

# STANDARD FORM OF ANNUAL REPORT ON REMUNERATION OF THE DIRECTORS OF LISTED CORPORATIONS

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## **A. THE COMPANY'S REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR**

**A.1** Explain the company's remuneration policy. Information regarding the following shall be included in this section:

- General principles and bases of the remuneration policy.
- Most significant changes made in the remuneration policy compared with that applied in the previous financial year, as well as any modifications which have been carried out during the financial year of the conditions for the exercise of options already granted.
- Criteria used to establish the company's remuneration policy.
- Relative importance of the variable items of remuneration in relation to the fixed items of remuneration and criteria applied to determine the various components of the directors' remuneration package (remuneration mix).

### **Explain the remuneration policy**

The Company's remuneration policy is to provide total remuneration packages which are competitive with the market median, linked to the business strategy and take into account each individual's role, skills and contribution. The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to global airline companies where appropriate. The Remuneration Committee is updated on pay and conditions of the employees within the IAG Group, and takes this into account when determining the Executive Directors' remuneration.

### **Executive Directors**

The main elements of remuneration packages for the Executive Directors are:

*Base salary:* Takes account of role, skills and contribution.

The positioning of base salaries is set with reference to similar roles in the benchmarking comparator group (primarily the FTSE 26 to 100 excluding financial services), as well as the individual's skills and contribution.

Basic salaries are reviewed as of January 1st each year. When reviewing salaries, the Remuneration Committee takes into account the following factors: company affordability, the value and worth of the executive, retention risks and the size of pay increases generally across the IAG Group. The IAG Group has a focus on containing fixed costs and, therefore, any pay increases in future years can be expected to be modest.

*Benefits:* Life insurance, personal travel and; where applicable, a company car, fuel and private health insurance.

*Annual incentive award:* Incentivises annual corporate financial performance and role specific objectives.

The Board of Directors, on a recommendation from the Remuneration Committee, sets the targets that apply to the annual incentive award at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board of Directors) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility.

The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

Half of the annual incentive award is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

*Incentive Award Deferral Plan (IADP):* Designed to align the interest of Executives with shareholders by providing a proportion of the annual incentive in deferred shares. The shares will be subject to forfeiture if the Executive leaves during the three-year deferral period, except if the Executive is granted "good leaver" status. On vesting, Executives will receive the benefit of any dividends paid over the deferred period.

*Performance Share Plan (PSP):* Discretionary plan that is targeted at key Senior Executives and Managers of the IAG Group who directly influence shareholder value, including Executive Directors. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions in full or in part at the third anniversary of the date of the award. No payment is required from individuals when the shares are awarded or when they vest. The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

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*Pension:* Provides post-retirement remuneration and ensures total package is competitive. The Company operates a defined contribution scheme. Executives can opt instead to receive a salary supplement in lieu of a pension.

There have been no significant changes in the remuneration policy of the Executive Directors in 2014 compared with that applied in the previous financial year.

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and Senior Managers' interests with shareholder interests. At minimum levels, the annual incentive and the PSP pay out zero. At on-target performance, both the annual incentive and the PSP pay out 50 per cent of the maximum opportunity.

## **Non-Executive Directors**

Non-Executive Directors are paid a flat fee each year, with an additional fee for each Committee chairmanship held.

Non-Executive Directors (including the Chairman and Deputy Chairman) are entitled to use air-tickets of the airlines of the Company or related to the Company for a total annual gross amount of €500,000 in aggregate.

There have been no significant changes in the remuneration policy of the Non-Executive Directors in 2014 compared with that applied in the previous financial year.

**A.2 Information regarding the preparatory work and the decision-making process which has been followed in order to determine the remuneration policy and the role, if any, played by the remuneration committee and other supervisory bodies in the creation of the remuneration policy. This information shall include, where relevant, the mandate given to the remuneration committee, its composition and the identity of the external advisers whose services have been used to establish the remuneration policy. The nature of the directors, if any, that have been involved in the establishment of the remuneration policy shall also be indicated.**

## **Explain the process for determining the remuneration policy**

During the reporting period and until December 19, 2013, the members of the Remuneration Committee have been César Alierta Izuel (Chairman), Baroness Kingsmill, José Manuel Fernández Norriella (resigned on June 20, 2013 and not replaced on the Remuneration Committee) and John Snow (resigned December 19, 2013). All of them were Non-Executive Independent Directors except José Manuel Fernández Norriella that was an Other External Non-Executive Director.

From December 19, 2013 the members of the Remuneration Committee, all Non-Executive Independent Directors, are Baroness Kingsmill (Chair), Dame Marjorie Scardino and Alberto Terol Esteban.

The Remuneration Committee has the following powers:

- a) To propose to the Board of Directors the system and amount of the annual remuneration for Board members, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the Corporate Bylaws.
- b) To report to the Board of Directors on the contractual terms on termination for the Senior Executives, including Executive Directors, and to ensure that any payments made are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised.
- c) To report to the Board of Directors on the Senior Executive remuneration policy and the basic terms of their contracts.
- d) To report on incentive plans and pension arrangements.
- e) To periodically review the remuneration programs, taking into account their suitability and performance and how they reflect and support the Company strategy.
- f) To give due regard to the provisions of applicable good governance codes, applicable law or regulation and requirements imposed by any stock exchange on which the Company's securities are listed when determining any compensation packages and arrangements.
- g) To ensure that the disclosure requirements of the United Kingdom Listing Rules, any other applicable listing rules, applicable law or regulation and relevant stock exchanges are fulfilled, including the report on directors' remuneration required to be included in the Company's annual report and accounts.

Beyond Executive Directors, the Committee has a responsibility to oversee the general application of the remuneration policy to the IAG Management Committee, and also has oversight of remuneration matters of senior managers generally across the Group.

The Remuneration Committee has recently appointed external advisers. The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, the Group Chief Executive Officer provided regular briefings to the Remuneration Committee apart from when his own remuneration was being discussed.

During the year, the Remuneration Committee kept fully abreast of remuneration developments in the external marketplace. The Remuneration Committee considered that the remuneration framework continued to be appropriate for IAG. In deciding the remuneration policy, the pay and employment conditions in the Spanish and UK markets were taken into account. Other key metrics considered when deciding pay and remuneration policy include company affordability, market movements, and retention considerations.

**A.3 Indicate the amount and the nature of the fixed components, itemising any remuneration for the performance of top management duties of the executive directors, the additional remuneration as chairman or member of a committee of the board, the per diems for participation in the board and its committees or other fixed remuneration as director, as well as an estimate of the annual fixed remuneration to which they may give rise. Identify other benefits which are not paid in cash and the fundamental criteria by which they are granted.**

**Explain the fixed components of the remuneration**

**Executive Directors**

As explained above, the fixed remuneration of Executive Directors is composed of a base salary in cash that takes account of role, skills and contribution.

Basic salaries for Executive Directors are reviewed on January 1 each year. After careful consideration of Company affordability, the value and worth of each executive, retention risks, and the size of pay increases generally across the IAG Group for 2014 (which were approved by the Board, on the Committee's recommendation, at 3.0 per cent), the Board approved the following basic salaries for 2014:

- Willie Walsh (Chief Executive Officer): £850,000 (€1,002,150) (declined an increase in January 2012 and January 2013). The Chief Executive Officer has decided to give this 3 per cent salary increase to a charity of his choice.
- Enrique Dupuy de Lôme Chávarri (Chief Financial Officer): £515,000 (€607,000) (in UK's sterling terms, an increase of 3 per cent from 2013).

**Non-Executive Directors**

As explained above, Non-Executive Directors are paid a flat fee each year, with an additional fee for each Committee chairmanship held:

Role:	Fee:
Non-Executive Chairman	€645,000, voluntarily reduced by 25% to €483,750 with effect from December 1, 2012 until further notice
Non-Executive Deputy Chairman	€350,000
Other Non-Executive Directors	€120,000
Committee Chairmanship	€20,000

**A.4 Explain the amount, the nature and the principal characteristics of the variable components of the remuneration systems.**

In particular:

- Identify each of the remuneration plans of which the directors are beneficiaries, its scope, its date of approval, date of implementation, period of validity as well as its principal characteristics. In the case of stock option plans and other financial instruments, the general characteristics of the plan shall include information regarding the conditions for exercise of such options or financial instruments for each plan.
- Indicate any remuneration in the form of profit share or bonuses, and the reason why they are granted.
- Explain the fundamental criteria and basis of any system of annual bonuses.
- The classes of directors (executive directors, external proprietary directors, independent external directors or other external directors) that are beneficiaries of remuneration systems or plans which include variable remuneration.

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- The basis of such systems of variable remuneration or plans, the criteria chosen for evaluation of performance, as well as the evaluation components and methods to determine whether or not such evaluation criteria have been observed and an estimation of the absolute amount of the variable remuneration to which the remuneration plan in force would give rise, depending on the degree of fulfilment of the assumptions or objectives which is adopted as a reference.
- Where relevant, any periods of deferral or postponement of payment which have been established shall be reported and/or the periods for withholding shares or other financial instruments if they exist.

## **Explain the variable components of the remuneration systems**

Variable remuneration only applies to Executive Directors.

### **Annual Incentive Award**

The targets that apply to the Annual Incentive Award are set by the Board of Directors, upon a recommendation by the Remuneration Committee at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board of Directors) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility. The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

The Annual Incentive Award incentivises annual corporate financial performance and role specific objectives.

It is intended that, for the lifetime of this policy, the maximum opportunity in the incentive plan will be unchanged from present, which is a maximum opportunity of 200 per cent of salary (50 per cent of this may be awarded for on-target performance).

*Performance conditions:* It is intended that, for the lifetime of this policy, two-thirds of the annual incentive will be subject to a financial measure, and one-third will be based on role specific objectives. The financial measure is likely to be IAG operating profit, but the Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to alter this measure or the weightings of each measure if an alternative is deemed to be more appropriate.

The financial measure for 2014 (two-thirds of the annual incentive) will be IAG operating profit. This is a change from the 2013 plan, where British Airways operating profit and Iberia net cash flow were each used for one-third of the incentive. The Remuneration Committee believes that IAG operating profit is the best financial measure in aligning shareholder interests with Company and individual performance. The 2013 measures were introduced as a short-term measure because IAG operating profit was felt to be too volatile to use as an incentive plan measure whilst the early days of the Iberia restructuring was taking place.

Half of the Annual Incentive Award is payable in deferred shares in the Company vesting after three years, under the Incentive Award Deferral Plan (IADP). It is intended that, for the lifetime of this policy, there is no change to the current proportion of the annual incentive that is deferred into shares for three years.

The shares under the IADP will be subject to forfeiture if the Executive leaves during the three-year deferral period, except if the Executive is granted "good leaver" status. On vesting, Executives will receive the benefit of any dividends paid over the deferred period.

Clawback provision applies to the IADP, but no other performance conditions apply because it is based on performance already delivered.

### **IAG Performance Share Plan (PSP)**

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group Executives and Managers who directly influence shareholder value, including Executive Directors.

For the lifetime of this policy, it is intended that the face value of awards will be 200 per cent of salary for the Chief Executive of IAG and 120 or 150 per cent of salary for other Executive Directors depending on the size of the role. The Board of Directors, on a recommendation from the Remuneration Committee, will have the discretion to alter these percentages from time to time if deemed appropriate, but they will not be greater than 300 per cent of salary in any financial year in the lifetime of this policy, unless the Remuneration Committee considers that exceptional circumstances merit a larger award.

*Performance conditions:* It is intended that any PSP award made during the lifetime of this policy will be measured over three years. The Board of Directors, on a recommendation from the Remuneration Committee, will have the discretion to alter the length of the performance period from time to time if deemed appropriate, but it will not be shorter than three years.

Each year, the Board, following the advice of the Remuneration Committee, will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with

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shareholder interests. At least one condition is likely to be a measure of Group share performance compared with an index of other companies that are subject to external influences impacting share price similar to those of the Group.

One or more measures will provide a strong measure of the underlying financial performance of the business.

The Board, on the Remuneration Committee's recommendation has approved a PSP award for 2014, with a performance period of January 1, 2014 to December 31, 2016.

For 2014, the Board has approved the use of the same two performance conditions as the 2013 award, each still with a 50 per cent weighting.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group. This comparison therefore provides a good reference point for management outperformance and value creation. The target range is identical to 2013:

TSR target range: Threshold: IAG's TSR performance equal to the index 25 per cent vests; Target (straight line vesting between threshold and maximum): IAG's TSR performance between index return and 8 per cent p.a. outperformance; Maximum: IAG's TSR performance exceeds index by 8 per cent p.a., 100 per cent vests.

The second performance condition is based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business. The Remuneration Committee has agreed that the earnings per share (EPS) target range for the 2014 PSP award should be increased. This is to reflect the fact that the Company is one year further on in the recovery outlined in the Business Plan. It also reflects the continued improvement in the financial performance of the Group, and ensures that the target remains appropriately stretching. The EPS measure will be as follows:

EPS target range: Threshold: 2016 EPS of 34 €cents, 10 per cent vests; Target (straight line vesting between threshold and maximum): 2016 EPS between 34 €cents and 56 €cents; Maximum: 2016 EPS of 56 €cents, 100 per cent vests.

The Remuneration Committee retains the discretion to review and, if appropriate, adjust the EPS targets and/or definition in the context of any corporate transactions, provided that, in the view of the Remuneration Committee, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Remuneration Committee will disclose the basis for any adjustments and the rationale in subsequent reports.

**A.5 Explain the principal characteristics of the long-term saving systems, including retirement and any other survivor's benefit, financed in whole or in part by the company, whether allocated internally or externally, with an estimate of their amount or equivalent annual cost, indicating the type of plan, whether it is defined contribution or defined benefit, the conditions for vesting of the pecuniary rights in favour of the directors and their compatibility with any kind of compensation due to early rescission termination of the contractual relationship between the company and the director.**

Indicate also the contributions for the director's benefit to defined-contribution pension plans; or the increase of the directors vested rights, in the case of contributions to defined-benefit plans.

#### **Explain the long-term saving systems**

Long-term saving systems only applies to Executive Directors.

At this regard, the Company operates a defined contribution scheme.

The Executive Directors are entitled to receive a contribution of 25 per cent of base salary. Executives are also eligible to receive a salary supplement in lieu of a pension.

**A.6 Indicate any compensation agreed or paid in the event of termination of the duties as director.**

#### **Explain the compensation**

Non-Executive Directors do not have the right to any compensation in the event of termination of their duties as directors.

In relation to the Chairman, as set out in the British Airways and Iberia merger documentation, the conditions of the service contract with Iberia were taken into account at the time of the merger. This means that he will therefore continue to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

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**A.7** Indicate the conditions which must be observed by contracts of those who carry out senior management functions as executive directors. Inter alia, the duration, the limits on amounts of compensation, period of minimum service clauses, and prior notice periods shall be reported, as well as payment in lieu of the above-mentioned prior notice period, and any other clauses relating to recruitment incentives, as well as compensation or golden handshakes for early rescission or termination of the contractual relationship between the company and the executive director. Include, inter alia, non-competition, exclusivity, minimum service or fidelity and post-contractual non-competition clauses or agreements.

## **Explain the conditions of the contracts of executive directors**

The contracts of executive directors are for an indefinite period.

The following is a description of the key terms of the service contracts of Executive Directors:

- 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.
- The period of notice required from the Executive is 26 weeks; the period of notice required from the Company is 52 weeks. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first 26 weeks base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second 26 week 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 52 weeks 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 Performance Share Plan (PSP) and Incentive Award Deferral Plan (IADP), if a Director leaves, the Remuneration Committee may exercise their 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. Directors leaving with good leaver status will receive shares awarded to them under the Incentive Award Deferral Plan (IADP) scheme, and a pro-rated amount of their Performance Share Plan (PSP) shares subject to the Company performance conditions being met. The pro-rata is calculated according to what proportion of the performance period the Director spent in company service. If good leaver status is not granted to a Director, all outstanding awards made to them under the Performance Share Plan (PSP) and Incentive Award Deferral Plan (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.

**A.8** Explain any supplementary remuneration earned by directors as consideration for services rendered other than those inherent in their office.

## **Explain supplementary remuneration**

**Not applicable.**

**A.9** Indicate any remuneration in the form of advance payments, credit facilities and security granted, indicating the interest rate, their essential characteristics and the amounts possibly repaid, as well as the obligations assumed on their behalf by way of security.

## **Explain advance payments, credit facilities and security granted**

**Not applicable.**

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A.10 Explain the principal characteristics of remuneration in kind.

**Explain remuneration in kind**

**Executive Directors**

Executive Directors have provision of the following benefits: a fully expensed company car and fuel card, private healthcare insurance cover for self and partner, life insurance cover of four times basic salary, and personal travel benefits on the airlines of the Company.

**Non-Executive Directors**

Non-Executive Directors (including the Chairman and Deputy Chairman) are entitled to use air-tickets of the airlines of the Company or related to the Company for a total annual gross amount of €500,000 in aggregate.

A.11 Indicate the remuneration earned by the director due to the payments which may be made by the listed company to a third entity in which the director renders services, when such payments are for the purpose of remunerating his services at the company.

**Explain the remuneration earned by the director due to payments which may be made by the listed company to a third entity in which the director renders services**

**Not applicable.**

A.12 Any other item of remuneration other than the aforementioned, irrespective of its nature or the entity of the group which pays it, especially when it is considered a transaction between related parties or the issue thereof distorts the true and fair view of the total remuneration earned by the director.

**Explain the other items of remuneration**

**Not applicable.**

A.13 Explain the actions adopted by the company in relation to the system of remuneration in order to reduce the exposure to excessive risks and to adapt it to the company's long-term objectives, values and interests, which shall include, where relevant, a reference to: measures provided to guarantee that the company's long-term results are taken into account in the remuneration policy, measures which establish an adequate balance between the fixed and variable components of the remuneration, measures adopted in relation to the categories of personnel whose professional activities have a significant effect on the entity's risk profile, recovery formulas or clauses in order to be able to claim the repayment of variable components of the remuneration based on results when such components having been paid on the basis of data the inaccuracy of which has been clearly shown afterwards and measures provided to avoid conflicts of interests, if any.

**Explain the actions adopted to reduce risks**

*Basic Salary:* Basic salaries are reviewed as of January 1st each year. When reviewing salaries, the Remuneration Committee takes into account the company affordability, the value and worth of the executive, retention risks and the size of pay increases generally across the IAG Group.

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and Senior Managers' interests with shareholder interests. At minimum levels, the annual incentive and the PSP pay out zero. At on-target performance, both the annual incentive and the PSP pay out 50 per cent of the maximum opportunity.

*Annual incentive award:*

The Board of Directors, on a recommendation from the Remuneration Committee, sets the targets that apply to the annual incentive award at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board of Directors) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility.

The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

Clawback provision applies.

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Designed to align the interest of Executives with shareholders, under the Incentive Award Deferral Plan, half of the annual incentive award is payable in deferred shares in the Company vesting after three years.

## *Performance Share Plan (PSP):*

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group Executives and Managers who directly influence shareholder value, including Executive Directors.

For the lifetime of this policy, it is intended that the face value of awards will be 200 per cent of salary for the Chief Executive of IAG, and 120 or 150 per cent of salary for other Executive Directors depending on the size of the role. The Board of Directors, on a recommendation from the Remuneration Committee, will have the discretion to alter these percentages from time to time if deemed appropriate, but they will not be greater than 300 per cent of salary in any financial year in the lifetime of this policy, unless the Remuneration Committee considers that exceptional circumstances merit a larger award.

*Performance conditions:* It is intended that any PSP award made during the lifetime of this policy will be measured over three years. The Board of Directors, on a recommendation from the Remuneration Committee, will have the discretion to alter the length of the performance period from time to time if deemed appropriate, but it will not be shorter than three years.

Each year, the Board, following the advice of the Remuneration Committee, will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with shareholder interests. At least one condition is likely to be a measure of Group share performance compared with an index of other companies that are subject to external influences impacting share price similar to those of the Group.

For 2014, the Board has approved the use of the same two performance conditions as the 2013 award, each still with a 50 per cent weighting.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group. This comparison therefore provides a good reference point for management outperformance and value creation.

The second performance condition is based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business.

The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any Performance Share Plan (PSP) award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

## **B. REMUNERATION POLICY PROVIDED FOR FUTURE YEARS**

**B.1 Provide a general forecast of the remuneration policy for future years which describes such policy in relation to: fixed components and per diems and variable remuneration, relationship between remuneration and results, pension systems, conditions of the contracts of executive directors, and forecast of most significant changes of the remuneration policy compared with previous years.**

### **General forecast of the remuneration policy**

The remuneration system established for directors and detailed in section A of this Report is the system that will be applied in the present year and will continue to apply in future years, with no major modifications envisaged at the date of this Report.

In particular:

*Annual Incentive Award:* It is intended that the maximum opportunity in the annual incentive plan will be unchanged from present, which is a maximum opportunity for the Chief Executive of IAG of 200 per cent of salary (100 per cent of salary for on-target performance), and for other Executive Directors, dependent on the size of their role, is 120 per cent or 150 per cent of salary (60 per cent or 75 per cent of salary for on-target performance). However, the Remuneration Committee retains the discretion to alter these opportunities if market conditions dictate it.

It is intended that two-thirds of the annual incentive will be subject to a financial measure, and one-third will be based on role specific objectives. The financial measure is likely to be IAG operating profit, but the Remuneration Committee retains the discretion to alter this measure if an alternative or alternatives is/are deemed to be more appropriate. The Remuneration Committee also retains the discretion to alter the weightings of each measure if deemed to be more appropriate.

It is intended that there is no change to the current proportion of the annual incentive that is deferred into shares for three years. The current proportion is half. However, the Remuneration Committee retains the discretion to alter this proportion if market conditions dictate it.

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*Performance Share Plan (PSP):* It is intended that the face value of awards will be 200 per cent of salary for the Chief Executive of IAG, and depending on the size of the role, will be 120 per cent or 150 per cent of salary for other Executive Directors. The Remuneration Committee will have the discretion to alter these percentages from time to time if deemed appropriate, but they will not be greater than 300 per cent of salary in any financial year in the lifetime of this policy, unless the Committee considers that exceptional circumstances merit a larger award.

It is intended that any Performance Share Plan (PSP) award made will be measured over three years. The Remuneration Committee will have the discretion to alter the length of the performance period from time to time if deemed appropriate, but it will not be shorter than three years.

Each year, the Remuneration Committee will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with shareholder interests. At least one condition is likely to be a measure of IAG Group share performance compared with an index of other companies who are subject to external influences impacting share price similar to those of the IAG Group.

One or more measures will provide a strong measure of the underlying financial performance of the business.

*Pension:* It is intended that there is no change to the current level of pension employer contribution, which is 25 per cent of basic salary per annum. However, the Remuneration Committee will have the discretion to alter this percentage from time to time if market conditions dictate.

**B.2 Explain the decision-making process for the arrangement of the remuneration policy provided for future years, and the role, if any, played by the remuneration committee.**

**Explain the decision-making process for the arrangement of the remuneration policy**

During the year, the Remuneration Committee kept fully abreast of remuneration developments in the external marketplace. The Remuneration Committee considered that the remuneration framework continued to be appropriate for IAG. In deciding the remuneration policy, the pay and employment conditions in both the Spanish and UK markets were taken into account. Other key metrics considered when deciding pay and remuneration policy include Company affordability, market movements, and retention considerations.

The decision-making process for shaping the remuneration policy and the role of the Remuneration Committee has been described in section A.2 above.

**B.3 Explain the incentives created by the company in the remuneration system in order to reduce the exposure to excessive risks and to adapt it to the company's long-term objectives, values and interests.**

**Explain the incentives created in order to reduced risks**

The Board of Directors, on a recommendation from the Remuneration Committee, retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

The Board of Directors, on a recommendation from the Remuneration Committee retains the discretion to prevent any Performance Share Plan (PSP) award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

Further details on the incentives created by the Company under the remuneration system to reduce exposure to risks are described in section A.13 above.

**C. OVERALL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE FINANCIAL YEAR CLOSED**

**C.1 Explain in summary form the principal characteristics of the structure and items of remuneration of the remuneration policy applied during the financial year closed, which gives rise to the description of the individual remuneration earned by each of the directors that is shown in section D of this report, as well as a summary of the decisions taken by the board for the application of such items.**

**Explain the structure and items of remuneration of the remuneration policy applied during the financial year**

The structure and items of remuneration of the remuneration policy applied during the reporting period (2013).

# Standard form of annual report on remuneration of the directors of listed corporations continued

## Executive Directors

*Base salary:* There was a basic salary freeze in place for Executive Directors for 2013:

Role	Basic salary
Willie Walsh (IAG Chief Executive Officer)	€973,000
Enrique Dupuy de Lôme Chávarri (IAG Chief Financial Officer) (from September 26, 2013)	€156,000
Keith Williams (BA Chief Executive Officer) (stood down from the Board on January 1, 2014)	€766,000
Rafael Sánchez-Lozano Turmo (IB Chief Executive Officer) (stood down on March 27, 2013)	€115,000
Luis Gallego Martin (IB Chief Executive Officer) (from March 27, 2013; voluntarily reduced by, approx., 15%) (stood down from the Board on January 1, 2014)	€412,000

*Benefits:* Life insurance, personal travel and; where applicable, a company car, fuel and private health insurance.

*Annual incentive award:* For 2013, the maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance), for other Executive Directors, 150 per cent of salary (75 per cent of salary for on-target performance) and for the Chief Financial Officer of IAG 120 per cent of salary (60 per cent for on-target performance). The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Executive Officer of British Airways	Chief Executive Officer of Iberia	Chief Financial Officer of IAG
<b>BA Operating Profit (33 per cent)</b>	Payout	£445,500 €525,245	£263,250 €310,372	€195,410	£42,750 €50,402
	per cent of maximum awarded	81 per cent	81 per cent	81 per cent	81 per cent
<b>Iberia cash flow (33 per cent)</b>	Payout	£303,875 €358,269	£179,563 €211,704	€133,289	£29,160 €34,379
	per cent of maximum awarded	55.25 per cent	55.25 per cent	55.25 per cent	55.25 per cent
<b>Role-specific objectives (33 per cent)</b>	Outcomes versus targets	£550,000 €648,450	£227,500 €268,223	€241,247	£44,861 €52,891
	per cent of maximum awarded	100 per cent	70 per cent	100 per cent	85 per cent
<b>Details of any discretion exercised</b>					
<b>Overall outcome</b>		£1,299,375 €1,531,963	£670,313 €790,298	€569,947	£116,771 €137,673

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Half of this amount is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

Luis Gallego Martín was awarded €569,947 in variable pay by the Committee based on the financial performance of the Group and on his personal performance; however, he has declined this award.

The performance conditions have been as follows:

- British Airways operating profit for 2013 (one-third of the annual incentive) has resulted in 81 per cent of the maximum payout for this element of the incentive. This is between the on-target level and the stretch target level of the target range.
- Iberia net cash flow for the second half of 2013 (one-third of the annual incentive) has resulted in 55 per cent of the maximum payout for this element of the incentive. This is between the on-target level and the stretch target level of the target range.

Overall therefore, there is a 68 per cent payout for the two-thirds of the annual incentive that was subject to financial performance for 2013. (2012: 35 per cent).

- For 2013, for the one-third portion based on personal objectives, the Board has determined an outcome as above for the Chief Executive Officer of IAG based on his performance against his role-specific objectives; and the Chief Executive Officer of IAG has determined an outcome as above for the Chief Executive Officer of British Airways, the Chief Executive Officer of Iberia and the Chief Financial Officer of IAG based on their performance against their role-specific objectives.

For the Chief Executive Officer of Iberia (Luis Gallego Martín) and the Chief Financial Officer of IAG (Enrique Dupuy de Lôme Chávarri) the figures above have been pro-rated to take account of his appointment date.

*Performance Share Plan (PSP) 2010:* The 2010 PSP award was tested at the end of its performance period during 2013, and resulted in nil vesting.

*Performance Share Plan (PSP) 2013:* The Company granted an award for 2013 under the PSP on March 6, 2013 and May 23, 2013. The details of the 2013 PSP are the following:

- *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):* Group Chief Executive – 200 per cent. Other Executive Directors – 150 per cent.
- *Grant price:* £2.41
- *Performance period:* January 1, 2013 to December 31, 2015
- *Performance conditions:* earnings per share (EPS) performance targets (weighting 50 per cent) and total shareholder return (TSR) performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (weighting 50 per cent).
- *EPS target range:* Threshold: 2015 EPS of 0.30 €cents, 10 per cent vests; Target (straight line vesting between threshold and maximum): 2015 EPS between 30 €cents and 52 €cents; Maximum: 2015 EPS of 52 €cents, 100 per cent vests.
- *TSR target range:* Threshold: IAG's TSR performance equal to the index 25 per cent vests; Target (straight line vesting between threshold and maximum): IAG's TSR performance between index return and 8 per cent p.a. outperformance; Maximum: IAG's TSR performance exceeds index by 8 per cent p.a., 100 per cent vests.

*Performance Share Plan (PSP) 2011:* The IAG PSP awards granted on March 6, 2011 were tested at the end of the performance period which began in January 2011 and ended on December 31, 2013. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 150 per cent of salary for the other Executive Directors.

30 per cent of the award was subject to achievement of the Company's synergy targets and 70 per cent subject to a TSR performance condition measured against a group of comparator airlines. The vesting of any award was subject to the Committee being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three year period.

# Standard form of annual report on remuneration of the directors of listed corporations continued

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2011)
TSR performance against a group of airlines (70 per cent)	Median (25 per cent of award vests)	Upper quartile or above (100 per cent of award vests)	5th out of 17 airlines	100 per cent
IAG synergy € targets (30 per cent)	Achievement of year 1 synergy target of €72 million will trigger 5 per cent.		€134m	100 per cent
	Achievement of year 2 synergy target of €166 million will trigger 5 per cent.		€313m	100 per cent
	Achievement of year 3 synergy target of €279 million will trigger 5 per cent.		€460m	100 per cent
	The 15 per cent balance will trigger if the year 3 synergy target is exceeded by more than 20 per cent (> €335 million).		€480m	100 per cent

Details of any discretion exercised

Overall outcome 100 per cent

<sup>1</sup> Group of airlines: Air Berlin, Air France/KLM, Air New Zealand, All Nippon Airlines, American Airlines, Cathay Pacific Airlines, Delta Airlines, easyJet, LAN, Lufthansa, Qantas Airways, Ryanair, SAS, Singapore Airlines, United Airlines, US Airways. Air Canada delisted during the performance period (24 April 2012) and was removed from the group. American Airlines was retained in the group and following its merger with US Airways, both the respective TSR figures tracked forward from the merger date in line with the TSR of the new company, American Airlines Group.

*Pension:* Willie Walsh is a member of the Company's pension scheme and the Company paid contributions during the reporting period of £50,000, plus cash in lieu of pension of £156,250.

Keith Williams has opted to take cash in lieu of a pension, and during the reporting, period he has received £162,500.

Rafael Sanchez-Lozano Turmo was a member of the Company's pension scheme until his resignation from the Board of Directors of the Company on March 27, 2013. During the reporting period until his resignation, the Company paid contributions of €39,500. For pensionable pay purposes, Rafael Sánchez-Lozano's salary remained at €632,000 even after the voluntary reduction of 25 per cent, and Company contributions were calculated on that basis.

Luis Gallego Martin has opted to take cash in lieu of a pension. Since becoming an Executive Director on March 27, 2013, the Company has paid cash in lieu of contributions during the reporting period of €120,694. For pensionable pay purposes, Luis Gallego's salary remains at €632,000 even after the voluntary reduction of approximately 15 per cent, and Company contributions are calculated on that basis.

Enrique Dupuy de Lôme Chávarri is a member of the Company's pension scheme. Since becoming an Executive Director on September 26, 2013, the Company has paid contributions during the reporting period of £13,195, plus cash in lieu of a pension of £19,792.

Keith Williams is a deferred member of the British Airways NAPS scheme. Keith Williams was an active member of the scheme until the date of the merger between British Airways and Iberia. The transfer value of the accrued pension at December 31, 2013 is €3,051,674 (2012: €2,821,711), the increase in benefits during the year is €312,644 (2012: €280,022), of which, net of inflation is €0 (2012: €156,812).

Keith Williams was an active member of both the defined benefit NAPS pension scheme and an unfunded approved retirement scheme, which, under the terms of his service contract, will provide a total retirement benefit at age 60 equivalent to 1/56th of pensionable pay for each year of service up to March 31, 2007. For service from April 1, 2007 until he left the scheme at the merger effective date, in line with choices given to all NAPS members, Keith Williams opted to pay extra contributions in order to be entitled to 1/60th of pensionable pay for each year of service payable at age 60.

*Exit payment paid during 2013:* Rafael Sánchez-Lozano Turmo stood down the Board of Directors on March 27, 2013. On termination he was paid €316,000 (which equated to six months' basic salary), plus a lump-sum retirement benefit of €1,168,000 (as asset out in the merger documentation). He has also been paid €52,667 monthly in each of October 2013, November 2013, and December 2013. This was subject to the Company being satisfied in its reasonable opinion that he had complied with his

obligations to find alternative paid work under his termination agreement. He will also be paid €52,667 monthly in each of January 2014, February 2014, and March 2014, subject to the Company being satisfied in its reasonable opinion that he has complied with his obligations to find alternative paid work under his termination agreement. If he does find such work, the monthly sums due will be reduced by any earnings referable to his work in the relevant month. This will mean his total payments equal to 52 weeks-salary, in line with policy on exit payments. No discretion was exercised by the Board of Directors when applying the termination policy for Rafael Sánchez-Lozano Turmo.

Rafael Sánchez-Lozano Turmo was granted good leaver status, and therefore received deferred shares from the 2011 Annual Incentive Plan. He will receive shares from the 2011 Performance Share Plan (PSP) award if there is a positive vesting, pro-rated to take into account the proportion of the performance period that he was employed by the Company.

Keith Williams stood down from the Board effective January 1, 2014. As he remains an Executive at the Company, there are no exit payments.

Luis Gallego Martín stood down from the Board effective January 1, 2014. As he remains an Executive at the Company, there are no exit payments.

#### Non-Executive Directors

Non-Executive Directors were paid a flat fee in 2013, with an additional fee for each Committee chairmanship held, as explained in section A.3 above. There was no change to fees for Non-Executive Directors.

Non-Executive Directors (including the Chairman and Deputy Chairman) are entitled to use air-tickets of the airlines of the Company or related to the Company for a total annual gross amount of €500,000 in aggregate.

#### D. DESCRIPTION OF THE INDIVIDUAL REMUNERATION EARNED BY EACH OF THE DIRECTORS

Name	Category	Time of office during reporting period
Antonio Vázquez Romero	Other external	From 01/01/2013 to 31/12/2013
Sir Martin Broughton	External Independent	From 01/01/2013 to 31/12/2013
Willie Walsh	Executive	From 01/01/2013 to 31/12/2013
César Alierta Izuel	External Independent	From 01/01/2013 to 31/12/2013
Patrick Cescau	External Independent	From 01/01/2013 to 31/12/2013
Enrique Dupuy de Lôme Chávarri	Executive	From 26/09/2013 to 31/12/2013
José Manuel Fernández Norniella	Other External	From 01/01/2013 to 20/06/2013
Luis Gallego Martín	Executive	From 27/03/2013 to 31/12/2013
Baroness Kingsmill	External Independent	From 01/01/2013 to 31/12/2013
Manuel Lagares Gómez-Abascal	External Proprietary	From 01/01/2013 to 03/07/2013
James Lawrence	External Independent	From 01/01/2013 to 31/12/2013
José Pedro Pérez-Llorca	External Independent	From 01/01/2013 to 31/12/2013
Kieran Poynter	External Independent	From 01/01/2013 to 31/12/2013
Rafael Sánchez-Lozano Turmo	Executive	From 01/01/2013 to 27/03/2013
Dame Marjorie Scardino	External Independent	From 19/12/2013 to 31/12/2013
John Snow	External Independent	From 01/01/2013 to 19/12/2013
Alberto Terol Esteban	External Independent	From 20/06/2013 to 31/12/2013
Keith Williams	Executive	From 01/01/2013 to 31/12/2013

# Standard form of annual report on remuneration of the directors of listed corporations continued

## D.1 Complete the following tables in relation to the individual remuneration of each of the directors (including the remuneration for the performance of executive duties) earned during the financial year.

a) Remuneration earned at the company the subject of this report:

i) Cash remuneration (in thousands of €)

Name/Type/Accrual period year t	Salary	Fixed remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of board committees	Compensation	Other items	Total year t	Total year t-1
Antonio Vázquez Romero (Other Non- Executive Director)	0	484	0	0	0	0	0	12	496	685
Sir Martin Broughton (Independent Non- Executive Director)	0	350	0	0	0	0	0	88	438	430
Willie Walsh (Executive Director)	973	0	0	766	0	0	0	239	1,978	1,272
César Alierta Izuel (Independent Non- Executive Director)	0	120	0	0	0	20	0	0	140	141
Patrick Cescau (Independent Non- Executive Director)	0	120	0	0	0	0	0	19	139	139
Enrique Dupuy de Lôme Chávarri (Executive Director)	156	0	0	69	0	0	0	29	254	-
José Manuel Fernández Norriella (Other Non- Executive Director)	0	57	0	0	0	0	0	0	57	124
Luis Gallego Martín (Executive Director)	412	0	0	0	0	0	0	129	541	-
Baroness Kingsmill (Independent Non- Executive Director)	0	120	0	0	0	0	0	19	139	139
Manuel Lagares Gómez- Abascal (Propietary Non-Executive Director)	0	62	0	0	0	0	0	3	65	51
James Lawrence (Independent Non- Executive Director)	0	120	0	0	0	0	0	13	133	129
José Pedro Pérez-Llorca (Independent Non- Executive Director)	0	120	0	0	0	0	0	1	121	131

Name/Type/Accrual period year t	Salary	Fixed remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of board committees	Compensation	Other items	Total year t	Total year t-1
Kieran Poynter (Independent Non-Executive Director)	0	120	0	0	0	20	0	21	161	155
Rafael Sánchez-Lozano Turmo (Executive Director)	115	0	0	0	0	0	1,642	6	1,763	818
Dame Marjorie Scardino (Independent Non-Executive Director)	0	4	0	0	0	0	0	0	4	-
John Snow (Independent Non-Executive Director)	0	120	0	0	0	15	0	0	135	140
Alberto Terol Esteban (Other Non-Executive Director)	0	64	0	0	0	0	0	28	92	-
Keith Williams (Executive Director)	766	0	0	395	0	0	0	240	1,401	1,735

ii) Share-based remuneration systems

Name/ Type/ Accrual period year t	Name of the Plan and date of implementation	Ownership of options at the beginning of year t				Options assigned during year t				Conditions for exercise thereof	Shares provided in year t No./ Price/ Amount
		No. options	No. Shares affected	Exercise Price (€)	Exercise period	No. options	No. Shares affected	Exercise Price (€)	Exercise period		
Willie Walsh (Executive Director)	British Airways PSP 2010										
	IAG PSP 2011										
	IAG PSP 2012										
	IAG PSP 2013										
	IAG IADP 2011										
	IAG IADP 2012										
Enrique Dupuy de Lôme Chávarri (Executive Director)	IAG PSP 2011										
	IAG PSP 2012										
	IAG PSP 2013										
	IAG IADP 2012										
	IAG IADP 2013										
Luis Gallego Martín (Executive Director)	IAG PSP 2012										
	IAG PSP 2013										
Rafael Sánchez-Lozano Turmo (Executive Director)	IAG PSP 2011										
	IAG PSP 2012										

# Standard form of annual report on remuneration of the directors of listed corporations continued

Name/ Type/ Accrual period year t	Name of the Plan and date of implementation	Ownership of options at the beginning of year t				Options assigned during year t				Shares provided in year t	
		No. options	No. Shares affected	Exercise Price (€)	Exercise period	No. options	No. Shares affected	Exercise Price (€)	Exercise period	Conditions for exercise thereof	No./ Price/ Amount
Keith Williams (Executive Director)	British Airways LTIP 2004	22,141	22,141	0	June 16, 2007 to June 16, 2014						
	British Airways Share Option Plan 2004	72,480	72,480	3,089	June 25, 2007 to June 25, 2014	-					-
	British Airways Share Option Plan 2005	69,927	69,927	3,254	June 23, 2008 to June 23, 2015	-					-
	British Airways DSP 2010										70,999/ €3,099/ €220,026
	British Airways Performance Share Plan 2010										
	IAG PSP 2011										
	IAG PSP 2012										
	IAG PSP 2013										
	IAG IADP 2011										
	IAG IADP 2012										
IAG IADP 2013											

Name/Type/ Accrual period year t	Name of the Plan and date of implementation	Options exercised in year t				Options expired and not exercised		Options at the end of year t				Other requirements for exercise
		No. options	No. Shares affected	Exercise Price (€)	Gross Profit (€)	No. options	No. options	No. Shares affected	Exercise Price (€)	Exercise period		
Keith Williams (Executive Director)	British Airways Share Option Plan, 2003	114,649	114,649	1,851	130,699	0	0	-	-	-	-	
	British Airways LTIP 2003	46,631	46,631	0	140,906							

iii) Long-term saving systems

Name/Type/Total accrual period in years	Contribution for the year by the company (thousands €)		Amount of accumulated funds (thousands €)	
	Year t	Year t-1	Year t	Year t-1
Willie Walsh (Executive Director)	58	62	170	111
Enrique Dupuy de Lôme Chávarri (Executive Director)	16	-	16	-
Luis Gallego Martin (Executive Director)	0	-	-	-
Rafael Sánchez-Lozano Turmo (Executive Director)	40	171	211	171
Keith Williams (Executive Director)	0	0	3,052	2,822

iv) Other benefits (in thousands of €)

Name/Type	Remuneration in the form of advance payments, credit facilities granted		
	Interest rate of the transaction	Essential characteristics of the transaction	Amounts possibly repaid
N/A			

Name/ Type	Life insurance premiums		Security granted by the company for directors	
	Year t	Year t-1	Year t	Year t-1
Willie Walsh (Executive Director)	8	7	-	-
Enrique Dupuy de Lôme Chávarri (Executive Director)	1	-	-	-
Luis Gallego Martin (Executive Director)	3	-	-	-
Rafael Sánchez-Lozano Turmo (Executive Director)	1	8	-	-
Keith Williams (Executive Director)	9	7	-	-

# Standard form of annual report on remuneration of the directors of listed corporations continued

b) Remuneration earned by the company's directors for their membership of boards of other group companies:

i) Cash remuneration (in thousands of €)

Name/Type/Accrual period year t	Fixed Salary remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership of board committees	Other Compensation items	Total year t	Total year t-1
N/A								

ii) Share-based remuneration systems

Name/Type/Accrual period year t	Ownership of options at the beginning of year t			Options assigned during year t			Shares provided in year t			Conditions for exercise thereof	No. Price Amount
	No. options	No. Shares affected	Exercise Price (€)	Exercise period	No. options	No. Shares affected	Exercise Price (€)	Exercise period			
N/A											

Name/Type/Accrual period year t	Options exercised in year t			Gross Profit (€)	Options expired and not exercised		Options at the end of year t			Other requirements for exercise
	No. options	No. Shares affected	Exercise Price (€)		No. options	No. options	No. Shares affected	Exercise Price (€)	Exercise period	
N/A										

iii) Long-term saving systems

Name/ Type/ Total accrual period in years	Contribution for the year by the company (thousands €)		Amount of accumulated funds (thousands €)	
	Year t	Year t-1	Year t	Year t-1
N/A				

iv) Other benefits (in thousands of €)

Name/Type	Remuneration in the form of advance payments, credit facilities granted		
	Interest rate of the transaction	Essential characteristics of the transaction	Amounts possibly repaid
N/A			

Name/ Type	Life insurance premiums		Security granted by the company for directors	
	Year t	Year t-1	Year t	Year t-1
N/A				

c) Summary of remuneration (in thousands of €):

The summary should include the amounts of all the items of remuneration included in this report which have been earned by the director, in thousands of euros.

In the case of long-term Saving Systems, the contributions or allocations made to this type of systems shall be included:

Name/ Type	Remuneration earned at the Company			Remuneration earned at the group companies				Total		Contribution to saving systems during the year	
	Total cash remuneration	Amount of shares granted	Gross profit of the options exercised	Total year t company	Total cash remuneration	Amount of shares granted	Gross profit of the options exercised	Total year t group	Total year t		Total year t-1
Antonio Vázquez Romero (Other Non-Executive Director)	496	0	0	496	0	0	0	0	496	685	-
Sir Martin Broughton (Independent Non-Executive Director)	438	0	0	438	0	0	0	0	438	430	-
Willie Walsh (Executive Director)	1,978	0	0	1,978	0	0	0	0	1,978	1,272	58
César Alierta Izuel (Independent Non-Executive Director)	140	0	0	140	0	0	0	0	140	141	-
Patrick Cescau (Independent Non-Executive Director)	139	0	0	139	0	0	0	0	139	139	-
Enrique Dupuy de Lôme Chávarri (Executive Director)	254	0	0	254	0	0	0	0	254	-	16
José Manuel Fernández Norniella (Other Non-Executive Director)	57	0	0	57	0	0	0	0	57	124	-
Luis Gallego Martín (Executive Director)	541	0	0	541	0	0	0	0	541	-	0

# Standard form of annual report on remuneration of the directors of listed corporations continued

Name/Type	Remuneration earned at the Company				Remuneration earned at the group companies				Total		Contribution to saving systems during the year
	Total cash remuneration	Amount of shares granted	Gross profit of the options exercised	Total year t company	Total cash remuneration	Amount of shares granted	Gross profit of the options exercised	Total year t group	Total year t	Total year t-1	
Baroness Kingsmill (Independent Non-Executive Director)	139	0	0	139	0	0	0	0	139	139	-
Manuel Lagares Gómez-Abascal (Proprietary Non-Executive Director)	65	0	0	65	0	0	0	0	65	51	-
James Lawrence (Independent Non-Executive Director)	133	0	0	133	0	0	0	0	133	129	-
José Pedro Pérez-Llorca (Independent Non-Executive Director)	121	0	0	121	0	0	0	0	121	131	-
Kieran Poynter (Independent Non-Executive Director)	161	0	0	161	0	0	0	0	161	155	-
Rafael Sánchez-Lozano Turmo (Executive Director)	1,763	0	0	1,763	0	0	0	0	1,763	818	40
Dame Marjorie Scardino (Independent Non-Executive Director)	4	0	0	4	0	0	0	0	4	-	-
John Snow (Independent Non-Executive Director)	135	0	0	135	0	0	0	0	135	140	-
Alberto Terol Esteban (Independent Non-Executive Director)	92	0	0	92	0	0	0	0	92	-	-
Keith Williams (Executive Director)	1,401	220	272	1,893	0	0	0	0	1,893	1,375	0

**D.2 Report on the relationship between the remuneration obtained by the directors and the results or other measurements of performance of the entity, explaining, where relevant, how the variations in the company's performance may have influenced the variation in the directors' remuneration.**

The Board has approved a remuneration policy that has a strong correlation between Company performance (measured through financial performance, earnings per share and relative total shareholder return) and Executive Directors' remuneration. A large proportion of the Executive Directors' remuneration package consists of the annual incentive plan and the long term incentive plan, and these both have a pay-out of zero if Company performance is below a certain threshold.

**D.3 Report on the result of the consultative vote of the shareholders' meeting on the annual report on remuneration of the previous financial year, indicating the number of votes against which may have been cast:**

	Number	% of total
Votes cast	1,259,006,131	100%

	Number	% of votes cast
Votes against	6,215,857	0.494%
Votes in favour	1,233,416,142	97.967%
Abstentions	19,374,132	1.538%

**E. OTHER INFORMATION OF INTEREST**

If there is any relevant aspect in relation to the directors' remuneration which could not be included in the rest of the sections of this report, but which it is necessary to include so as to contain the fullest and most reasoned information regarding the company's remuneration structure and practices in relation to its directors, describe them briefly.

**Executive Director's remuneration corresponding to 2013**

As IAG PSP 2011 performance period finished on December 31, 2013, in order to provide a more complete information the table below sets out the breakdown by remuneration item for each Executive Director, including the shares vested under this share plan. An explanation of how the figures are calculated follows the table.

Executive Directors	Year to December 31, 2013						
	Base salary	Taxable Benefits	Pension Related Benefits	Termination Payment	Annual Incentive Award	Long Term Incentive Vesting	Total for year to December 31, 2013
(€'000)							
Willie Walsh (GBP) <sup>1</sup>	825	47	206	-	1,299	2,594	4,971
Willie Walsh (euro)	973	55	243	-	1,532	3,058	5,861
Keith Williams (GBP) <sup>1</sup>	650	41	163	-	670	1,485	3,009
Keith Williams (euro)	766	48	192	-	790	1,751	3,547
Rafael Sánchez-Lozano Turmo <sup>2</sup>	115	6	40	1,642	-	1,027	2,830
Luis Gallego Martin	412	8	121	-	-	-	541
Enrique Dupuy de Lome Chávarri (GBP) <sup>1,3</sup>	132	5	33	-	117	905	1,192
Enrique Dupuy de Lome Chávarri (euro)	156	6	39	-	138	1,067	1,406
<b>Aggregate emoluments (€'000)</b>	<b>2,422</b>	<b>123</b>	<b>635</b>	<b>1,642</b>	<b>2,460</b>	<b>6,903</b>	<b>14,185</b>

<sup>1</sup> Willie Walsh, Keith Williams, and Enrique Dupuy de Lome Chávarri's remuneration is expressed in sterling pounds and also expressed in euro for information purposes only.

<sup>2</sup> Rafael Sánchez-Lozano Turmo and Antonio Vázquez Romero took a voluntary 25 per cent reduction in their basic salary/fee, effective December 1, 2012. For Rafael Sánchez-Lozano Turmo, his non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award. Luis Gallego Martin took a voluntary reduction of approximately 15 per cent in his basic salary, effective March 27, 2013. His non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award.

<sup>3</sup> Enrique Dupuy de Lome Chávarri's remuneration covers only the period since he became Executive Director

# Standard form of annual report on remuneration of the directors of listed corporations continued

*Base salary:* Salary paid in year for Executive Directors.

*Benefits:* Taxable benefits including personal travel and where applicable, a company car, fuel and private health insurance.

*Pension, or cash in lieu:* Employer contribution to pension scheme, and/or cash in lieu of pension.

*Annual Incentive Award:* cash award: Annual incentive award cash payments for the period ended December 31, 2013 (accrued at December 31, 2013, but not paid until March 2014).

*Long Term Incentive Vesting:* This relates to the 2011 PSP Awards which vests in March 2014 based on performance measured to 31 December 2013. For the purposes of this table, the award has been valued using the average share price to the three months to 31 December 2013 of 363.1 pence. 69 per cent of the value of awards vesting under the 2011 PSP cycle was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period. The outcomes of the performance conditions which determined vesting are described in this Report.

For the year to 31 December 2013, €:£ exchange rate applied is 1.1790.

For the year to 31 December 2012, €:£ exchange rate applied is 1.2305.

## Directors' share options

The following Directors held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999 (SOP 1999). The SOP 1999 was closed after the final grant in 2005/06. The SOP 1999 provided for the grant of options to acquire ordinary shares in the Company or the Company's American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

Director	Date of grant	Number of options at January 1, 2013	Exercise price	Options exercised during the year	Options lapsed during the year	Exercisable from	Expiry date	Number of options at December 31, 2013
<b>Executive Director</b>								
Keith Williams	June 25, 2003	114,649	157p	114,649	-	June 25, 2006	June 25, 2013	-
	June 25, 2004	72,480	262p	-	-	June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p	-	-	June 23, 2008	June 23, 2015	69,927
<b>Total</b>		<b>257,056</b>		<b>114,649</b>	<b>-</b>			<b>142,407</b>

### Directors' conditional awards

During 2013, the following Directors held conditional awards over ordinary shares of the Company granted under the IAG PSP, the British Airways Long Term Incentive Plan 1996 (LTIP) and the British Airways PSP. The LTIP operated from 1996 to 2004 and was replaced by the BA PSP in 2005. As a result of the merger between British Airways and Iberia, all options under the BA PSP were automatically exchanged for options over shares of the Company.

Director	Plan	Date of award	Number of awards at January 1, 2013	Awards vested during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2013
<b>Executive Directors</b>							
Willie Walsh	BA PSP	September 17, 2010	469,148	-	469,148	-	-
	IAG PSP 2011	March 31, 2011	714,285	-	-	-	714,285
	IAG PSP 2012	August 3, 2012	1,024,844	-	-	-	1,024,844
	IAG PSP 2013	March 6, 2013	-	-	-	684,647	684,647
<b>Total</b>			<b>2,208,277</b>	<b>-</b>	<b>469,148</b>	<b>684,647</b>	<b>2,423,776</b>
Enrique Dupuy de Lôme Chávarri	IAG PSP 2011	March 31, 2011	249,350	-	-	-	249,350
	IAG PSP 2012	August 3, 2012	372,670	-	-	-	372,670
	IAG PSP 2013	March 6, 2013	-	-	-	248,963	248,963
<b>Total</b>			<b>622,020</b>	<b>-</b>	<b>-</b>	<b>248,963</b>	<b>870,983</b>
Luis Gallego Martín	IAG PSP 2012	October 8, 2013 <sup>1</sup>	-	-	-	102,741	102,741
	IAG PSP 2013	May 23, 2013	-	-	-	273,198	273,198
<b>Total</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>375,939</b>	<b>375,939</b>
Keith Williams	LTIP 2003	June 9, 2003	46,631	46,631 <sup>2</sup>	-	-	-
	LTIP 2003	June 16, 2004	22,141	-	-	-	22,141
	BA PSP	September 17, 2010	280,851	-	280,851	-	-
	IAG PSP 2011	March 31, 2011	409,090	-	-	-	409,090
	IAG PSP 2012	August 3, 2012	605,590	-	-	-	605,590
	IAG PSP 2013	March 6, 2013	-	-	-	404,564	404,564
<b>Total</b>			<b>1,364,303</b>	<b>46,631</b>	<b>280,851</b>	<b>404,564</b>	<b>1,441,385</b>

<sup>1</sup> The award for 2012 PSP was made on October 8, 2013 pending formalisation as an Executive within the IAG Group.

<sup>2</sup> Option surrendered and settled in cash.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG PSP 2013 award was 241 pence.

# Standard form of annual report on remuneration of the directors of listed corporations continued

## Incentive Award Deferral Plan

During 2013, the following Directors held conditional awards over ordinary shares of the Company granted under the IAG IADP and British Airways Deferred Share Plan (BA DSP)

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2013	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
<b>Executive Directors</b>								
Willie Walsh	2010	March 31, 2011	90,984	-	March 31, 2014	-	-	90,984
	2011	August 3, 2012	93,773	-	August 3, 2015	-	-	93,773
<b>Total</b>			<b>184,757</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>184,757</b>
Enrique Dupuy de Lôme Chávarri	2011	August 3, 2012	37,267	-	August 3, 2015	-	-	37,267
	2012	March 6, 2013	-	-	March 6, 2016	-	62,241	62,241
<b>Total</b>			<b>37,267</b>	<b>-</b>		<b>-</b>	<b>62,241</b>	<b>99,508</b>
Keith Williams	2009/10	September 17, 2010	70,999	70,999	June 30, 2013	-	-	0
	2010	March 31, 2011	44,904	-	March 31, 2014	-	-	44,904
	2011	August 3, 2012	58,695	-	August 3, 2015	-	-	58,695
	2012	March 6, 2013	-	-	March 6, 2016	-	101,141	101,141
<b>Total</b>			<b>174,598</b>	<b>70,999</b>		<b>-</b>	<b>101,141</b>	<b>204,740</b>

There are no performance conditions to be tested before vesting for the IADP and DSP, except that the Director must still be employed by the Company at the time of vesting.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2013 IADP award was 241 pence (2012: 161 pence; 2011: 231 pence; 2010: 235 pence).

This annual report on remuneration has been approved by the company's board of directors, at its meeting of February 27, 2014.

Indicate whether there are directors who have voted against or who have abstained in relation to the approval of this report.

## No

Name or corporate name of the members of the board of directors who have not voted in favour of the approval of this report

Reasons (against, abstention, absent)

Explain the reasons