting performance criteria and best practice standards in gender-balanced selection for FTSE 350 boards.

To ensure IAG meets its diversity standards, it requires that the long-list of potential candidates includes adequate representation of female candidates, and candidates, as far as possible, from the widest possible diverse pool. IAG Board's aspiration to have 33% female representation on the Board by the end of 2020 is formally reflected in the Directors Selection and Diversity Policy. This target was met in 2018, and as of today female directors have a 45% representation on the Board.

This policy also sets out IAG's commitment to strengthen the gender balance in IAG's leadership and senior management teams. IAG's Management Committee is responsible for improving diversity within management and generally across the Group, and the Nominations Committee monitors progress in achievement of management's diversity targets on a regular basis. The Nominations Committee is committed to improving diversity, and gender diversity in particular, across the

Group, and encourages and supports Group initiatives in this respect. Relevant details on diversity can be found in the Sustainability section.

#### Induction of directors

An induction programme was launched for Giles Agutter and Robin Phillips following their appointments in September 2020. The programme is based upon IAG's induction guidelines but has been adapted to take account of the COVID-19 pandemic constraints. Due to his appointment as IAG Chairman there has also been a further induction programme for Javier Ferrán, including specialised one-to-one sessions as well as meetings with the leadership teams of each operating company. Handover sessions were also facilitated with the current Chairman to ensure a smooth transition.

In January 2021, another induction programme began to incorporate the three newly appointed directors following the same guidelines. In this regard, meetings with management have been arranged to prioritise a rapid introduction to the Group and briefings on main current matters, leading to a second phase of

#### My induction experience



*Having spent many years in the airline industry, the IAG induction programme was an extremely useful exercise to get a better understanding of the complexities of this successful airline group. IAG is such a broad group of leading brands that it will no doubt take many months to get to know better the people that will work together to lead the company out of the current pandemic. The induction programme has highlighted the quality of talent that exists within the organisation and strengthened my confidence in the people to successfully adapt this company to the changing environment in which we operate. It has become clear to me the sense of pride that exists within the team for the companies that they have built, and this will no doubt continue to be a crucial asset for the company. I am so pleased to have the opportunity to work with the team in the months and years to come to ensure that IAG remains a leader in the global airline industry.*

**Giles Agutter**



*Given the pandemic, the induction process was necessarily more restricted: there were no site visits for example, and evidently in some cases the discussions needed to be online. Luis Gallego had formally taken over as Chief Executive only weeks before, and with several new faces in his leadership team. With this background, and given the unprecedented challenges facing the team, I was extremely impressed and very appreciative of the time, engagement and commitment of all who presented to us. Importantly the sessions were highly interactive, and across the entire management team there was the preparedness to listen as well as speak. For those recently appointed, I sensed that our induction meetings also served as a platform to articulate some of their plans and aspirations in their new roles. There was consistently a good balance in the discussion between the immediate priorities in confronting the*

**Robin Phillips**

*pandemic and at the same time the focus on medium and longer term strategic goals. Overall, the approach was very diligent and demonstrated a clear respect for and understanding of the importance of the role of the board.*

*The preparation for the induction was thorough: not only ensuring that the broader remit and complexities of the group were fully represented and balanced, but also showing sensitivity to the key emerging issues and risks, for example cybersecurity, sustainability/ environment and Brexit.*

*I emerged from the induction with a rounded understanding of the group, both across the business verticals and functions, and felt confident as a result in being able to carry out my role on the board, and critically also knowing that I have had the time to start to develop personal working relationships with the management team as well.*



customary meetings with all Management Committee members and other key positions within IAG.

### The Committee annual evaluation

The annual performance evaluation of the Board and its committees was internally facilitated, having been carried out by an independent external facilitator in 2019. The evaluation concluded that the Committee operated effectively during 2020 and has successfully managed two key succession processes at Board level, while dealing with important changes to the Board and its committees composition in very difficult circumstances. Two key areas of focus for the Committee during 2021 will be:

- talent oversight and deeper review of management succession planning, so that the Committee has greater visibility of the bench across functions, and
- reinforcement of diversity and inclusion initiatives, ensuring that the Group builds a diverse talent pipeline aligned to its culture and values.

### Chair succession

Last year's annual report stated that, having completed nine years as a non-executive director, the succession arrangement for the Chair of the Board was one of the priorities for the Nominations Committee for 2020. This process was led by the Senior Independent Director, involving all non-executive

directors and executive directors. An internal potential candidate was identified very early in the process, and subsequently Alberto Terol decided to conduct the process jointly with the Chair of the Audit and Compliance Committee and long-serving director, Kieran Poynter. Within this process, the input from executive directors, and particularly that of the incumbent and designated Chief Executive, were sought as appropriate.

Several meetings with all non-executive directors were held where the role specification was discussed, including the skillset, experience and key leadership characteristics required to guide IAG throughout the next stage of the Group's development and to lead the Board and support management in confronting the challenges ahead. Spencer Stuart was engaged to complete a mapping exercise to identify potential chair candidates in accordance with the proposed role specification, which was also discussed and agreed with them. Following a first analysis of the long-list of potential candidates provided, a short list was prepared evidencing the existence of strong internal candidate. The short list was considered and discussed with all non-executive directors, excluding the already identified internal candidate. In addition the views of several major shareholders and advisors were also sought as part of the ordinary engagement contacts with these stakeholders.

The process resulted in a unanimous recommendation that Javier Ferrán was the most suitable candidate, and such proposal was discussed at the Nominations Committee meeting held on July 29, 2020 and submitted to the Board of Directors for approval. Javier Ferrán brings extensive board and governance experience, both in Spain and the UK, as well as a solid management expertise. Having been a director of the Company for more than a year at the date of approval of his appointment, the Board considered that his personal qualities and style perfectly matches the specifications required for the role.

Following Javier Ferrán's designation, the Committee considered the plan to induct him as Chair, working alongside Antonio Vázquez for the five months prior to his appointment.

## Board and committee evaluation

The effectiveness of the Board and its committees is reviewed annually, with an independent, externally facilitated review being conducted every three years. The last external review was conducted in 2019, therefore an internal evaluation was completed for 2020.

The internal evaluation was led by both the incumbent and designated Chair and was conducted by the Board Secretary using a self-assessment questionnaire, complemented with an individual interview conducted by the new Chair with each of the non-executive directors. The report was presented to all Board members, together with the Group General Counsel and the Board Secretary and Deputy Secretary.

Considering the amount of change experienced by both the Board and the committees' composition during 2020, as well as the current circumstances, the exercise was inevitably more limited but more focused at the same time on the key challenges faced during the year. The overall conclusions of the review were positive, confirming that the Board and the committees continue to adequately fulfil their responsibilities. Directors considered that the two important succession plans completed during the year were handled in a very solid and professional manner, both in relation to the process and identification of suitable candidates as in the design and

implementation of proper transition, acknowledging the compromise and collaboration of the departing Chief Executive and departing Chair. The planning of the Board succession and its execution was also positively commented on considering its relevance and depth in 2020. Specific questions were asked in the evaluation in relation to the Board's reaction to the COVID-19 crisis, both from a process and substance point of view. Directors concurred in considering that the engagement, support and oversight exercised by the Board during this difficult period has been outstanding. The strength of the different directors' profiles and their independent judgement was also put to test during this period and proved to be valuable.

The main focus for 2021 will be:

To accelerate and reinforce the induction programme for new directors, tailoring it to each director needs and profile, given the large amount of change in the Board's composition.

In view of the discussions held at the annual strategy session, to determine the strategic topics that should be covered in depth throughout the Board calendar.

The set up and functioning of the new Safety, Environment and Corporate Responsibility Committee.

# Report of the Safety Committee



**Luis Gallego**  
Safety Committee Chair

## Committee members

	Date appointed
<b>Luis Gallego (Chair)</b>	September 8, 2020
<b>Giles Agutter</b>	September 24, 2020
<b>Nicola Shaw</b>	June 14, 2018

## Dear Shareholder

I am pleased to share with you my first report as IAG Safety Committee Chair.

In addition to myself, we were pleased to welcome Giles Agutter as a member to the Committee after joining the Board as a non-executive director in September 2020.

During this year, the Committee's usual oversight over safety matters was understandably impacted by the COVID-19 pandemic, as the operations of the Group airlines diminished, and the normal safety activities adjusted to the new reality imposed by the pandemic.

According to the aviation regulatory framework, safety and security responsibility lies with the management of each Group airline under their respective operating licence and Air Operators Certificate. IAG's Safety Committee exercises a high-level overview of safety activities and fosters the discussion of common issues and the sharing of best practices between the Group airlines. This latter sphere of activity has proven very valuable in such unprecedented

circumstances as it allowed us to share challenges, initiatives and best practices among the different Group airlines.

**Luis Gallego**  
Safety Committee Chair

## The Safety Committee

The Committee composition, competencies and operating rules were regulated by article 32 of the Board Regulations. Following the corporate governance review completed in February 2021, the remit of this Committee has been enhanced to cover environmental and corporate responsibility matters as a new Safety, Environmental and Corporate Responsibility Committee.

The Committee is made up of no fewer than three directors appointed by the Board, with the necessary dedication, capacity and experience.

In addition to Committee members, senior managers with responsibility for safety matters are invited to attend and report at Committee meetings as and when required. During 2020, representatives of the British Airways, Iberia, Aer Lingus and Vueling safety teams attended meetings.

## The Committee's responsibilities

Responsibility for safety matters belongs to the Group's airlines. IAG, through its Safety Committee, has an overall view of each airline's safety performance and of any important issues that may affect the industry. The Committee also has visibility of the Group airlines' resources and procedures. Responsibility for performing

detailed and technical assessments remains with each airline, overseen by their respective safety committees.

According to article 32 of the Board Regulations the Committee's duties included:

- to receive significant safety information about IAG's subsidiaries, franchise codeshare or wet-lease providers used by any member of the Group
- to exercise a high-level overview of safety activities and resources
- to inform the Board and to follow up on any safety-related matters as determined by the Board

## The Committee's activities during the year

During 2020 the Committee held two meetings. Directors' attendance at these meetings is detailed in the Corporate Governance report.

The Committee reviewed the relevant areas of each operating company's performance across the Safety Risk Management activities. Although the reporting period included some pre COVID-19 operations, in the first quarter of 2020, a significant amount of the Committee's time after that was dedicated to the activities undertaken to ensure the effective management of risk as a consequence of the pandemic by each airline. This reflected the scale and pace of change following the restrictions imposed across the global operations and the impact on colleagues' skills, health and wellbeing and the continued airworthiness of the fleets. A substantial amount of work by each of the airlines' safety teams had been undertaken to manage safety risk that supported both citizen repatriation operations and the provision of cargo only services the details of which were shared with the Committee.

Former members of the Committee during 2020 were:

- Willie Walsh left September 8, 2020
- Kieran Poynter left September 24, 2020
- Javier Ferrán left September 24, 2020
- Antonio Vazquez left January 7, 2021

# Audit, Risk and Internal Control

## Report of the Audit and Compliance Committee



**Margaret Ewing**  
Audit and Compliance Committee Chair

Committee members	
	Date appointed
<b>Margaret Ewing (Chair)</b>	June 20, 2019
<b>Peggy Bruzelius</b>	December 31, 2020
<b>Eva Castillo</b>	December 31, 2020
<b>Alberto Terol</b>	August 2, 2013

Detailed biographies of all current Committee members are included in this Annual Report. Despite the changes in composition, the Board is satisfied that, throughout the year, the Committee has retained competence relevant to its overall responsibilities and a wide range of financial, audit, risk management and relevant sector and business experience amongst its members, providing the right mix of skills and experience to provide constructive challenge and support to management. In accordance with the FRC's 2018 Code, the Board has determined that Margaret Ewing has recent and relevant financial experience. The Board, through the Nominations Committee, will continue to review the Committee's membership to ensure the skills and experience of its members align with the business as it develops.

### Dear Shareholder

I am pleased to present my first Report as Chair of the Audit and Compliance Committee. The unprecedented and significant challenges faced by the Group throughout the COVID-19 pandemic influenced the activities of the Committee during 2020. We ensured: the key challenges faced by the Group were reflected in the external and internal audit plans; effective controls remained in place; rapidly changing key and emerging risks were identified and effectively managed; continued compliance with all regulatory and legal obligations; and sound financial judgements and estimates continued to be made.

I would like to start by thanking Kieran Poynter who stood down from the Board and as Chair of the Committee in September 2020, after ten years as a Non-Executive Director. During his time on the Committee Kieran made a significant contribution, playing a key role in advocating considerable and continuous improvement in the Group's internal control, risk management and compliance practices across the Group and ensuring that management was held accountable for delivering these improvements.

Former members of the Committee during 2020 were:

- Kieran Poynter (Committee chair until September 8, 2020) left on September 8, 2020
- Deborah Kerr left on December 31, 2020
- María Fernanda Mejía left on December 31, 2020

As noted in the Governance Report, Peggy Bruzelius and Eva Castillo joined the Committee, replacing Deborah Kerr and María Fernanda Mejía, on December 31, 2020. I would like to thank Deborah and María Fernanda for their valuable contribution to the Committee and welcome Peggy and Eva, who are already making an important impact on the Committee's agenda. Despite the recent changes, the Committee continues to have strong and diverse membership. It is well placed to provide robust challenge to the internal and external auditors and management. It also has the capability and expertise required to respond effectively to the significant and emerging opportunities and challenges faced by the Group.

I would also like to take this opportunity, on behalf of the Committee, to acknowledge and express our significant gratitude to management and teams (including internal auditors) who have interfaced with and provided support to the Committee during this period. We are incredibly proud of the way they have responded to the crisis and worked relentlessly with such determination and a real sense of purpose.

The Committee held twelve formal meetings during 2020 (compared to eight in 2019) and members held numerous ad hoc and one-to-one meetings with finance team representatives, management and internal and external auditors, reflecting the Committee's increased level of support and constructive challenge to management as the impact of the pandemic and the risk landscape evolved rapidly. As restrictions impacting IAG's business emerged globally, the associated potential effects on the control environment, cyber security and Group funding arrangements resulted in the Committee providing additional oversight and seeking supplementary assurance. The Committee also focused on the significant operational, compliance and financial risks

resulting from the pandemic impact and the potential implications for the Group's financial statements, non-financial information disclosures and compliance (including Task Force and Climate-related Financial Disclosures 'TCFD') and the Group's ability to execute and deliver its strategy, adapting our agenda and plans as appropriate as the year progressed.

Following the external audit tender in January 2020 and the Board's recommendation and shareholder approval at the Annual Shareholders' Meeting in September, KPMG will be the external auditor from, and including, the 2021 financial year. KPMG commenced its transition in November and liaised with IAG and operating company and functional management, as well as the incumbent auditor, EY, to be well placed to embark on the 2021 audit. We would like to thank the EY team members for their consistent delivery of quality audits. The smooth transition of the external audit remains a key priority of the Committee during 2021.

As we look forward to this current year, 2021, the Committee will continue to provide robust challenge of management and our new auditor as governments' responses to the COVID-19 pandemic continue to devastate the aviation sector and the risk environment consequently further evolves. In addition to the topics outlined above, the Committee will continue to target known and emerging risk areas for deep dives to ensure that the transformation occurring across the Group, as well as challenges posed by continuing economic, regulatory and political change, are appropriately reflected in the Group's accounting, internal control and compliance procedures. The Committee will also have regard to the developments in the UK Government's current initiatives on audit reform and will ensure that the Company develops appropriate plans to comply with any changes in regulatory requirements.

Following an external evaluation process in 2019, the Committee members completed an internally facilitated evaluation of the Committee's effectiveness during 2020. The findings were discussed and shared with the Board and indicated that the Committee continued to perform effectively and should focus in 2021 on the key matters noted above, including monitoring changing and emerging risks and their mitigations and increase our understanding and focus on evolving climate change and other non-financial information reporting regulations.

I hope that you find this report informative and can continue to take assurance from the work undertaken by the Committee during 2020 and planned for 2021. The Committee seeks to respond to shareholders' and other stakeholders' expectations in our reporting and we welcome feedback from and meetings with them on this Committee report or other related issues.

**Margaret Ewing**

Audit and Compliance Committee Chair

## The Audit and Compliance Committee

The composition, competencies and operating remit of the Audit and Compliance Committee are regulated by article 29 of the Board Regulations. The Committee and Board approved revisions to Article 29 in February 2021 to reflect the latest guidance and regulatory requirements in Spain and the UK. A copy of these Regulations can be found on IAG's website.

### The Committee's responsibilities and activities

The Committee's principal responsibility is to oversee and provide assurance to the Board with regards to the integrity and quality of financial reporting, effectiveness of audit arrangements and robustness and effective operation of internal controls and risk management processes.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Head of Group Audit (who reports functionally to the Chair of the Committee) and representatives from the external auditor. KPMG also attended all Committee meetings from November. Members of the management team, including the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller, were invited to attend specific agenda items as required and when relevant.

A summary of the Committee's activities during 2020 and until the date of this report is detailed below. The Committee meeting agendas are always flexed to allow for ad-hoc discussion and reviews as and when required.

A private session of the Committee members was held during each Committee meeting and, at least once a year, the Committee meets privately with each of the external and internal auditor.

Further detail on significant financial reporting matters and other significant topics is provided in this report.

Area of Committee focus	Activities
<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 2020 Annual Report and Accounts is fair, balanced and understandable;</li> <li>• reviewing and challenging significant accounting estimates and judgements 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>• completion of the competitive external audit tender and recommending the appointment of KPMG as the 2021 external auditor, review of KPMG's transition arrangements and plan and overseeing implementation progress;</li> <li>• approval of the 2020 external audit plan and strategy including consideration of scope, changes in approach and methodology, emerging industry- and Group-specific audit risks and materiality. Monitoring the audit plan's implementation, including receiving regular reports from EY on key judgement and audit matters and any significant weaknesses detected in the internal control environment;</li> <li>• performing evidence-based assessment of the effectiveness and independence of the current external auditor, including the quality of the 2019 and 2020 audits, and reviewing and approving the EY fees and terms of reference; and</li> <li>• reviewing and approving 2020 non-audit services expenditure against policy and previously determined limit guidance. Reviewing and approving non-audit services limit guidance and expectations for 2021.</li> </ul>
<b>Internal auditor</b>	<ul style="list-style-type: none"> <li>• reviewing and agreeing the internal audit 2020 plan and 2021 first 6 months plan (including resourcing and budget to appoint appropriate external specialist resource when required), amendments to the plan (as the internal auditor responded to the pandemic's impact on the Group) and effectiveness of the function;</li> <li>• reviewing key audit conclusions, discussing management's responses and monitoring the resolution of issues raised;</li> <li>• 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</li> <li>• 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.</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 and documentation of accounting processes;</li> <li>• monitoring the internal controls manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the individuals responsible for them; and</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>



Area of Committee Focus	Activities
<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 risk appetite and confirming management's assessment that the Group has applied appropriate mitigations or other effective controls (such as frequent Board updates) to ensure that an appropriate risk appetite has operated throughout the period;</li> <li>overseeing treasury risk management, including reviewing the Group's fuel and foreign exchange hedging positions and financial counterparty exposure, and consideration of the implications of the approved hedging profile given the unprecedented decline in demand and its continued appropriateness in managing these risks; and</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 maps, regulatory developments, the key programme activities during 2020 and priorities for 2021;</li> <li>reviewing the design of the internal control framework to prevent and detect fraud, including consideration of the key controls and assurance activities provided across the Group in relation to financial and non-financial fraud; and</li> <li>reviewing the Group's independent third party-facilitated whistleblowing procedures and the Annual Report on: incidents reported via the whistleblowing channels, by category and nature; timeliness and responsibility for follow-up; and investigations and actions taken to address substantiated reports; and</li> <li>consideration of litigation status reports from the General Counsel including the status of remaining and potential civil litigation actions. Information relating to litigation is available in note 31 to the Financial statements.</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 prepared to comply with the requirements of Law 11/2018, including information on environmental, social, employee-related, and human rights-related matters; and</li> <li>reviewing the information prepared to cover the Group's longer-term sustainability and climate-related risks and opportunities, including the Group's alignment with the provisions set out by the TCFD process.</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 2020 this included: <ul style="list-style-type: none"> <li>related party transactions policy;</li> <li>external auditor services policy (incorporating changes from the Revised FRC Ethical Standard 2019); and</li> <li>changes to existing policies and regulations resulting from the Revised CNMV Good Governance Code of Listed Companies June 2020.</li> </ul> </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 impact the quarterly financial results announcements or the 2020 Annual Report and Accounts.

The Committee has also sought to ensure that the Group's reporting is aligned with the latest guidance and requirements from regulators, that it is fair, balanced and understandable and that all matters disclosed and reported upon, including the Company's response to the pandemic and its implications for the future strategy of the Group, meet the rapidly evolving needs of the Group's stakeholders.

The significant accounting judgements, estimates and issues considered by the Committee in relation to the Annual Report and Accounts for the year to

December 31, 2020 (including those considered as significant audit issues by the external auditor and described in the Independent Auditor's Report) are set out in the table below, together with a summary of the financial outcomes where appropriate. After robust challenge and debate, there are no topics where the conclusion resulted in significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board

## Viability and going concern assessments

### Matter

Throughout the year and in finalising the 2020 Financial Statements and Annual Report, given the economic uncertainty arising from the global COVID-19 pandemic and the further uncertainty and impact of the UK leaving the EU, the Committee has considered and robustly challenged management's comprehensive going concern review and viability assessment, including the supporting analysis.

Management sense-checked the assumptions underlying the Base Case projections and Downside scenarios by comparison to forecasts available from informed external commentators (including IATA, analysts etc).

The Committee considered the enhanced level of assessment and rigour applied by management and agreed it was appropriate in light of the level of volatility in the external environment. The Committee considered management's rationale for assuming the Group would be able to raise additional financing over the agreed Viability assessment period.

The Committee also reviewed the external auditor's findings and conclusions on this matter, particularly at half year and year end and their review of working capital for the purpose of the capital increase in September.

The Committee had regard to the recent going concern guidance issued by the FRC.

### Outcome/future actions

The Committee provided robust challenge of the assumptions applied in management's evolving Base Case projections (reflecting the deteriorating impact of the pandemic and related government responses), the severe but plausible Downside sensitivity scenarios and underlying assumptions and the reverse stress test scenario. Management responded to the Committee's concerns and, during the review in July provided additional granularity and insight in their analysis and assumptions, particularly in respect of the revenue and capacity forecasts. This was repeated in the year end review.

Following this thorough challenge, the Committee recommended the viability and going concern statements and related disclosures to the Board for inclusion in the 2020 half year interim results announcement, the 2020 Annual Report and Accounts and preliminary results announcement, including a related 'material uncertainty' statement in respect of going concern and significantly expanded disclosures.

The Committee will continue to robustly monitor the Group's viability assessment going forward.

## Capital increase, funding strategy and capital allocation

### Matter

Following shareholder approval on September 8, 2020, IAG commenced a fully underwritten capital increase to raise gross proceeds of €2,741 million. The Committee provided robust and constructive challenge and support to management throughout the capital increase process, including the planning stages of the process, to ensure the existence of a strong rationale and business case. Throughout the process the Committee considered the views of the external auditor and reporting accountant.

Due to the ongoing significant risk and implications for resilience and future viability resulting from trading challenges and other influences outside the control of the Group, the Committee has recently agreed with the Board that all funding strategy and capital allocation matters will be reviewed directly by the Board (rather than the Committee).

### Outcome/future actions

Specifically, the Committee:

- Reviewed the working capital statement. The nature of the Committee's review was the same as that applied in reviewing the going concern and viability assessments (see above).
- Reviewed the Financial Position and Prospects Procedures (FPPP) report from the reporting accountant including challenging potential talent retention issues and the potential consequences for the effectiveness of the Group's processes and internal controls.
- Challenged management on the level of credit risk associated with the proposed arrangements for the receipt of the funds from the capital raise. Management subsequently reached an alternative agreement with the banks involved in the capital increase, mitigating the risk in accordance with the Group's treasury policy.
- Challenged the sufficiency of the Directors' and Officers' liability insurance cover considering the heightened risks and value associated with the capital increase. Additional cover was subsequently obtained for the period required.
- Reviewed and commented on various drafts of the Prospectus, providing appropriate assurance to the Board.
- Considered management's accounting treatment of the rights issue, transaction costs and related disclosures.

## Exceptional items

### Matter

During 2020, various costs were regarded as exceptional items as they were incurred solely because of the impact of the pandemic and management's response. These exceptional items included discontinuance of hedges of fuel derivatives and foreign currency derivatives, impairment of fleet assets stood down, write-down of expendable inventories related to fleet impairment and restructuring costs.

In addition, certain other non-recurring material items (unrelated to the pandemic) were proposed as exceptional items by management, including the fine imposed in October 2020 from the UK Information Commissioner's Office relating to the theft of customer data at British Airways in 2018.

### Outcome/future actions

The Committee reviewed management's process for measuring derivative hedges to be discontinued and for reviewing and testing potential impairment, considered the reasonableness of the judgements and estimates deriving the exceptional items and the rationale for classifying them as COVID-19 related. In addition, the Committee considered the external auditor's findings and conclusions.

The Committee debated with management the classification and disclosure of exceptional items in the financial statements with reference to the Group's policy, the views of the external auditor and the comment letters received from the CNMV (in October and December 2020 – see more detail below) plus further guidance issued by ESMA and the FRC.

The Committee concluded that the approach taken in respect of identifying exceptional costs arising purely as a result of COVID-19 was appropriate and has been applied in line with the Group's policy and guidance from the relevant regulators and the judgements and estimates applied in determining the value of the relevant exceptional costs were reasonable.

The Committee and management agreed that the Group's presentation of exceptional items in the 2020 Annual Report and Accounts would be altered and only disclosed in notes to the financial statements, as part of the Alternative Performance Measures disclosure note.

## Revenue recognition of IAG Loyalty contract with American Express

### Matter

Effective from August 1, 2020, IAG Loyalty renewed its co-brand and marketing contracts with American Express through to 2028.

While the performance obligations are consistent with the previous contract, the Committee considered management's proposed accounting treatment of two new aspects of the renewed contract, being an upfront payment for Avios points and an upfront sign-on bonus. Management had been advised by external professional experts, PwC.

### Outcome/future actions

The Committee concluded that, as a critical estimate/judgement in the Annual Report and Accounts, the approach taken, and related disclosures, in respect of determining the amortisation period, amortisation method and annual reassessment of the upfront payment were appropriate.

## Other significant matters considered

Highlights of other key matters that the Committee considered are explained below.

### CNMV letter

#### Matter

In October 2020 the Company received a letter from the Director of the *Departamento de Informes Financieros y Corporativos* of the CNMV, requesting certain information or clarification related to accounting matters and disclosures in the Group's 2019 Annual Report and Accounts, 2020 condensed consolidated interim financial statements announcement and 2019 non-financial information statement.

The Committee received confirmation from the auditor that the CNMV letter of October 2020 was representative of letters periodically sent to the largest corporates in Spain and there were no items of significance or concern raised in the letter.

Management prepared a comprehensive response to the enquiries from the CNMV set out in their letter of October 2020, which was approved by the Committee for submission to the CNMV on November 16, 2020.

Following the Company's response to the CNMV letter of October, a further letter was received from the CNMV on December 28, 2020 that focused on the Company's proposed treatment and disclosure of the impact of COVID-19 on the Group and its financial affairs and the disclosure of exceptional items.

#### Outcome/future actions

The Committee reviewed and approved the response to the CNMV's second letter of December 28, 2020. The Company's response highlighted the intention to provide adequate disclosure of the impact of COVID-19 on the Group and agreement to alter the presentation and disclosure of exceptional items in the 2020 Financial Statements (see note on Exceptional Items above).

It is anticipated that, following completion of the CNMV's review (which may have already occurred), the CNMV's letters and Company's responses will be published on the CNMV's website.

### IT, cyber security and GDPR

#### Matter

The Committee received an annual GDPR compliance update and quarterly updates from IAG Tech on the Group's IT and cyber security improvement programme covering the strategy, methodology and framework being applied and deep dives into various aspects of the programme.

The Committee was pleased to note that management has retained the budgeted significant level of capital investment in the cyber security programme throughout 2020 and will continue to do so in 2021.

#### Outcome/future actions

The Committee received additional granularity and visibility of the key cyber improvement projects and agreed that the direction and pace of progress made by IAG Tech is as expected and risk levels are understood. The Committee noted that the constraining factor on the pace of programme implementation is the ability of the organisation to absorb the volume of significant change occurring across the Group plus availability in the marketplace of relevant skilled personnel.

The Committee will continue to monitor this business-critical programme in 2021 and has requested enhanced visibility of trend analysis and benchmarking data to better understand the Group's progress.

### Fraud Procedures

#### Matter

The fraud risk profile of the Group evolved rapidly because of the global COVID-19 pandemic as well as working from home becoming common practice for many of the Group's employees, auditors and suppliers.

The Committee reviewed and approved the amended internal audit plan adapted to monitor key anti-fraud controls as well as adopting an agile approach to assurance over the continuous operation of the key ICFR controls across the Group during this period.

In addition, the Committee reviewed the design of the internal control framework to prevent and detect fraud. This included consideration of the key controls and assurance activities taking place across the Group in relation to financial and non-financial fraud, whether from internal or external sources.

#### Outcome/future actions

The Committee will continue to monitor fraud and internal controls carefully, including considering the views of the external auditor, the results of the annual ICFR audit and the results of focused anti-fraud control internal audits.

The Committee requested management to identify additional sources of fraud detection assurance going forward to ensure the framework around internal control is operating appropriately.

## SWIFT compliance

### Matter

SWIFT is a key supplier of secure financial messaging services to the Group to facilitate the settlement of payments and receipts with all counter parties. In 2018, SWIFT introduced its Customer Security Controls Framework to drive security improvement and transparency across the global financial community and a requirement for all SWIFT customers to complete an annual self-attestation assessment.

The Committee challenged management on the progress made towards full compliance with SWIFT's requirements and requested regular status updates throughout 2020.

### Outcome/future actions

Management demonstrated the progressive resolution of the compliance issues during the year. This included the successful delivery of a series of initiatives, including the movement towards cloud infrastructure for a critical treasury system.

The Committee was pleased with management's achievement of full compliance in 2020 despite the challenges experienced. The Committee will continue to receive regular updates in 2021.

## Non-Financial Information (NFI) and the Task Force on Climate-related Financial Disclosures (TCFD)

### Matter

As part of the Group's Management Report, a Consolidated Statement of Non-Financial Information is prepared to comply with the requirements of Law 11/2018, on non-financial information and diversity.

The Committee considered the challenges faced by management in collating, analysing and verifying the required employee data due to the impact of various government subsidies on remuneration and gender pay gap data during the year.

In addition, the Committee considered the impact of COVID-19 on the emissions levels of the Group and the disclosed 2020 ratio and indicator variances compared with 2019 data.

### Outcome/future actions

The Committee was reassured with management's demonstration of close alignment with key sustainability frameworks including TCFD and the achievement of full compliance in 2020, despite the challenges experienced.

The Committee will continue to receive regular updates in 2021.

## Audit reform

### Matter

The proposed reform of the audit environment, including implications for companies, boards and audit committees, is an area of regulatory development that the Committee continues to monitor closely.

The Committee considered management's analysis of the Company's current level of compliance with the relevant recommendations made by Sir Donald Brydon in his independent review of the quality and effectiveness of audit (the Brydon review).

In addition, the Committee considered management's self-assessment exercise which concluded the Group's internal audit function practices are consistent or broadly consistent with the UK IIA Internal Audit Code of Practice released in January 2020.

### Outcome/future actions

The Committee agreed with management's recommendation that the Group will await the publication by BEIS of its consultation document on audit reform to identify a plan to achieve compliance by the date of required implementation.

The Committee agreed to the recommended actions to address the aspects of the IA Code where the Group is currently partially compliant.



## Internal Control over Financial Reporting

The Board of Directors is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board has delegated the responsibility for the development of effective controls to the Chief Executive Officer and the supervision of the effectiveness of these controls to the Audit and Compliance Committee.

The Group's ICFR monitoring and auditing covers processes applied by the Company, Aer Lingus, IAG Loyalty, British Airways, IAG GBS, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Committee reviews and validates the Group's approach to complying with the CNMV's ICFR recommendations.

In 2020, the Committee reviewed the results of the internal audits of ICFR (which included IT general controls) as well as the results of the external audit. Despite the operating conditions of 2020 and remote working or furlough being applied for the majority of employees, no material or significant weaknesses were identified, and management continued to improve the control environment across the Group. The Committee also tracked the progress of internal audit recommendations to address any weaknesses identified.

## Internal audit

The Committee considers and evaluates the level of Internal Audit resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Committee reviewed and approved the nature and scope of the work of Internal Audit throughout 2020. The half yearly audit plans were approved in January and July 2020 by the Committee, and all changes to the plan subsequently approved, including those to reflect the impact of the COVID-19 pandemic and the rapidly changing risk profile of the Group. The 2020 audit plans were adapted to include agile and real-time assurance over fraud risk while also ensuring coverage of specific risks, including cyber security, and satisfying ICFR and Spanish Criminal Code requirements. Progress against the plan and the results of Internal Audit's activities, including the quality and timeliness of management responses, was monitored throughout the year.

The Committee undertook an effectiveness review of the Internal Audit function and its leadership, which concluded that Internal Audit remains effective, has coped well with the challenges of the COVID-19

pandemic and continues to meet, adapt and add value to the needs of the Group.

## External audit

The Committee engaged throughout the year with EY, with the engagement partners attending all Committee meetings as well as a series of ad hoc meetings. The Committee Chair met with the Group and lead audit partners throughout the year, and more frequently at the public reporting periods, to review Group developments, audit progress and their planned reporting. The Committee also discussed with EY, prior to recommendation of the financial statements to the Board for approval, the audit findings, including audit differences, and observations on internal controls, operations and resources.

## Scope and execution

The Committee discussed and agreed the scope of the audit with EY prior to the commencement of the year end audit, ensuring that the audit plan was robust and informed by the auditor's review of the first half of the year financial statements. EY set out for the Committee the key tests that they intended performing on the identified higher-risk audit areas that could lead to material misstatement of the financial statements and significantly influenced the audit plan. The auditor and the Committee confirmed a shared understanding of these risks and key audit matters, including going concern and viability, the carrying value of tangible and intangible assets, the accounting for all Group financing arrangements and how these were to be considered in the audit approach. In addition, the Committee provided input to management and EY on areas that it wanted to receive additional audit attention, such as the impact of the COVID-19 pandemic on current working from home practices (in respect of both IAG financial management and the audit team), loss of key people or any audit procedures involving physical inventory counts.

The auditor confirmed that 97 per cent (2019: 97 per cent) of the Group's revenue and 91 per cent (2019: 96 per cent) of the Group's total assets would be subject to a full scope audit and that specific scope procedures would be performed on IAG Loyalty and ICAG. The Committee challenged the auditor over the planned specific scope audit for IAG Loyalty and ICAG, however, following consideration of the combined coverage and clarification of the procedures adopted in a specific scope audit, the Committee agreed that the approach was appropriate and approved the plan.

The Committee agreed with EY, in considering the accuracy of financial reporting, the scale of accounting errors of lesser significance that were to be brought to the Committee's attention and the amounts that would need to be adjusted

so that the financial statements give a true and fair view. For 2020, EY proposed a different methodology to determining the overall audit planning materiality compared to that applied in the prior year given the economic and financial consequences of COVID-19 on the Group's revenues and profitability. The Committee agreed that a significant reduction in materiality was appropriate, however challenged the method used in the calculation. The Committee was ultimately satisfied by the auditor's explanation that, regardless of the method adopted, a similar result would be obtained and, in all cases, lead to a significant reduction in the planning materiality compared to 2019 and therefore the level of audit work, specifically sample sizes, required of the auditor.

## External auditor quality and effectiveness

The Committee remains focused on audit quality and effectiveness, which is reviewed on an ongoing basis to ensure the rigour and challenge of the external audit process is maintained. The Committee assessed and measured the quality of the audit through monitoring the auditor's compliance with relevant regulatory, ethical and professional guidance and assessed the audit team's qualifications, expertise, resources, partner rotation and the effectiveness of the audit process. The Committee's assessment included a detailed discussion with key executives and finance staff, which demonstrated that management regarded the quality of the EY audit and the audit team's overall performance as good. This aligned with the Committee's independent assessment of the overall quality of the audit, including the independence of EY and whether the auditor exhibited an appropriate level of challenge and scepticism in their work and dealings with management.

In particular, the Committee assessed the depth of review and level of challenge provided by the external auditor over the significant accounting judgements and estimates made by management. An example of where the Committee observed the external auditor demonstrate both professional scepticism and a challenge of management was in relation to the treatment of the ICO fine to British Airways as an exceptional item in the income statement. Whilst the Committee supported management's rationale for treating the item as exceptional, the Committee observed healthy debate initiated by EY which ensured that management's rationale was discussed in the Committee meetings throughout the year and the uncorrected misstatement in disclosure was included in the Board's letter of representation

In addition to the annual evaluation and regular review of reports and the working practices of the EY audit team, the

Committee undertook an ongoing assessment of external audit quality and effectiveness including, but not limited to, the following:

- The Committee oversaw formal terms of engagement with the auditor and agreed the audit fee. EY assured the Committee that the approved fee was at a level that was appropriate for the scope of the audit and to enable a quality audit to be undertaken.
- Reports from the external auditor were reviewed during four Committee meetings in 2020 and again in January and February 2021 Committee meetings, covering: the conclusions of the review of the Group's results for the half year, interim audit findings, early warning report for year end matters, and final report for year end matters.

EY attended all Committee meetings during the year, including ad-hoc meetings, to answer any questions the Committee had outside of these formal updates. The Committee is satisfied that the audit was probing, challenging and robust and the approach provided a reliable audit opinion with a reasonable expectation of detecting material errors, irregularities and material fraud. The Committee considered the external audit to have been effective and of a high quality.

#### **External auditor reappointment**

Having reviewed EY's performance during 2019, the Committee concluded that EY were independent and that it was in shareholders' interests to re-appoint the firm for 2020 before the transition of the audit to KPMG in 2021. The Board of Directors refrains from engaging any audit firm entitled to be paid fees by the Company for all services rendered that are in excess of 10 per cent of such firm's total revenue for the previous year. The EY lead audit and opinion signing partner for 2020 was Hildur Eir Jónsdóttir, who has held her role since 2016.

#### **External audit tender and transition**

To comply with the Spanish Act 22/2015, the Committee conducted an audit tender process that concluded in January 2020. KPMG's appointment as the auditor of the Company for the years 2021, 2022 and 2023 was approved by shareholders at the General Meeting in September 2020. There were no contractual or similar obligations restricting the Group's choice of external auditor. KPMG confirmed its independence in November 2020 and the Committee has since reviewed and monitored the implementation of KPMG's transition plans.

#### **External auditor non-audit services and independence**

Non-audit services provided by the external auditor are subject to a Board-approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Company complies voluntarily with the revised UK standards in relation to non-audit services.

The Committee reviews the nature and volume of projects undertaken by the external auditor on a quarterly basis and all projects are either pre-approved in line with the list of permitted services in the FRC's Revised Ethical Standard 2019 or approved by the Committee Chair for projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target annual maximum of €1.6 million with an additional allowance of up to €1.2 million for large projects where the external auditor is uniquely placed to carry out the work.

Average spend across the last three years was within the total target maximum. Spend in 2020 was €1,134,000 with an additional €1,238,000 relating to work performed on working capital and FPPP reviews for the capital increase completed in October, required under the regulations and most effectively performed by the statutory auditor. 20 per cent of the €1,134,000 spend related to recurring work on the audit of accounts required by the Group's Joint Business arrangements. Details of the fees paid to the external auditor during the year can be found in note 6 to the Group financial statements.

# Remuneration

## Report of the Remuneration Committee



**Alberto Terol**  
Remuneration Committee Chair

### Committee members

	Date appointed
<b>Alberto Terol (Chair)</b>	December 31, 2020
<b>Nicola Shaw</b>	January 1, 2018
<b>Emilio Saracho</b>	June 20, 2019
<b>Heather Ann McSharry</b>	December 31, 2020
<b>Eva Castillo Sanz</b>	December 31, 2020

### Dear Shareholder

As Chairman of the Remuneration Committee, and on behalf of the Board, I am pleased to present the Remuneration Report for 2020. This is my first report as Chairman of the Committee, having taken over the role from Deborah Kerr, who herself took over the role in September 2020 from Marc Bolland. I would like to thank Marc and Deborah for their contributions during their time as Chair of the Committee and I am very much looking forward to serving you in this new role.

Former members of the Committee during 2020 were:

- Marc Bolland (Committee chair until September 8, 2020) left September 8, 2020
- Deborah Kerr (Committee chair from September 8, 2020) left December 31, 2020
- Javier Ferrán left September 24, 2020
- María Fernanda Mejía left December 31, 2020

As set out in more detail elsewhere in this report, it has clearly been a very challenging year for the Group, as a result of the COVID-19 pandemic. In addition to the unique challenges presented by COVID-19, and the subsequent capital increase, we have also seen a change in CEO following the decision by Willie Walsh to stand down from the role, along with a number of changes in the membership of the Management Committee level. The Committee recognises the magnitude of these challenges and changes, and the impact that they have had, whether that be on our shareholders, employees, customers, or wider stakeholder base.

At this time, we face a significant risk in the retention of our Management Committee and other key senior talent and it is important for our business that they are motivated, incentivised and remunerated appropriately to support the return to strong, sustainable business performance. Over the course of 2020, the Committee has sought to make decisions which appropriately balance these considerations. As a result, we were naturally disappointed with the lower than usual vote for our 2019 Annual Report on Remuneration at our delayed 2020 AGM. IAG has always recognised the need to build strong relationships with our investors through a process of open and transparent dialogue, and the Committee has continued that approach during 2020. We have consulted widely with shareholders over the last six months, both to ensure that we fully understand the reasons for the vote, as well as to get their views and feedback in relation to the next review of our Directors' Remuneration Policy. I discuss both in more detail below, and would like to thank shareholders for their time and constructive feedback.

At the 2020 Shareholders' Meeting, we were disappointed that a significant minority voted against the 2019 Annual Report on Remuneration resolution but were confident that the decisions made with regard to remuneration were in line with our policy and were appropriate under the unique circumstances given the performance of the Company in 2019. Since then, we have engaged with shareholders to more fully understand their concerns and have had a number of productive meetings. The outcomes of these discussions are covered in more detail in the remuneration report.

### 2020 Shareholders' Meeting and shareholder consultation

Once the full impact of the pandemic became clear, particularly from late February 2020 onwards, we acted immediately and took decisive action on executive pay:

- Executive directors and non-executive directors took a 20 per cent reduction in salary or fees from the beginning of April 2020 until the end of the year. Heading into 2021, we are maintaining a reduction of 10%; and
- Upon recommendation from the Committee, the Board took the decision to cancel the 2020 annual incentive plan.

At the same time, the Committee was considering 2019 incentive outcomes. As a result of strong financial and operational performance during 2019, the Committee was comfortable that the payments earned by employees, including the Executive Directors, were appropriately aligned with the overall Company circumstances and justifiable. At the time the outcomes were approved, the full impact of COVID-19 was not fully apparent.

By the time our 2020 Shareholders' Meeting took place in September, the world was fully in the midst of the pandemic. The advisory vote on the 2019 Annual Report on Remuneration was passed with 71.6 per cent in favour, a disappointing result given historical levels of support. In engaging with shareholders following the Shareholders' Meeting, some expressed concerns as to whether the 2019 bonus payments were aligned with the overall shareholder and employee experience, given subsequent events in 2020. The Committee listened carefully to all feedback received, both on this issue, as well as wider discussions on our remuneration framework given our Policy was due for renewal. This helped shape the Committee's thinking, and informed internal discussions regarding our Policy review.

### Strategy and link to remuneration

IAG's aim is to become the world's leading airline group. Its strategy is to actively participate in the consolidation of the airline industry to create a multi-brand portfolio of leading airline businesses, each focused on addressing specific customer markets and geographies, while driving revenue and cost synergies through commercial cooperation, scale effects and leverage of the broader Group platform. Execution of this strategy, coupled with disciplined capital allocation, will allow IAG to deliver superior value and sustainable financial returns to its shareholders.

In reviewing the Directors' Remuneration Policy, the Committee's main objective is to ensure that remuneration at IAG is aligned with, and drives delivery of, our business and strategic priorities, because we see that as the best way to drive short-term and long-term performance. We recognise the need to ensure that there is alignment between performance and pay outcomes, such that the management team receive fair outcomes under our incentive plans only where this can be supported by Company and individual performance and wider stakeholder experience.

### Summary of 2020 performance and incentive outcomes

As a result of the pandemic, following the report from the Committee, the Board took the decision to cancel the 2020 annual incentive plan in its entirety.

The 2018 award of the PSP reached the end of its three-year performance period in 2020. As a result of the pandemic, all three measures (relative TSR, EPS, and RoIC) fell short of the threshold level at which payments begin, resulting in zero vesting overall for executive directors.

### Board changes

Luis Gallego took over from Willie Walsh as IAG CEO in September 2020. The Committee carefully considered the leaving arrangements for Willie and the appointment package for Luis.

### Capital increase

Finally, in October 2020 we carried out a €2.74 billion capital increase with a view to strengthening our financial position. The Committee considered the effects of this capital increase on the Company's share-based plans and we took action to ensure that participants were neither advantaged nor disadvantaged as a result of the rights issue.

On behalf of the Committee, I appreciate your time in reading our 2020 Directors' Remuneration Report, and hope that it will receive your support at our 2021 Shareholders' Meeting. I also hope that our final proposal following the review of our Remuneration Policy will also have your support as shareholders of the Company.

Approved by the Board and signed on its behalf by

**Alberto Terol**

Remuneration Committee Chairman

## Introduction

The Remuneration Committee takes responsibility for the preparation of the Report of the Remuneration Committee, which is approved by the Board.

The Company's current policy on directors' remuneration was approved by shareholders at the Shareholders' Meeting on June 14, 2018. It was intended that the policy would apply for three years and, therefore, during 2020 the Committee commenced a review of the policy. The proposal for this new remuneration policy will be included as part of the reports that will accompany the notice of the 2021 Shareholders' Meeting.

As a Spanish incorporated company, IAG is subject to Spanish corporate law. The Spanish legal regime regarding directors' remuneration is substantially parallel to that of the UK as far as directors' remuneration disclosure and approval requirements are concerned.

The Company welcomes the opportunity provided by the Spanish CNMV allowing companies to prepare free format reports. Therefore, for the third consecutive year, IAG is presenting a consolidated report responding to Spanish and UK disclosure requirements. This report will be accompanied by a duly completed form which is required by the CNMV covering some relevant data. This is prepared in accordance with Spanish legislation and is available on the Company's and the CNMV's respective websites.

It is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2013, The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860) and The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and to follow best practice UK standards.

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains the Annual Report on Remuneration, which covers the information on directors' remuneration paid in the reported year.

## Directors' Remuneration Policy

### Key elements of pay

#### Executive directors

The Company's remuneration policy is to provide total remuneration packages which are linked to the business strategy, are competitive, and take into account each individual's performance of their role in the Company's work.

The Committee is updated on pay and conditions of the employees within the Group, and takes this into account when considering executive directors' remuneration.

### The current and proposed future Directors' Remuneration Policy

The current Directors' Remuneration Policy was approved at the Shareholders' Meeting on June 14, 2018. The policy was fully disclosed in the 2017 Directors' Remuneration Report. It is the intention of the Committee that the proposed future policy will reflect a number of changes within the existing regulatory and corporate governance framework. The proposed future remuneration policy will be presented in reports that will accompany the notice of the 2021 Shareholders' Meeting and will be submitted for a shareholder vote at that meeting.



## Service contracts and exit payments policy

### Executive directors

The following is a description of the key terms of the service contracts of executive directors.

The contracts of executive directors are for an indefinite period.

There are no express provisions in executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice.

Executive director	Date of contract	Notice period
Luis Gallego	September 8, 2020	12 months

The period of notice required from the executive is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first six months' base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second six month period only becomes payable if, in the Company's opinion, the executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive (including salary and benefits) referable to work done in that month.

In the event of an executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office is capped at an amount equal to 12 months' base salary. The Company will honour the contractual entitlements of a terminated director; however, the Company may terminate an executive's service contract with immediate effect and without compensation on a number of grounds including where the executive is incapacitated for 130 days in any 12 month period, becomes bankrupt, fails to perform his duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a director, refuses to agree to the transfer of his service contract where there is a transfer of the business in which he is working or ceases to be eligible to work in Spain or the UK (as applicable).

Under the PSP and IADP if a director leaves, the Board, after considering the recommendation of the Remuneration Committee, may exercise its discretion (within the rules of the two schemes) to grant Good Leaver status. This can be granted in certain circumstances including for example (list not exhaustive) the director leaving for reasons of ill-health, redundancy, retirement or death. Executive directors leaving with Good Leaver status will receive shares awarded to them under the IADP scheme, and a pro-rata amount of their PSP shares subject to the company performance conditions being met. The pro-rata is calculated according to what proportion of the performance period the executive director spent in company service. If Good Leaver status is not granted to an executive director, all outstanding awards made to them under the PSP and IADP will lapse.

In the event of an executive director's termination from the Company, they must not be employed by, or provide services to, a Restricted Business (i.e. an airline or travel business that competes with the Company) for a period of six months.

### Non-executive directors

Non-executive directors (including the Chairman) do not have service contracts. Their appointment is subject to the Board regulations and the Company's Bylaws. They do not have the right to any compensation in the event of termination as directors. Board members shall hold office for a period of one year. The dates of the Chairman's and current non-executive directors' appointments are as follows:

Non-executive director	Date of the first appointment	Date of last re-election
Javier Ferrán	June 20, 2019	September 8, 2020
Alberto Terol	June 20, 2013	September 8, 2020
Giles Agutter	September 8, 2020	-
Margaret Ewing	June 20, 2019	September 8, 2020
Robin Phillips	September 8, 2020	-
Emilio Saracho	June 16, 2016	September 8, 2020
Nicola Shaw	January 1, 2018 <sup>1</sup>	September 8, 2020
Peggy Bruzelius	December 31, 2020	-
Eva Castillo Sanz	December 31, 2020	-
Heather Ann McSharry	December 31, 2020	-

<sup>1</sup> Appointment approved by the annual Shareholders' Meeting 2017 on June 15, 2017 but effective January 1, 2018.

## Annual Remuneration Report

The Annual Remuneration Report sets out how the Directors' Remuneration Policy (as approved by shareholders at the Shareholders' Meeting on June 14, 2018) was put into practice in 2020 and how the current policy is being implemented in 2021.

### The Committee's activities during the year

In 2020, the Committee met nine times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January (two meetings)	CEO exit arrangements CEO succession remuneration arrangements Review of IAG Management Committee members' basic salaries
February	2019 annual incentive plan payments to IAG Management Committee members 2020 Management Committee role-specific objectives Vesting outcome of the Performance Share Plan (PSP) 2017 award Proposal of the 2020 annual incentive plan Proposal of the 2020 PSP Final review of 2019 Directors' Remuneration Report Review of incentive plans in all operating companies across the Group Approval of remuneration for a new Management Committee member
June	Remuneration approach in response to COVID-19
July	Preparation for the 2020 Shareholders' Meeting
September	Remuneration implications as a result of the capital increase
October (two meetings)	Approval of remuneration for two new Management Committee members, and change in remuneration for the new CEO of British Airways (BA) on change of role CEO of BA exit arrangements Executive remuneration market update Remuneration strategy for 2021
December	Review of remuneration measures introduced in response to COVID-19 Initial review of proposed future remuneration policy

### Subject to audit

#### Single total figure of remuneration for each executive director

The table below sets out the single total figure and breakdown for each executive director during 2020. An explanation of how the figures are calculated follows the table.

Director ('000)	Salary		Benefits		Pension		Total Fixed		Annual incentive		Long-term incentive		Total Variable		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Luis Gallego (GBP) <sup>1,2</sup>	<b>206</b>	-	<b>69</b>	-	<b>26</b>	-	<b>301</b>	-	-	-	-	-	-	-	<b>301</b>	-
Luis Gallego (euro)	<b>232</b>	-	<b>78</b>	-	<b>29</b>	-	<b>339</b>	-	-	-	-	-	-	-	<b>339</b>	-
Steve Gunning (GBP) <sup>1,3</sup>	<b>519</b>	315	<b>18</b>	8	<b>65</b>	39	<b>602</b>	362	-	286	-	380	-	666	<b>602</b>	1,028
Steve Gunning (euro)	<b>585</b>	358	<b>20</b>	9	<b>73</b>	44	<b>678</b>	411	-	325	-	432	-	757	<b>678</b>	1,168
Willie Walsh (GBP) <sup>1,4</sup>	<b>511</b>	850	<b>23</b>	30	<b>128</b>	213	<b>662</b>	1,093	-	883	-	1,222	-	2,105	<b>662</b>	3,198
Willie Walsh (euro)	<b>576</b>	967	<b>26</b>	34	<b>144</b>	242	<b>746</b>	1,243	-	1,004	-	1,390	-	2,394	<b>746</b>	3,637
Total (€'000)	<b>1,393</b>	1,325	<b>124</b>	43	<b>246</b>	286	<b>1,763</b>	1,654	-	1,329	-	1,822	-	3,151	<b>1,763</b>	4,805

1 Remuneration for all executive directors above is paid in sterling and expressed in euro for information purposes only.

2 Luis Gallego joined the Board on September 8, 2020.

3 Steve Gunning stepped down from the Board on December 31, 2020, having joined the Board on June 20, 2019.

4 Willie Walsh stepped down from the Board on September 8, 2020.

### **Additional explanations in respect of the single total figure table for 2020**

Each director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

#### **Base salary**

Salary paid in year for executive directors. All executive directors agreed to a 20 per cent reduction in base salary as a result of the COVID-19 pandemic. Willie Walsh had a reduction in salary from £850,000 to £680,000 from April 1, 2020 until his retirement. Steve Gunning had a reduction in salary from £610,000 to £488,000 from April 1, 2020 until December 31, 2020. Luis Gallego had a reduction from his salary on appointment of £820,000 to £656,000 from his date of appointment to December 31, 2020. These reductions are reflected in the single total figures in the table above.

#### **Taxable benefits**

Taxable benefits including personal travel and, where applicable, a company car, fuel and private health insurance. Luis Gallego also received payments towards relocation costs.

#### **Pension-related benefits**

Employer's contribution to pension scheme and/or cash in lieu of pension contribution.

#### **Annual incentive plan**

In response to the COVID-19 pandemic, the annual incentive plan for the year to December 31, 2020 was cancelled.

#### **Long-term incentive vesting**

This relates to the IAG PSP 2018 award based on performance measured to December 31, 2020. The outcomes of the performance conditions resulted in zero vesting for executive directors and are described in detail later in this report.

For the year to December 31, 2020, the €:£ exchange rate applied is 1.1273 (2019: 1.1371).

#### **Share price appreciation and depreciation**

The amount of remuneration attributable to share price appreciation is zero, as there was zero vesting of the IAG PSP 2018 award. The Committee has not exercised any discretion as a result of share price appreciation or depreciation for any of the remuneration in the above table.

#### **Life Insurance**

The Company provides life insurance for all executive directors. For the year to December 31, 2020 the Company paid contributions of €15,366 (2019: €26,790).

## Subject to audit

### Variable pay outcomes

#### 2020 Annual Incentive Plan

In response to the COVID-19 pandemic, the 2020 Annual Incentive Plan was cancelled.

#### IAG PSP award 2018

The IAG PSP award granted on May 10, 2018 was tested at the end of the performance period which began on January 1, 2018 and ended on December 31, 2020. The awards were equivalent to 200 per cent of salary for Willie Walsh, who was Chief Executive Officer of IAG at the time of the award, and 150 per cent of salary for Enrique Dupuy de Lôme, who was Chief Financial Officer of IAG at the time of the award. Luis Gallego and Steve Gunning, who were not executive directors at the time of the award, received awards of 150 per cent and 120 per cent of salary respectively.

One-third of the award was subject to a TSR performance condition measured against the TSR performance of the MSCI European Transportation (large and mid-cap) index, one-third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one-third subject to RoIC. The definition of RoIC used was the methodology as described in the Company's 2017 Annual Report and Accounts. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2018)
<b>TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)</b>	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG underperformed the index by 20.7 per cent p.a.	0 per cent
<b>Adjusted earnings per share (EPS) (one-third)</b>	2020 EPS of 130 €cents (10 per cent of award vests)	2020 EPS of 170 €cents (100 per cent of award vests)	(122.6) €cents	0 per cent
<b>Return on Invested Capital (RoIC) (one-third)</b>	2020 RoIC of 13 per cent (10 per cent of award vests)	2020 RoIC of 16 per cent (100 per cent of award vests)	(22.4) per cent	0 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome for executive directors</b>				0 per cent

#### IAG PSP award 2017

The IAG PSP award granted on March 6, 2017 was tested at the end of the performance period which began on January 1, 2017 and ended on December 31, 2019. The awards were equivalent to 200 per cent of salary for Willie Walsh, who was Chief Executive Officer of IAG at the time of the award, and 150 per cent of salary for Enrique Dupuy de Lôme, who was Chief Financial Officer of IAG at the time of the award. Luis Gallego and Steve Gunning, who were not executive directors at the time of the award, received awards of 150 per cent and 120 per cent of salary respectively.

The performance measures, and their weightings and definitions, were the same as described above for the 2018 award. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three-year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2017)
<b>TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)</b>	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG outperformed the index by 4.3 per cent p.a.	65 per cent
<b>Adjusted earnings per share (EPS) (one-third)</b>	2019 EPS of 100 €cents (10 per cent of award vests)	2019 EPS of 130 €cents (100 per cent of award vests)	116.8 €cents	60 per cent
<b>Return on Invested Capital (RoIC) (one-third)</b>	2019 RoIC of 12 per cent (10 per cent of award vests)	2019 RoIC of 15 per cent (100 per cent of award vests)	14.7 per cent	91 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome</b>				72.11 per cent

## Subject to audit

### Scheme interests awarded during the financial year

The IAG PSP is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 6, 2020. The table in this section sets out the key details of the award.

The Committee believes that comparing the Company's TSR to that of European transportation companies, including airlines, is appropriate, given that these companies are subject to external influences impacting share price performance similar to those of the Group. As outlined in last year's report, for the first time the index will be the STOXX Europe 600 Travel and Leisure Index, as the Board believes this is an appropriate benchmark, particularly as the index includes a large number of other airlines. This comparison provides a good reference point for management outperformance and value creation.

Adjusted EPS reflects the underlying profitability of our business and the core elements of value creation for our shareholders.

The Company uses rolling RoIC as a profitability indicator to assess efficient return on the Group's asset base. It quantifies how well the airlines generate cash flow in relation to the capital invested in their businesses together with their ability to fund growth and to pay dividends.

### PSP 2020 – eligibility, metrics and targets

Type of award	Shares		
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.		
Face value awarded (per cent of salary)	CEO of IAG (Luis Gallego) - 200 per cent No award made to Willie Walsh, as his retirement had been announced shortly before the date of award	CFO of IAG - 175 per cent	
Grant price	£4.59		
Performance period	January 1, 2020 to December 31, 2022		
Performance conditions and weightings	Threshold	Target	Maximum
TSR performance compared to the TSR performance of the STOXX Europe 600 Travel and Leisure Index (one-third weighting)	IAG's TSR performance equal to the index 25 per cent vests	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight-line vesting between threshold and maximum)	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Adjusted EPS. Measure is adjusted EPS in final year of the performance period, i.e. 2022 adjusted EPS (one-third weighting)	EPS of 140 €cents 10 per cent vests	EPS between 140 €cents and 180 €cents (straight-line vesting between threshold and maximum)	EPS of 180 €cents 100 per cent vests
RoIC. Measure is RoIC in final year of the performance period, i.e. 2022 RoIC (one-third weighting)	RoIC of 14 per cent 10 per cent vests	RoIC between 14 per cent and 16 per cent (straight-line vesting between threshold and maximum)	RoIC of 16 per cent 100 per cent vests
Holding period	Additional period of two years after the performance period		

The adjusted EPS and RoIC measures are as defined for the 2018 PSP award earlier in the report. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the adjusted EPS targets and/or definition in the context of any corporate transactions, provided that, in its view, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports. Further details in relation to Committee discretion and malus and clawback provisions are set out in the Company's Remuneration Policy.



## Subject to audit

### Total pension entitlements

Willie Walsh is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions in his time as an executive director during the reporting period (January 1, 2020 to September 8, 2020) (2019: zero). He received cash in lieu of contributions of £127,822 (2019: £212,500).

Luis Gallego is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions in his time as an executive director during the reporting period (September 8, 2020 to December 31, 2020). He received cash in lieu of contributions of £25,780.

Steve Gunning is not a member of the Company's pension scheme and the Company, therefore, did not pay any contributions during the reporting period (2019: zero). He received cash in lieu of contributions of £64,812 (2019: £39,357).

### Payments for loss of office: Willie Walsh

On January 9, 2020 it was announced that Willie Walsh had decided to retire as Chief Executive and would step down from the Board on March 26, 2020. Because of the exceptional circumstances that faced the aviation industry due to COVID-19, it was announced on March 16, 2020 that he would delay his retirement for a short period. He stepped down from the Board and retired from the Company on September 8, 2020.

The details of his leaving arrangements were set out in the 2019 remuneration report and these were unaltered except for his revised leaving date. His outstanding performance share plans (2018 and 2019 awards) were pro-rated to his new leaving date of September 8, 2020, as opposed to the date of June 30, 2020 as stated in the 2019 Remuneration Report. As reported earlier in this report, the 2018 award of the performance share plan resulted in zero vesting.

Since leaving the Company, he has received a payment of £75,192 in lieu of 23 days of accrued but untaken holiday entitlement.

No other loss of office payments were made during the year in excess of the minimum threshold of £1,000 set for this purpose.

### Payments for loss of office: Enrique Dupuy de Lôme

The former Chief Financial Officer of IAG, Enrique Dupuy de Lôme (who stood down from the Board on June 20, 2019) has received the following payments during 2020:

Basic salary of £164,091, taxable benefits of £8,693, and pension benefits of £41,023 (cash allowance). The details for the vesting of his outstanding IADP and PSP awards were set out in the 2019 Remuneration Report and these are unaltered.

### Payments to past directors

Baroness Kingsmill received travel benefits worth €3,395 during 2020.

James Lawrence received travel benefits worth €7,192 during 2020.

Dame Marjorie Scardino received travel benefits worth €13,757 during 2020.

Patrick Cescau received travel benefits worth €12,114 during 2020.

Marc Bolland received travel benefits worth €2,129 during 2020 after he had left the Company.

Kieran Poynter received travel benefits worth €4,116 during 2020 after he had left the Company.

## Subject to audit

### Statement of directors' shareholding and share interests

In order that their interests are aligned with those of shareholders, each executive director is required to build up and maintain a minimum personal shareholding in the Company.

Under the Group's shareholding guidelines, the CEO of IAG is required to build up and maintain a shareholding of 350 per cent of salary. Other executive directors are required to build up and maintain shareholdings of 200 per cent of salary. In addition, they are required to retain all shares (net of tax) which vest from share plans until their respective shareholding requirement is attained. The Committee has reviewed executive directors' progress against the requirements and notes that both executive directors are above the shareholding requirement.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares including those in the performance share plan holding period, and unvested deferred annual incentive shares. The table below summarises current executive directors' interests as of December 31, 2020:

Executive director	Shareholding requirement	Shares owned	Shares already vested, or in the holding period, from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Luis Gallego	350 per cent of salary	403,834	513,747	89,785	130,565	1,137,931 (498 per cent of salary)
Steve Gunning	200 per cent of salary	228,473	220,986	84,220	93,185	626,864 (342 per cent of salary)

The current Remuneration Policy does not cover post-cessation shareholding requirements. However, the new Remuneration Policy (subject to approval at the 2021 Shareholders' Meeting) will provide details of post-cessation shareholding requirements.

## External non-executive directorship

The Company's consent is required before an executive director can accept an external non-executive appointment and permission is only given in appropriate circumstances. During the reporting period in question, Steve Gunning was a non-executive director at FirstGroup Plc, for which he received a fee of €55,576.

## Non-executive directors

Non-executive directors are paid a flat fee each year, as per the following table:

Role	Fee
Non-executive Chairman (this fee relates to Antonio Vázquez, who stood down from the Board on January 7, 2021. The fee for the new Chairman is covered in the 2021 implementation section).	€645,000
Non-executive directors	€120,000
Additional fee for holding a Committee chairmanship	€20,000
Additional fee for Senior Independent Director	€30,000

As set out in the British Airways and Iberia merger documentation, the conditions of IAG's former Chairman's service contract as an Iberia executive were taken into account at the time of the merger, meaning that he continued to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. This was externalized at that time in the corresponding insurance policy, with the fund balance under the policy (including accrued interest) being payable upon exit from the Company for any reason. Pursuant to such conditions, following his retirement on January 7, 2021, Antonio Vázquez received his retirement benefit as set forth above by collecting the fund balance under the policy.

## Subject to audit

### Single total figure of remuneration for each non-executive director

Director (€'000)	2020 fees	Taxable benefits	Total for year to December 31, 2020	2019 fees	Taxable benefits	Total for year to December 31, 2019
Antonio Vázquez	548	-	548	645	5	650
Alberto Terol	128	10	138	136	26	162
Patrick Cescau <sup>1</sup>	-	-	-	71	27	98
Giles Agutter <sup>2</sup>	30	-	30	-	-	-
Marc Bolland <sup>3</sup>	84	3	87	138	19	157
Margaret Ewing <sup>4</sup>	107	4	111	64	1	65
Javier Ferrán <sup>5</sup>	107	4	111	64	2	66
Deborah Kerr <sup>6</sup>	107	-	107	120	11	131
María Fernanda Mejía <sup>7</sup>	102	15	117	120	14	134
Robin Phillips <sup>8</sup>	30	-	30	-	-	-
Kieran Poynter <sup>9</sup>	84	2	86	140	24	164
Emilio Saracho	102	6	108	120	18	138
Dame Marjorie Scardino <sup>10</sup>	-	-	-	58	40	98
Nicola Shaw	102	1	103	120	16	136
<b>Total (€'000)</b>	<b>1,531</b>	<b>45</b>	<b>1,576</b>	<b>1,796</b>	<b>203</b>	<b>1,999</b>

1 Patrick Cescau retired from the Board on June 20, 2019.

2 Giles Agutter joined the Board on September 8, 2020.

3 Mark Bolland retired from the Board on September 8, 2020.

4 Margaret Ewing joined the Board on June 20, 2019.

5 Javier Ferrán joined the Board on June 20, 2019.

6 Deborah Kerr stepped down from the Board on December 31, 2020.

7 María Fernanda Mejía stepped down from the Board on December 31, 2020.

8 Robin Phillips joined the Board on September 8, 2020.

9 Kieran Poynter retired from the Board on September 8, 2020.

10 Dame Marjorie Scardino retired from the Board on June 20, 2019.

Peggy Bruzelius, Eva Castillo Sanz, and Heather Ann McSharry joined the Board on December 31, 2020 but had no remuneration for 2020.

### Additional explanations in respect of the single total figure table

Each director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

## Fees

Fees paid in the year for non-executive directors. All non-executive directors agreed to a reduction in fees of 20 per cent from April 1, 2020 to December 31, 2020. The fees subject to a reduction were non-executive director fees, the non-executive chairman fee, the additional fee for the Senior Independent Director, and the additional fee for holding a Committee chairmanship and this reduction is reflected in the table above.

## Taxable benefits

Taxable benefits including personal travel.

For the year to December 31, 2020, the €:£ exchange rate applied is 1.1273 (2019: 1.1371).

**Subject to audit**  
**Directors' interests in shares**

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	1,490,726	0.030
Luis Gallego	749,784	0.015
Alberto Terol	66,341	0.001
Giles Agutter	625	0.000
Margaret Ewing	18,750	0.000
Javier Ferrán	774,750	0.016
Robin Phillips	0	0.000
Emilio Saracho	0	0.000
Nicola Shaw	4,285	0.000
Peggy Bruzelius	0	0.000
Eva Castillo Sanz	0	0.000
Heather Ann McSharry	0	0.000
<b>Total</b>	<b>3,105,261</b>	<b>0.062</b>

There have been no changes to the shareholdings set out above between December 31, 2020 and the date of this report.

**Share scheme dilution limits**

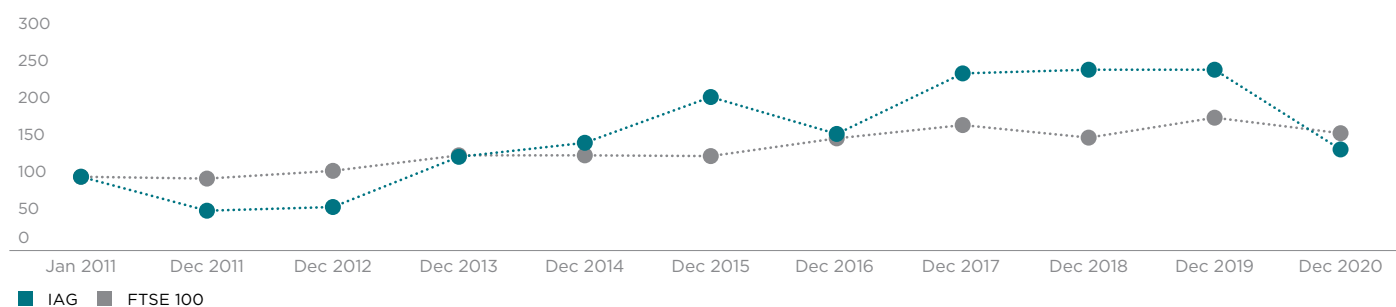
The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the annual Shareholders' Meeting on June 14, 2018 the Company was given authority to allocate up to 45,000,000 shares (2.26 per cent of the share capital at that time) in 2019, 2020, and 2021. Of this a maximum of 5,100,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2019, 2020, and 2021.

**Company performance graph and CEO of IAG 'single figure' table**

The chart shows the value by December 31, 2020 of a hypothetical £100 invested in IAG shares on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year ends.

The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

**IAG's total shareholder return (TSR) performance compared to the FTSE 100**



The table below shows the CEO 'single total figure' of remuneration for each year since the creation of IAG in January 2011:

	CEO of IAG - 'total single figure' of remuneration	Annual incentive payment as a percentage of the maximum	Long-term incentive vesting as a percentage of the maximum
2011	£1,550,000	18 per cent of maximum	35 per cent of maximum
2012	£1,083,000	No annual incentive payment	Zero vesting of long-term incentives
2013	£4,971,000	78.75 per cent of maximum	100 per cent of maximum
2014	£6,390,000	97.78 per cent of maximum	85 per cent of maximum
2015	£6,455,000	80 per cent of maximum	100 per cent of maximum
2016	£2,462,000	33.33 per cent of maximum	50 per cent of maximum
2017	£3,954,000	92.92 per cent of maximum	66.67 per cent of maximum
2018	£3,030,000	61.85 per cent of maximum	46.19 per cent of maximum
2019	£3,198,000	51.97 per cent of maximum	72.11 per cent of maximum
2020	Willie Walsh £662,000	No annual incentive payment	Zero vesting of long-term incentives
	Luis Gallego £301,000	No annual incentive payment	Zero vesting of long-term incentives

Single total figure of remuneration includes basic salary, taxable benefits, pension-related benefits, annual incentive award and long-term incentive vesting and in 2020 reflects the reduction in salary from April 1 to December 31, 2020.

2011 figure includes 20 days of remuneration in January 2011 paid by British Airways.

### Percentage change in remuneration of the CEO of IAG compared to employees

The table below shows how the remuneration of the CEO of IAG has changed for 2020 compared to 2019.

This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are all UK employees in the Group, which comprised around 39,000 employees at the beginning of 2020 but, following restructurings in the Group as a result of the COVID-19 pandemic, there were around 29,000 employees at the end of 2020. To make the comparison between the CEO of IAG and employees as meaningful as possible, it was determined that as large a group as possible of employees should be chosen.

The selection of all UK employees in the Group (roughly two-thirds of the entire Group's employees) meets these criteria. The majority of the UK employees in the Group are employed by British Airways, but there are also a number of employees from all other companies in the Group based in the UK. It was determined that employees outside the UK would not be considered for the comparison, as very different employment market conditions exist in other countries.

	CEO of IAG	UK employees
Basic salary	No basic salary increase for 2020 (Willie Walsh). Luis Gallego's basic salary on appointment was 3.5 per cent lower than the final (non-reduced) basic salary of Willie Walsh.	Basic salary awards in 2020 to UK based employees varied from zero to around 3.0 per cent.
Annual incentive	Decrease from £883,000 (Willie Walsh) in March 2020 (covering the 2019 performance period) to zero in March 2021 (covering the 2020 performance period) (both Willie Walsh and Luis Gallego), as the 2020 annual incentive was cancelled as a result of the pandemic.	Annual incentive payments in 2020 were zero in all companies in the Group, as a result of the COVID-19 pandemic.
Taxable benefits	No change in benefits policy. Actual payments were £23,000 (Willie Walsh) and £69,000 (Luis Gallego) in 2020, and were £30,000 (Willie Walsh) in 2019. Luis Gallego's benefits included relocation costs.	No change in benefits policy. Overall costs 2020 versus 2019 increased slightly in line with inflation.

### Change in directors' remuneration compared to employees

The table below shows the percentage change between 2019 and 2020 in salary/fee, benefits and annual bonus for directors compared with average earnings for UK employees in the Group.

Director	Salary/fees	Taxable benefits	Annual incentive
Luis Gallego	-	-	-
Steve Gunning	65%	125%	(100%)
Willie Walsh	(40%)	(23%)	(100%)
Antonio Vázquez	(15%)	(100%)	-
Alberto Terol	(6%)	(62%)	-
Giles Agutter	-	-	-
Marc Bolland	(39%)	(84%)	-
Margaret Ewing	67%	300%	-
Javier Ferrán	67%	100%	-
Deborah Kerr	(11%)	(100%)	-
María Fernanda Mejía	(15%)	7%	-
Robin Phillips	-	-	-
Kieran Poynter	(40%)	(92%)	-
Emilio Saracho	(15%)	(67%)	-
Nicola Shaw	(15%)	(94%)	-
Average pay based on the Group's UK employees	(12%)	-	-

For Steve Gunning, Margaret Ewing, and Javier Ferrán, the increase in fees is because the 2019 fee was only for the period after they joined the Board, which was on June 20, 2019.

## Relative importance of spend on pay

The table below shows, for 2020 and 2019, total remuneration costs, adjusted operating profit/(loss) and dividends for the Company.

	2020	2019
Total employee costs, IAG <sup>1</sup>	<b>€3,247,000,000</b>	€4,962,000,000
Total remuneration, directors (including non-executive directors)	<b>€3,339,000</b>	€7,485,000
IAG adjusted operating (loss)/profit (before exceptional items)	<b>(€4,365,000,000)</b>	€3,285,000,000
Dividend declared	-	€288,000,000
Dividend proposed	-	Cancelled <sup>2</sup>

1 Total employee costs are before exceptional items, and include furlough grants received.

2 The Company announced on April 2, 2020 that the 2019 proposed final dividend of €337,000,000 was cancelled.

## CEO Pay Ratio

The table below shows the ratio of pay between the CEO of IAG and IAG's UK employees. The CEO of IAG remuneration is the 2020 'single figure' total remuneration and is a combined figure for the two CEOs of IAG who were in this role during 2020. This is compared with the 25<sup>th</sup>, median and 75<sup>th</sup> percentile 2020 total remuneration of full-time equivalent UK employees in IAG. The Government's methodology "Option A" has been used to calculate the remuneration, as we believe that this is the option that most investors favour, and gives the most accurate and robust ratio. The data for the UK employees is from the payroll records of 37,081 UK employees who were in the Group for the whole of or some of 2020.

Percentile	CEO of IAG Pay Ratio 2019	CEO of IAG Pay Ratio 2020	Basic Salary, UK employees	Total Remuneration, UK employees
25 <sup>th</sup> (Lower Quartile)	109:1	<b>34:1</b>	£17,173	£28,383
50 <sup>th</sup> (Median)	72:1	<b>22:1</b>	£28,551	£42,823
75 <sup>th</sup> (Upper Quartile)	49:1	<b>15:1</b>	£45,228	£63,877

Around 98 per cent of the Group's UK employees work for BA. BA has undertaken many initiatives in recent years to ensure its lower-paid workers are paid fairly.

## Investor Engagement Plan

At the Company's 2020 Shareholders' Meeting, the consultative vote on the 2019 annual Directors' Remuneration Report received a vote in favour of less than 75 per cent. Since the Shareholders' Meeting, the Company has engaged with major shareholders to understand the main issues causing the low vote in favour, and these were:

- The annual bonus payments for 2019, in light of the Company's current circumstances, in particular the bonus of £883,000 paid to departing CEO Willie Walsh, given the use of government support and the clear challenges the industry is facing; and
- the new CFO's remuneration package, which had a higher salary and higher maximum award levels than his predecessor under the annual bonus and the PSP schemes.

The Company has had a helpful and productive dialogue in our engagement with our main shareholders when discussing these issues. The Committee listened carefully to all feedback received on this, as well as wider discussions on our remuneration framework given our Policy is due for renewal. This will help shape the Committee's thinking and will inform internal discussion and development of the proposed new Remuneration Policy. The Company's response is covered in more detail in the Corporate Governance section of the Annual Report.

## Implementation of Remuneration Policy for 2021

For 2021, the Remuneration Policy applies to the only executive director in the Board, the CEO of IAG, as the CFO of IAG stood down from the Board on December 31, 2020.

### Basic salary

Basic salaries for executive directors are reviewed from January 1 each year. After careful consideration of Company affordability, the contribution of each executive, retention risks and the size of pay increases generally across the Group for 2020 (which varied across the Group from zero to 3.0 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive director	Basic salary review
CEO of IAG	£820,000 (€924,000) (no increase from 2020). Luis Gallego has agreed to take a 10 per cent salary reduction from January 1, 2021 until further notice.

### 2021 annual incentive plan, and 2021 long-term incentive plan

The Company's current Remuneration Policy includes an annual incentive award, with a maximum opportunity for the CEO of IAG of 200 per cent of salary. This incentive is subject to certain financial and non-financial measures: (i) at least 60 per cent and no more than 80 per cent is subject to financial measures (e.g. IAG operating profit); (ii) 25 per cent or less will be subject to role-specific objectives, and; (iii) the remaining portion is subject to measurable non-financial metrics (e.g. NPS and carbon measures). There will be no payment until performance for each particular metric has reached the threshold level of the agreed target range, 50 per cent of the maximum opportunity will be awarded for on-target performance, and the maximum for each element will only be awarded once a stretch target has been reached. Finally, half of the overall outcome of the annual incentive detailed above is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

For the long-term incentive, the existing Policy includes a Performance Share Plan (PSP), a discretionary plan targeted at key senior executives and managers of the Group. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions designed to reflect the creation of long-term value within the business and which are measured over a three-year performance period. Following the performance period, there is an additional holding period of at least two years.

A full description of the Company's current Remuneration Policy is available on the Company's website.

As the Company's Remuneration Policy is due to be renewed at the 2021 Shareholders' Meeting, the frameworks for the 2021 annual incentive plan and the 2021 long-term incentive plan will be detailed in the Remuneration Policy proposal, which will be submitted for a shareholder vote at that meeting.

### Taxable benefits and pension-related benefits

Taxable benefits remain unchanged for 2021.

### Non-executive director fees

Non-executive director fees were last reviewed in 2017 and remain unchanged for 2021. The fees have remained unchanged since 2011.

Javier Ferrán was appointed Chairman of the Board on January 7, 2021. His fee on appointment was €645,000 per annum.

All non-executive directors, including the newly appointed Chairman, have agreed to take a 10 per cent reduction in fees from January 1, 2021 until further notice, as a result of the pandemic.

### The Remuneration Committee

The Remuneration Committee is regulated by article 32 of the IAG Board Regulations and by its own Regulations approved on February 25, 2021. A copy of these Regulations is available on the Company's website ([www.iairgroup.com](http://www.iairgroup.com)).

Beyond executive directors, the Committee oversees the general application of the remuneration policy for the members of the IAG Management Committee (and also occasionally considering remuneration matters related to managers generally across the Group).

According to article 32 of the Board Regulations the Remuneration Committee shall be made up of no fewer than three independent non-executive directors, with the dedication, capacity and experience necessary to carry out their function. Alberto Terol chairs the Committee. None of the Committee members has any personal financial interest, other than as a shareholder, in the matters to be decided.

In accordance with the 2018 UK Code, the Remuneration Committee also has responsibility to review workforce remuneration and related policies and the alignment of incentives and rewards with culture.



## Advisers to the Committee

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte reports directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2020 were €117,071, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, global employment programmes, data governance, business process improvement, financial advisory work and tax to the Group in 2020. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, both CEOs of IAG provided regular briefings to the Committee apart from when their own remuneration was being discussed.

## Statement of voting

The table below shows the consultative vote on the 2019 annual Directors' Remuneration Report at the 2020 Shareholders' Meeting, and the binding vote on the Directors' Remuneration Policy at the 2018 Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2019 Annual Directors' Remuneration Report	871,102,122	623,709,500 (71.60 per cent)	179,093,920 (20.56 per cent)	68,298,702 (7.84 per cent)
Directors' Remuneration Policy	1,463,865,426	1,396,029,011 (95.37 per cent)	13,091,180 (0.89 per cent)	54,745,235 (3.74 per cent)

## Supplementary information

### Directors' share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP as at December 31, 2020.

Director	Date of grant	Number of options at date of appointment	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Adjustment as a result of the capital increase	Exercisable from	Expiry date	Number of options at December 31, 2020
<b>Executive directors</b>										
Luis Gallego	May 28, 2015	87,031	-	-	-	-	44,211	January 1, 2020	December 31, 2024	131,242
	March 7, 2016	64,988	-	-	-	-	33,013	January 1, 2021	December 31, 2025	98,001
	March 6, 2017	160,476	-	-	44,757	-	58,785	January 1, 2022	December 31, 2026	174,504
	May 10, 2018	128,826	-	-	-	-	65,443	January 1, 2023	December 31, 2027	194,269
	March 8, 2019	162,543	-	-	-	-	82,571	January 1, 2024	December 31, 2028	245,114
	March 6, 2020	357,298	-	-	-	-	181,507	January 1, 2025	December 31, 2029	538,805
<b>Total</b>		<b>961,162</b>	<b>-</b>	<b>-</b>	<b>44,757</b>	<b>-</b>	<b>465,530</b>			<b>1,381,935</b>

Director	Date of grant	Number of options at January 1, 2020	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Adjustment as a result of the capital increase	Exercisable from	Expiry date	Number of options at December 31, 2020
Steve Gunning	May 28, 2015	52,363	433.4p	52,363	-	-	-	January 1, 2020	December 31, 2024	-
	March 7, 2016	37,621	-	-	-	-	19,111	January 1, 2021	December 31, 2025	56,732
	March 6, 2017	96,703	-	-	26,970	-	35,424	January 1, 2022	December 31, 2026	105,157
	May 10, 2018	77,800	-	-	-	-	39,522	January 1, 2023	December 31, 2027	117,322
	March 8, 2019	101,587	-	-	-	-	51,606	January 1, 2024	December 31, 2028	153,193
	March 6, 2020	-	-	-	-	226,852	115,240	January 1, 2025	December 31, 2029	342,092
<b>Total</b>		<b>366,074</b>	<b>-</b>	<b>52,363</b>	<b>26,970</b>	<b>226,852</b>	<b>260,903</b>			<b>774,496</b>

The award granted on March 6, 2017 was tested at the end of the performance period, and as a result 72.11 per cent of the award vested, as detailed earlier in this report in the section on Variable pay outcomes.

The performance conditions for each of the other PSP awards listed above will be tested to determine the level of vesting. For each of these awards, one-third of the award is subject to TSR performance measured against an index, one-third is subject to adjusted EPS performance, and one-third is subject to RoIC performance. The performance conditions will be measured over a single three-year performance period. For each of these awards, following the performance period there is an additional holding period of two years.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2020 PSP award was 459 pence (2019: 567 pence; 2018: 691 pence; 2017: 546 pence; 2016: 541 pence; and 2015: 550 pence).

#### Incentive Award Deferral Plan (IADP)

The following directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG's performance for the periods that ended December 31, 2016, December 31, 2017, December 31, 2018, and December 31, 2019).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at date of appointment	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Adjustment as a result of the capital increase	Number of awards at December 31, 2020
<b>Executive directors</b>									
Luis Gallego	2017	May 10, 2018	59,850	-	March 8, 2021	-	-	30,403	90,253
	2018	March 8, 2019	49,454	-	March 8, 2022	-	-	25,122	74,576
	2019	March 6, 2020	54,059	-	March 6, 2023	-	-	27,461	81,520
<b>Total</b>			<b>163,363</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>82,986</b>	<b>246,349</b>

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2020	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Adjustment as a result of the capital increase	Number of awards at December 31, 2020
Steve Gunning	2016	March 6, 2017	16,117	16,117	March 6, 2020	-	-	-	-
	2017	May 10, 2018	37,603	-	March 8, 2021	-	-	19,102	56,705
	2018	March 8, 2019	32,813	-	March 8, 2022	-	-	16,669	49,482
	2019	March 6, 2020	-	-	March 6, 2023	-	46,177	23,457	69,634
<b>Total</b>			<b>86,533</b>	<b>16,117</b>		<b>-</b>	<b>46,177</b>	<b>59,228</b>	<b>175,821</b>

There are no performance conditions to be tested before vesting for the IADP, except that the director must still be employed by the Company at the time of vesting or have left as a Good Leaver.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2020 IADP award was 459 pence (2019: 567 pence; 2018: 691 pence; and 2017: 546 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2017 IADP award was 546 pence. The share price on the date of the vesting of this award (March 6, 2020) was 432 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.